

Memorandum

SEC Joint Statement on Valuation of Private Assets

October 2, 2026

I. Introduction

The SEC's Office of the Chief Accountant and the Division of Investment Management jointly published a [staff statement](#) on September 28, 2026, addressing fair value measurement and disclosure considerations for private assets held by registered funds, business development companies ("BDCs"), and other similar registrants (for purposes of this Alert, "regulated funds").¹ The joint statement, framed as a "reminder," focuses on private credit valuation practices, secondaries, and the role of auditors. Advisers to regulated funds should consider benchmarking their valuation processes and investor-facing disclosures against this guidance.

II. Industry Background

The staff statement is best understood against the backdrop of extraordinary growth in private credit and secondary market activity in regulated fund structures. Looking first at private credit, the Investment Company Institute recently found that global private credit assets under management grew from \$357 billion in 2010 to over \$1.7 trillion as of June 2025.² The composition of private credit has also shifted markedly: direct lending grew from just 13% of all private credit in 2010 to 56% by mid-2025.³ Turning to the secondary market, the secondary market for private fund interests continues to grow.⁴ Secondary market volume grew from approximately \$156 billion in 2024 to approximately \$220 billion in 2025 and secondaries funds represented 15% of private equity fundraising in Q1–Q3 2025, nearly double the five-year average.⁵

Regulated funds and their investors continue to seek exposure to private-market assets, which are often less liquid and do not have readily available market quotations. At year-end 2025, 54% of interval fund assets and 44% of tender offer fund assets were classified as Level 3 under the Accounting Standards Codification ("ASC") Topic 820 fair value hierarchy (assets for which no observable market inputs exist and that must be valued using significant

¹ Kurt Hohl & Brian Daly, [Statement on Fair Value Measurement and Disclosure Considerations for Private Assets](#), U.S. Securities and Exchange Commission (Sept. 28, 2026) ("Staff Statement").

² Investment Company Institute, [Valuation Governance Considerations for Private Credit Assets in Regulated Funds](#) (Apr. 2026) ("ICI Report").

³ *Id.*

⁴ William Blair, *2026 Secondary Market Report*, <https://www.williamblair.com/-/media/downloads/ib/2026/williamblair-pca-secondary-market-report-survey-2026.pdf>.

⁵ Preqin, *Preqin's Latest Global Reports Spotlight Key Private Markets Trends From 2025 And Beyond* (Dec. 17, 2025), <https://www.preqin.com/about/press-release/preqins-latest-global-reports-spotlight-key-private-markets-trends-from-2025>.

unobservable inputs and management judgment).⁶ An additional 21% of interval fund assets and 42% of tender offer fund assets were held in private funds that are not assigned a level in the fair value hierarchy, investments typically valued using the investee fund's NAV as a practical expedient.⁷ The increasing exposure of investors to Level 3 assets through regulated fund structures, and the popularity of these structures in the asset management marketplace, has led to increased scrutiny of valuation practices.

III. Private Credit

The statement emphasizes that fair value measurements for private credit assets *must* reflect a market participant's perspective; management should look beyond borrower-specific information from its direct lending relationships and consider the broader market environment, including prevailing credit spreads, liquidity conditions, and the compensation a market participant would demand for bearing the risks associated with the investment. The statement also highlights the importance of robust calibration practices, noting that periodic reassessment of whether valuation model outputs remain consistent with available market information—such as comparable transactions, public market equivalents, secondary market indications, and relevant credit indices—is an important element of a well-functioning valuation process. On the disclosure side, the statement reminds registrants that boilerplate or “overly aggregated” disclosures are insufficient and that ASC Topic 820 requires disclosure of the valuation technique(s), inputs that are significant to measurement, and how changes to those inputs might result in a significantly different fair value. The Staff references “best practices” for the disclosure of portfolio risk characteristics, including the potential materiality of non-accrual status, non-performing investment classifications, and payment-in-kind (“PIK”) interest, especially where PIK represents a growing portion of reported income and may signal increased credit risk or a divergence between reported income and cash returns.

IV. Secondary Market Activity and the NAV Practical Expedient

With respect to secondary investments in fund interests, the statement notes that utilizing an underlying fund's NAV as a practical expedient for the valuation of investments in the fund may result in a measurement that differs from the fair value that might be realized in a transaction between market participants on the measurement date.⁸

Under U.S. GAAP, a registrant may estimate the fair value of an investment in another entity using the NAV reported by that investee as a practical expedient, provided certain conditions are met.⁹ In particular, to apply the practical expedient without adjustment, the investee's reported NAV must be as of the measurement date and

⁶ ICI Report at 5.

⁷ ICI Report, Figure 2 at 4.

⁸ See FASB ASU 2009-12 (“The amendments in this update create a practical expedient to measure the fair value of an investment in the scope of the amendments in this Update on the basis of the net asset value per share of the investment (or its equivalent) determined as of the reporting entity's measurement date. Therefore, certain attributes of the investment (such as restrictions on redemption) and transaction prices from principal-to-principal or brokered transactions will not be considered in measuring the fair value of the investment if the practical expedient is used.”).

⁹ See FASB ASC 820-10-15-4 through 15-5; see also ASC 820-10-35-59.

must be calculated in a manner consistent with the measurement principles of FASB ASC Topic 946.¹⁰ Those principles generally require an investment company to measure its investments, including debt and equity securities and other investments, at fair value, determined in accordance with ASC Topic 820 as an exit price from the perspective of market participants at the measurement date.¹¹ Management is also not permitted to apply the practical expedient if, as of the measurement date, it is probable that the registrant will sell the investment for an amount different from NAV.¹²

The statement reminds registrants that the practical expedient is optional on an investment-by-investment basis, and that management retains ultimate responsibility for concluding that an investment meets the required criteria. When assessing that an underlying fund's reported NAV is calculated consistently with ASC Topic 946 measurement principles, registrants should consider all reasonably available information, which may evolve as the secondary market for private fund interests continues to grow. Assessing whether an investee fund's reported NAV is calculated in a manner consistent with the measurement principles in FASB ASC Topic 946 requires professional judgment, and all reasonably available information should be considered in performing this assessment. If the practical expedient is not appropriate for a particular investment, then the sponsor should follow its valuation procedures with respect to Level 2 or Level 3 assets, as applicable.

Notably, the statement encourages management to treat the assessment as to the continued appropriateness of the practical expedient as an iterative, evidence-based process, identifying relevant information (including secondary market data and changes in market conditions), evaluating its implications for the conditions required to apply the practical expedient, and documenting the basis for management's conclusions.

V. Auditor Considerations

The statement reinforces that the complexity and judgmental nature of private credit fair value estimates heighten the importance for auditors to exercise "professional skepticism" in gathering and evaluating audit evidence. The statement advises that auditors should perform robust risk assessment procedures that account for external factors, including industry and market conditions, and should recognize that risk assessment is an iterative process requiring modification of audit responses as circumstances change.

Critically, the statement reminds auditors that they should evaluate the totality of audit evidence, both information that supports and information that contradicts management's assertions, and *should not* accept management's less-than-persuasive evidence regarding fair value conclusions.

¹⁰ See FASB ASC 820-10-15-4 through 15-5; see also ASC 820-10-35-59 (addressing conditions necessary for applying the NAV practical expedient).

¹¹ See ASC 946-320-35-1 and ASC 946-325-35-1.

¹² See FASB ASC 820-10-35-62 (addressing the probable sale criteria related to applying the NAV practical expedient).

VI. SEC Enforcement Actions

Although the statement does not create new legal obligations, it articulates baseline expectations against which the SEC will likely measure conduct. Similar expectations are reflected in a series of enforcement actions over the past two decades targeting valuation failures involving illiquid and hard-to-value assets held by registered funds, BDCs, and private fund advisers. These actions reveal several key themes:

- **Calibration is mandatory.** Carrying assets at cost or stale marks without reference to available market data is a recurring basis for enforcement action. The SEC has emphasized that carrying illiquid assets at cost without periodic calibration against available market information can constitute a violation of applicable accounting standards.¹³
- **BDC valuation model failures.** A fund sponsor should conduct quality-control reviews of quarterly valuation models to avoid the misvaluation of portfolio companies and associated financial misstatements.¹⁴
- **Compliance infrastructure must match portfolio complexity.** Inadequate valuation policies for Level 3 assets can themselves be violations, even absent evidence of intentional manipulation.¹⁵

VII. SEC Comment Letter Trends

The themes in the statement are also reflected in the Staff's review of regulated fund disclosures. A review of recent comment letters directed at regulated fund registrants reveals recurring areas of focus that reinforce the expectations outlined in the statement:

- **Level 3 transparency.** The Staff has pressed registrants to enhance quantitative disclosure of Level 3 inputs, including requiring tabular quantitative presentation and weighted-average methodology explanations, disclosure of reasons for transfers between Level 2 and Level 3, and identification of omitted Level 3 investments.
- **Rejection of boilerplate narratives.** The Staff has required more tailored analysis when disclosure of unobservable inputs is vague. This directly mirrors the statement's warning that disclosures using "boilerplate" language or presenting information on an "overly aggregated basis may not provide sufficient context" to investors.
- **Valuation methodology, process, and frequency.** The Staff has questioned whether the frequency of valuation for Level 3 investments is appropriate given the fund's redemption and share offering practices.

¹³ *In re KCAP Financial, Inc.*, SEC Release No. 34-68307 (Nov. 28, 2012). *See also In re Deer Park Road Management Co. LP*, SEC Release No. IA-5245 (June 4, 2019).

¹⁴ *In re Fifth Street Mgmt. LLC*, SEC AP Release No. 3-18909 (Dec. 3, 2018).

¹⁵ *In re Sciens Diversified Managers*, SEC AP File No. 3-21445 (May 24, 2023).

VIII. Conclusion

The statement is a clear reminder that robust valuation policies and procedures, paired with accurate disclosure, are essential. As a practical matter, we expect that the Staff will point to the statement as part of the disclosure review process and in exam and enforcement processes; sponsors should therefore consider benchmarking their internal processes and investor-facing disclosures against this guidance.

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