

# Mind the Gap: CSSF Flags Valuation Framework Shortcomings for Private Asset Funds

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On June 4, the Luxembourg *Commission de Surveillance du Secteur Financier* (“CSSF”) published a Feedback Report setting out the results of an ad hoc thematic review of valuation frameworks for less liquid and illiquid assets held by Luxembourg-domiciled alternative investment funds (“AIFs”) managed by Luxembourg alternative investment fund managers (“AIFMs”). The review, launched at the end of 2023 with work conducted over 2024 and 2025, focused on a sample of local AIFMs and addressed specific aspects of valuation policies, procedures and controls for AIFs investing in private equity, real estate, infrastructure, private debt and funds-of-funds strategies. The CSSF asks all AIFMs to carry out a benchmarking exercise against its observations and, where applicable, to implement the necessary corrective measures.

The Feedback Report is of direct relevance to all private asset managers that operate Luxembourg-domiciled AIFs, regardless of whether they maintain their own Luxembourg-authorized AIFM or delegate management to a third-party Luxembourg AIFM. In both cases, the CSSF’s expectations will affect the operation of the Luxembourg fund and may also, where applicable, have implications for any parallel fund structures, including the main fund.

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## Background and Scope

The thematic review builds on earlier supervisory work. In 2022, the European Securities and Markets Authority (“ESMA”) launched a Common Supervisory Action (“CSA”) with national competent authorities on valuation, focused on managers of open-ended funds investing in less liquid and illiquid assets. Following the publication of ESMA’s Final Report in May 2023, the CSSF published its own Feedback Report in July 2023 identifying areas of improvement such as the appropriateness of valuation policies and procedures, valuation under stressed market conditions, and the independence of the valuation function. Luxembourg AIFMs were required to assess gaps and remediate them by December 31, 2023.

The CSSF's new thematic review complements this earlier work by examining a fresh sample of AIFMs and focusing on specific aspects not previously scrutinized in the ESMA CSA, including pre-investment valuation controls and the review of third-party valuation reports. On the international front, the CSSF notes that the International Organization of Securities Commissions ("IOSCO") published on 1 June 2026 its Final Report on Valuing Collective Investment Schemes, updating its 2007 and 2013 valuation principles in light of the growth in funds investing in private and illiquid assets and increasing retail investor participation.

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## Key Observations and Expectations

### Valuation Processes for New Funds and New Asset Types

The CSSF observed that, for the majority of AIFMs, written valuation policies provided for a formalized review process, including specific checks and controls, prior to the launch of a new sub-fund or before investing in a new type of asset, ensuring in particular that a proper and independent valuation can be carried out on an ongoing basis. However, a limited number of AIFMs did not provide for sufficient coverage of these checks and controls.

The CSSF emphasizes that formalized review processes are critical, noting that a vast majority of valuation issues they have identified at the fund level are attributable to the absence or lack of appropriate information and documentation, or to an inappropriate valuation methodology. The CSSF expects that written valuation policies and procedures of AIFMs provide for an adequate and formalized review of all material valuation aspects prior to the launch of new sub-funds and before investing in a new investment strategy or new type of assets.

For delegated structures, the AIFM will typically depend on the portfolio manager's expertise when assessing new strategies and asset classes. Fund sponsors should expect the AIFM to request evidence that valuation methodologies, data sources and reporting processes are capable of supporting their valuation function from launch.

### Valuation Frequency

The CSSF observed that the majority of AIFMs had checks and controls ensuring that the valuation frequency of investments is appropriate relative to the NAV calculation frequency of the relevant sub-fund. For a limited number of AIFMs, such checks were not sufficiently addressed in valuation policies.

The CSSF draws particular attention to Article 74(2) of the AIFMD Level 2 Regulation,<sup>1</sup> which requires that, where there is evidence that the last determined value for “other assets” (such as real estate, private equity or loans) is no longer fair or proper, the AIFM must proceed with a revaluation. To comply, AIFMs must ensure that the necessary valuation controls are in place at any net asset value (“NAV”) calculation date to verify that the last determined value remains fair and proper.

This is an important point of attention in particular for wealth products giving access to institutional funds (so-called House FOF Access Funds), where dealing in the wealth vehicle is more frequent than the NAV calculation at the level of the underlying institutional fund. The CSSF is not saying that the underlying institutional fund must value at the same frequency as the wealth vehicle’s dealing frequency, but the wealth product must have valuation procedures that ensure that each NAV is based on a value that is still fair and proper at each dealing/NAV date, with a risk-based challenge process where the underlying fund’s last NAV is stale or no longer reliable. The message is functional, not mechanical: If your access fund deals more frequently than the underlying fund strikes NAV, you need procedures that bridge the timing gap, not necessarily a same-day underlying valuation. If the access fund prices monthly but the underlying institutional private fund strikes quarterly, the expected response would be some combination of the latest underlying NAV plus interim monitoring, event-driven reassessment and possibly an adjustment or pricing committee escalation if relevant information suggests the underlying value has moved.

### Valuation Methodologies

The thematic review showed that the market approach is the most widely applied valuation approach, particularly for investments in real estate and private equity, while the income approach predominates for infrastructure and private debt. Some AIFMs combine multiple approaches, for example, using the market approach as the primary method and the income approach as a secondary check.

The CSSF observed that certain AIFMs referred in their policies to internationally recognized valuation standards, such as the International Valuation Standards (the “IVS”), the Royal Institution of Chartered Surveyors (“RICS”) standards for real estate, and the International Private Equity and Venture Capital Valuation (“IPEV”) guidelines for private equity. The CSSF considers the application of such standards a good market practice and expects that, where valuation standards or guidelines are referenced in offering documents, they are consistently applied.

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<sup>1</sup> Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing the AIFM Directive, as amended.

The CSSF expects that written valuation policies provide for an adequate description and documentation of the valuation approaches and methods applied to the various types and categories of assets, including, where valuation models are used, a clear explanation and justification of the models, including their underlying data, assumptions, rationale for use and inherent limitations.

### **Use of Valuation Models and Related Approvals**

The CSSF observed, in limited cases, that the senior management of AIFMs had not given prior approval to valuation models before they were put into use and that certain AIFMs did not have adequate periodic review processes in place to ensure the ongoing appropriateness and design of valuation models. The CSSF notes that IT-backed models may be subject to errors in formulas that compromise the accuracy of calculations.

The CSSF emphasizes that, where changes are made to the main features of a valuation model, those changes must be reflected in the valuation policies and procedures, subject to independent validation, and brought to the attention and approved by senior management. The CSSF gives as an illustrative example that a change of a main feature to a model would be a change of the method of the discount rate as per the IVS.

Valuation policies and procedures (including methodologies) must be reviewed at least annually, with appropriate documentation of the review and senior management involvement.

Where valuation models originate from the fund sponsor, the AIFM is likely to seek enhanced transparency regarding model governance, assumptions, validation and change-management procedures, before endorsing or integrating such models in its own valuation function.

### **Valuation Under Exceptional Situations and Stressed Market Conditions**

For a limited number of AIFMs, valuation policies did not specifically address the valuation processes applicable under exceptional situations or stressed market conditions. Most of these AIFMs were, however, in the final stages of revising their valuation framework to integrate these elements.

The CSSF does not require separate valuation policies for exceptional situations, nor does it mandate that a different valuation methodology be automatically required, particularly for illiquid assets already valued based on a model. However, the overarching principle is that AIFMs should give due account to the specificities of the assets concerned and their key valuation inputs, adapting standard processes where necessary.

The CSSF expects that the internal governance arrangements of AIFMs, including the allocation of tasks and responsibilities, provide for adequate preparedness for performing valuation under exceptional situations and stressed market conditions. AIFMs must also give due account to past episodes that have provided important insights or lessons learned regarding valuation risks.

### **Escalation Processes for Significant Valuation Issues**

The CSSF observed that, for a limited number of AIFMs, valuation policies did not provide for an escalation process to both the senior management of the AIFM and the board/GP of the AIF in the event of important valuation issues.

The CSSF emphasizes the importance of informing the board/GP of the AIF of significant valuation issues, such as a crisis event impacting valuations to a significant degree or an asset-specific event affecting an important portfolio position, given their ultimate responsibility for the functioning of the fund. The CSSF expects that valuation policies provide for specific provisions ensuring a timely and appropriate escalation of valuation issues to both the senior management of the AIFM and the board/GP of the AIFs.

### **Pre-Investment Valuation Checks and Controls**

Most AIFMs reported the existence of pre-investment checks pertaining to valuation risks of targeted transactions, including the availability of necessary data and information and the adequacy of valuation methodologies. The CSSF considers that such checks should give due account to valuation risks and should be carried out in accordance with a risk-based approach.

The CSSF expects that written valuation policies provide for necessary specific and appropriate checks and controls prior to the acquisition of investments by AIFs in less liquid or illiquid assets. It recommends that AIFMs set out in their policies the allocation of responsibilities for these controls, including the role of the valuation function, when deemed necessary under a risk-based approach. This is important in the delegation context and may need to be taken into account by the delegated portfolio manager in its investment process.

### **Controls Over Valuation Models and Outputs**

The CSSF noted that all surveyed AIFMs confirmed having regular checks and controls in relation to valuation approaches and inputs used. Good practices observed include the use of a secondary valuation approach to verify results (e.g., using an income approach to corroborate a market-based valuation), periodic reviews of inputs and assumptions,

backtesting of recent transaction prices against prior carrying values and the use of calibration techniques.

The CSSF expects that valuation policies provide for specific and appropriate checks and controls of valuations derived from valuation models, applying an adequate risk-based approach, and that AIFMs duly consider the results of these checks to identify potential limitations or issues and assess whether adjustments are required.

### **Review of Valuation Reports From Third-Party Experts**

The use of third-party experts to support the internal valuation function is common practice among AIFMs. However, the CSSF observed that, in some limited cases, valuation policies did not provide for sufficiently documented controls or reviews of valuation inputs, information and reports provided by third-party experts or valuation service providers, including inputs from portfolio managers or investment advisors.

Fund sponsors should therefore expect increased scrutiny of valuation memoranda, valuation committee materials and other valuation inputs provided to the AIFM.

The CSSF expects that valuation policies provide for the necessary specific and appropriate checks and controls, carried out on a risk-based approach, over the inputs and information received from third-party experts, including valuation reports, to ensure the reliability and reasonableness of data feeding the valuation methodologies. AIFMs are also required to conduct thorough due diligence and maintain ongoing oversight of such third-party providers. This is relevant also in an intragroup scenario.

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## **Implications for AIFMs and Sponsors of Luxembourg Funds**

The CSSF's report requires all AIFMs to benchmark their current valuation framework against the observations set out in the Feedback Report and to implement corrective measures where applicable. While the thematic review focused primarily on open-ended AIFs, the CSSF has indicated that the observations and recommendations also pertain to closed-ended AIFs where applicable.

Luxembourg AIFMs are now, in particular, expected to review whether their valuation policies adequately address formalized processes for new fund launches and asset types, valuation under stressed market conditions, escalation procedures, the approval and periodic review of valuation models, and controls over third-party valuation inputs. Fund sponsors need to be prepared to address certain questions from their AIFMs and, where applicable, adjust their own operations. Although the CSSF regulates the Luxembourg AIFM, many of the controls, information flows, valuation inputs and

escalation triggers identified in the Feedback Report depend on the fund sponsor/delegated portfolio manager. Delegated portfolio managers should expect increased oversight, additional information requests and potentially revised delegation arrangements.

Please do not hesitate to contact us with any questions.

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