

SEC Staff Reiterates Focus on Private Asset Valuation and Disclosure

September 30, 2026

On September 28, 2026, the Chief Accountant of the U.S. Securities and Exchange Commission (the “SEC”) and the Director of the SEC’s Division of Investment Management issued a joint Statement on Fair Value Measurement and Disclosure Considerations for Private Assets (the “Statement”). The Statement focuses in particular on private credit, an asset class that has grown significantly in fund portfolios—by nearly 60% within registered fund portfolios alone over the past five years—and reminds registrants and their auditors of existing valuation and disclosure requirements under U.S. Generally Accepted Accounting Principles (“GAAP”) and, where applicable, the Investment Company Act of 1940, as amended (the “1940 Act”). While the Statement does not impose new legal requirements, it underscores the Staff’s expectations under the existing valuation and disclosure framework and signals that private credit valuation and disclosure practices are squarely on its radar. The Statement specifically calls out 1940 Act-registered funds and business development companies and their compliance with Rule 2a-5 under the 1940 Act, and private funds whose securities are registered under the Securities Exchange Act of 1934, as amended (the “1934 Act”), that are required by the 1934 Act to prepare GAAP financials. Investment advisers registered under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), that advise private funds but do not advise funds issuing 1934 Act-registered securities also should review the Statement carefully because many of their private fund clients are required to issue GAAP financials to allow the adviser to comply with Rule 206(4)-2 (the “Custody Rule”) under the Advisers Act. The key takeaways reflect the Staff’s views that:

- Because private credit assets are typically illiquid and individually negotiated, their valuation often depends on significant unobservable inputs, with the resulting measurements typically categorized as Level 3 and requiring substantial judgment, heightening the importance of appropriate valuation techniques, reliable inputs, and adequately substantiated assumptions.
- The Staff views calibration and ongoing recalibration as critical components of private credit valuation. In the Staff’s view, when the transaction price represents fair value and subsequent measurement relies on unobservable inputs, valuation

techniques should be calibrated to the transaction price at initial recognition and periodically reassessed against available market information as conditions change.

- In the Staff's view, tailored, entity-specific disclosure is particularly important for private credit valuations. The Statement notes that boilerplate or overly aggregated disclosure may not provide investors sufficient context regarding valuation techniques and significant inputs, and the Statement specifically identifies non-accrual status and payment-in-kind ("PIK") income as areas where disclosure may be material to investors in assessing income generation and asset quality, and in the case of PIK income, potential increases in credit risk.
- The Statement reminds registrants that use of net asset value ("NAV") as a practical expedient to estimate fair value is not automatic and requires an investment-by-investment assessment. In the Staff's view, management remains responsible for determining that the conditions for its use are satisfied, and the expedient is unavailable where a sale at an amount different from NAV is probable as of the measurement date.

Why Private Credit Valuation Is Drawing the Staff's Attention

The Statement notes that private credit investment within registered fund portfolios grew from approximately \$170 billion in December 2020 to \$270 billion in December 2025—nearly 60%—and that exposure extends well beyond registered funds and business development companies. Because private credit assets are illiquid, individually negotiated loans that typically do not trade on established secondary markets, determining their fair value generally requires significant unobservable inputs, typically placing these measurements within Level 3 of the fair value hierarchy under FASB Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurement. The Statement emphasizes that the resulting judgment—in selecting valuation techniques, identifying inputs, and weighting assumptions—calls for thoughtful policies and procedures and clear investor disclosure.

The Statement's focus on valuation governance for private credit is consistent with the direction in which the registered funds industry has already been moving. In April 2026, the Investment Company Institute published a detailed paper¹ on valuation governance considerations for private credit assets in registered funds, outlining how funds are applying Rule 2a-5's principles-based framework through risk- and materiality-based

¹ Inv. Co. Inst., *Valuation Governance Considerations for Private Credit Assets in Regulated Funds* (Apr. 2026), <https://www.ici.org/system/files/2026-04/26-ppr-valuation-governance-for-private-credit-assets.pdf>.

monitoring, calibration practices, threshold-driven escalation, and scaled valuation frequency tailored to fund structure and portfolio composition. The Statement reinforces many of the same themes and also identifies specific areas—particularly involving market participant perspective, PIK and non-accrual disclosure, and the NAV practical expedient—where the Staff expects additional rigor. Fund sponsors should accordingly evaluate their current practices against those expectations.

Valuation Reminders

The Statement reiterates several existing valuation principles that the Staff views as particularly important for private credit:

- In the Staff's view, information quality remains management's responsibility. The Statement states that a lack of timely borrower information does not relieve management of its obligation to estimate fair value and reminds registrants to assess whether each arrangement's reporting provisions provide information at an appropriate cadence to support ongoing monitoring and financial reporting.
- In the Staff's view, valuations must reflect a market participant perspective. Borrower-specific information, including payment history, covenant compliance, and operating performance, is only a starting point. The Statement notes that ASC Topic 820 requires that borrower-specific information be supplemented or adjusted where it diverges from reasonably available market information, including prevailing credit spreads and liquidity conditions, to ensure that the valuation reflects market participant assumptions.
- In the Staff's view, calibration is not a one-time exercise. Pursuant to ASC Topic 820, when the transaction price represents fair value and subsequent measurement relies on unobservable inputs, the valuation technique must be calibrated at initial recognition, including to the transaction price when it represents fair value. The Statement emphasizes the importance of periodically reassessing valuation techniques and inputs against available market information, including comparable transactions, public market equivalents, secondary market indications, and relevant credit indices, as conditions evolve.

Disclosure Reminders

The Statement is equally focused on disclosure quality. In the Staff's view, for material Level 3 fair value measurements, registrants must clearly communicate the valuation

technique(s) used, the significant inputs (such as discount rates, credit spreads, or comparable transaction data), and how changes in those inputs could produce a significantly different fair value. The Statement cautions that disclosures using “boilerplate” language or presented on an overly aggregated basis may not give investors sufficient context regarding the judgments underlying private credit valuations.

The Statement also addresses disclosure regarding portfolio risk characteristics and performance, pointing both to observed disclosure practices and to information that may be material to investors. It notes that modifications, restructurings, extensions, and periods of non-accrual may not be apparent from high-level portfolio statistics alone. The Statement focuses in particular on non-accrual and PIK interest disclosures, noting that clear criteria for classifying investments as non-accrual and disclosure regarding the extent to which PIK interest contributed to reported income may be material to investors’ assessments of income generation, asset quality, and credit risk. Notably, the Statement emphasizes the importance of enabling investors to distinguish between registrants generating cash income from their portfolios and those for which a meaningful portion of reported income reflects capitalized interest, which increases the registrant’s exposure to the borrower rather than providing current cash returns.

NAV as a Practical Expedient

The Statement addresses the use of NAV as a practical expedient to estimate fair value, noting that secondary transaction volume for private fund interests increased by approximately 42% between 2024 and 2025. GAAP permits management to estimate fair value using investee-reported NAV when specified conditions are met, including that the NAV is as of the measurement date and calculated consistently with ASC Topic 946; the expedient may not be used if a sale for an amount different from NAV is probable as of the measurement date. The Statement reminds registrants that use of the expedient is optional and must be assessed on an investment-by-investment basis. It also notes that use of NAV as a practical expedient may result in a measurement that differs from the fair value that could be realized in a market-participant transaction on the measurement date. Importantly, the Statement emphasizes that management’s assessment should consider all reasonably available information and notes that, as the secondary market for private fund interests continues to develop, relevant secondary market pricing information may increasingly inform that assessment. The Statement encourages management to treat this assessment as an iterative, evidence-based process that considers, among other factors, changes in market conditions and secondary market data and documents the basis for management’s conclusions.

Audit Considerations for Private Asset Valuations

The Statement devotes significant attention to auditors, underscoring the importance of professional skepticism given the judgmental nature of private credit fair value estimates and their susceptibility to management bias. The Statement points to PCAOB Auditing Standard (“AS”) 2110, AS 2501, and AS 1105, reminding auditors to update their risk assessments as circumstances change; evaluate whether management’s valuation approach conforms to the applicable financial reporting framework; test the reasonableness of significant assumptions and the reliability of data; and—where management relies on investee-reported NAV—evaluate the reliability of investee financial statements and the basis for any adjustments to reported NAV. The Statement also reiterates that auditors should not be satisfied with less than persuasive evidence and should gather additional evidence where warranted.

Practical Implications for Registrants, Auditors, and Private Fund Advisers

The Statement does not impose new legal requirements, but it provides a current indication of the valuation and disclosure issues drawing Staff attention. Registrants (including registered advisers to non-1934 Act private funds) with private credit exposure should consider: (i) revisiting valuation policies and procedures to confirm they address information adequacy, market participant assumptions, and calibration; (ii) reviewing fair value and portfolio risk disclosures, particularly involving non-accrual classification and PIK income, to assess whether they are sufficiently tailored and entity-specific; and (iii) reassessing and documenting any reliance on the NAV practical expedient, including whether reasonably available information continues to support its use. Auditors should consider whether changing market conditions or contradictory evidence warrant updates to risk assessments or additional procedures and whether their audit documentation appropriately reflects their evaluation of significant assumptions, data reliability, and NAV-related evidence. For registered advisers whose private fund clients are required to issue GAAP financial statements for purposes of the Advisers Act Custody Rule, the Statement is not directly prescriptive, but its emphasis on valuation governance, documentation, and disclosure under GAAP and FASB principles is nevertheless relevant to SEC examination and enforcement scrutiny.

Notably, the Statement does not specifically address the use of independent third-party valuation firms, even though such firms are frequently engaged by registrants and valuation designees to support Level 3 valuations of private credit assets. While the Statement’s reminders are directed at management’s and boards’ own valuation processes, engaging a qualified independent valuation firm—used appropriately, with adequate board or valuation designee oversight, and not as a substitute for

management's own judgment and responsibility—remains one practical way to help mitigate some of the risks the Statement highlights, including calibration rigor, market participant perspective, and the reliability of significant unobservable inputs.

For private fund advisers whose funds are not SEC registered, the Statement should be read as a reminder of SEC Staff expectations when it comes to robust valuation processes. Valuations remain central to fee calculations and performance reporting and thus, the Statement's emphasis on valuation governance, documentation, and disclosure is likely to inform the Staff's assessment of broader private fund practices.

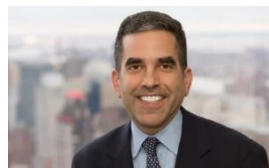
Finally, the Statement should also be read in the context of the broader regulatory agenda to expand retail access to private markets—including the Department of Labor's proposed fiduciary safe harbor for alternatives in defined contribution plans, and the SEC's anticipated rulemaking to amend Rule 17a-7 under the 1940 Act as applicable to cross-trades involving certain non-Level 1 assets—which collectively will affect how retail investors access, transact in, and exit private market investments, and each of which depends in part on the robustness of the valuation framework the Statement addresses.

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Please do not hesitate to contact us with any questions.



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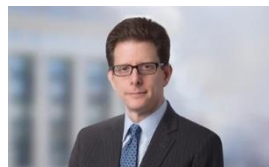
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