Private Asset Valuation in Focus: The FCA's Approach

28 October 2026

Overview

The means by which private funds value their assets continues to attract regulatory attention in the United Kingdom. The Financial Conduct Authority (the "FCA") published the findings of its Private Market Valuations Review (the "Review") in March 2025, covering private equity, private credit, venture capital and infrastructure assets, and carried those findings into draft valuation rules for UK alternative investment fund managers ("AIFMs") in Consultation Paper CP26/28, published in July 2026.

This In Depth examines what the Review and CP26/28 mean in practice for UK fund managers, focusing on three areas where firms should expect, or should already be making, concrete changes: the composition and independence of valuation committees, the identification and mitigation of conflicts of interest and the alignment of UK valuation expectations with international standards. We also look at a parallel staff statement issued by the U.S. Securities and Exchange Commission (the "SEC") on 28 September 2026, which addresses similar themes for private credit valuation in the United States.

The FCA's Private Market Valuations Review

Scope and Background

The FCA's Review assessed valuation practices across private asset strategies managed or advised from the United Kingdom. It was primarily directed at UK AIFMs, which are required under the UK AIFMD regime to adopt valuation procedures. It also impacts UK portfolio managers and investment advisers which have adopted policies for private assets valuation in light of their adherence to the FCA's Principles, including Principle 8 on managing conflicts of interest. EU AIFMs may also have regard to the FCA's work, as a body of recommended best practice, alongside guidance issued by other European

regulators, including the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF"). In particular, in June 2026, the CSSF published a Feedback Report setting out the findings of its ad hoc thematic review of valuation frameworks for less liquid and illiquid assets held by Luxembourg-domiciled AIFs managed by Luxembourg AIFMs. This includes guidance on best practice for valuation processes, methodologies and models.

In the Review, the FCA noted that private markets valuation practices are less transparent than those for publicly traded assets, building on its earlier "Dear CEO" letter on asset management and alternatives supervisory strategy and on international developments, including IOSCO's 2023 report on emerging risks in private finance and the Bank of England's 2024 Financial Stability Report.

Governance Arrangements

AIFMD requires firms to have procedures for the independent valuation of the fund's assets, with any internal valuation function being independent from portfolio management, with conflicts of interest mitigated appropriately. The FCA's recommended practice is to have either a dedicated valuation function or an independent control function, such as compliance, to lead the valuation process and prepare recommendations for the valuation committee; to limit investment professionals to a contributory and non-decision-making role, so that they do not represent all or a majority of voting membership on the valuation committee; and to maintain valuation committee minutes that explain how specific valuation decisions were reached.

Conflicts of Interest

The FCA identified a range of conflicts in the valuation process, including those arising from fee calculations linked to valuations, continuation fund transfers, NAV-based subscriptions and redemptions for open-ended funds, use of unrealised performance in fundraising, NAV financing (including incentives to inflate valuations to maximise facility size or avoid breaching loan-to-value covenants), "smoothing" of return profiles and variable pay linked to changes in NAV. Good practice includes obtaining independent fairness opinions on continuation fund transfers, clearly separating realised and unrealised performance in marketing materials, documenting conflicts associated with NAV financing, applying valuation methodology consistently, including where this produces less stable valuations, and formally separating investment teams whose pay is linked to valuations from valuation decision-making.

Valuation Policies, Methodologies and Third-Party Advisers

The FCA found that most firms use standardised valuation templates, and stated that policies should explain the rationale for selected methodologies and their limitations; set out safeguards for independence, periodic review and escalation; and clearly document changes in inputs, assumptions and values. The FCA expects consistent application of methodology and assumptions over time, with changes properly justified. Third-party valuation advisers provide additional independence and expertise, but firms must be mindful of conflicts, disclose to investors the specific nature and limitations of the service provided and retain responsibility for valuation decisions themselves.

Backtesting, Frequency and Investor Transparency

The FCA encouraged firms to use backtesting results (comparing realised exit values against the last estimated valuation) to inform their approach to valuations, including identifying limitations to the model. On frequency, most private equity and infrastructure valuations are quarterly, venture capital quarterly or bi-annual and private debt quarterly or monthly, with the FCA recommending a defined process, including thresholds and trigger events, for ad hoc valuations outside the regular cycle. On transparency, the FCA encourages fuller reporting to investors, including both fund- and asset-level quantitative and qualitative information and, where useful, a "value bridge" showing how much of a change in value is attributable to underlying earnings, valuation multiples, cash proceeds and exchange rate movements as against market and valuation judgement effects.

CP26/28: From Review Findings to Draft Rules

Overview of CP26/28

On 14 July 2026, the FCA published Consultation Paper CP26/28, which set out proposed reforms to the UK AIFM regime, which derived from the onshored AIFMD framework. In the Consultation Paper, the FCA stated its intent to make the rules more proportionate to firms' size and activities, remove unnecessary complexity and administrative burden, and support firms to grow and compete internationally. The proposals introduce a new three-tier structure (small, medium and large AIFMs) with graduated application of the rules, and consolidate most AIFM rules into a new Alternative Investment Funds sourcebook (the "ALTS"). The new regime is expected to take effect in 2028.

The Valuation Chapter Builds Directly on the 2025 Review

Chapter 4 of Consultation Paper sets out the FCA's proposed new valuation rules, which are modelled on the existing AIFMD valuation rules and aligned with the recently published IOSCO standards on valuation. The Consultation Paper repeats several of the 2025 Review's findings: examples of good practice included high-quality investor reporting, documentation of valuations, use of third-party valuation advisers to introduce independence and expertise, and consistent application of established methodologies, while areas identified for improvement included more comprehensive identification and documentation of valuation-related conflicts, extending beyond those arising from fees and remuneration to those arising in marketing, secured borrowing, asset transfers, redemptions and subscriptions, and uplift or volatility-related incentives, (where carried interest or performance fees are linked to increases in unrealised portfolio valuations or where there are incentives for managers to smooth valuations to minimise reported fluctuations in NAV); insufficient independence in valuation decision-making and committee voting membership; and the absence of defined processes, with events and thresholds, for ad hoc valuations during market- or asset-specific events.

Key Proposed Rules

As a base-line requirement that applies to all authorised UK AIFMs, including small AIFMs that are not currently subject to valuation rules, the draft ALTS valuation chapter will require AIFMs to ensure that an AIF's assets and liabilities are valued properly, in good faith; impartially; with due skill, care and diligence; and at their fair value, defined as the amount for which an asset could be exchanged, or a liability transferred or settled, between knowledgeable willing parties in an arm's length transaction. This fair-value formulation aligns with the IFRS accounting definition of fair value and with the IOSCO standard.

In relation to independence of the valuation function and management of conflicts of interest, all AIFMs will be required to identify and manage conflicts of interest arising from the valuation process. The FCA recognises that most AIFMs do not have a "fully autonomous" valuation function. As a result, only large AIFMs will be required to carry out valuations independently of the portfolio management function and to ensure that the portfolio management function does not take part in the final determination on valuation—in practical terms, either through employing staff dedicated to the valuation function or through using existing staff in the control functions. Small and medium AIFMs will be expected, at a minimum, to carry out valuation "separately" from portfolio management, exclude the portfolio management function from making final valuation determinations and that ensure remuneration policies mitigate the risk of undue influence over valuers. The FCA does not require a fully independent valuation function for small and medium AIFMs, which may allow those AIFMs to involve the

portfolio management function in the valuation process, such as acting as minority members of the decision-making committee.

Under the new rules, medium and large AIFMs will face more detailed requirements on the content of valuation policies and procedures, including setting the methodology for each asset type, with sources of assumptions and inputs, and governance for changes to the methodology, with large AIFMs subject to the most detailed requirements. Firms will also need to keep records of valuation decision-making and to consider ad hoc valuations where there is evidence that the current valuation no longer reflects an asset's fair value.

Independent Valuers

The consultation paper notes that the Treasury proposes to removing the current EU-derived rules on the appointment of external valuers, including strict liability for valuations, so that there will no longer be rules governing a firm that acts as external valuer for an AIF's assets and liabilities. In their place, the FCA proposes that an AIFM may only appoint an independent third-party valuer that meets certain criteria, including having the requisite knowledge, skill and experience; sufficient personnel and technical resources; and the ability to act independently of the AIFM.

A Brief Comparison: The SEC's Parallel Focus

On 28 September 2026, the SEC's Chief Accountant and the Director of its Division of Investment Management issued a statement on fair-value measurement and disclosure for private assets. This focussed on techniques used to value private credit assets, with statements as to the sources of private information used for valuation, reconciling differences between the modelled fair value and the subsequent transaction price and performing periodic reconciliations to information such as comparable transactions. The SEC also stated the importance of clearly disclosing the valuation techniques and inputs and provided guidance on the conditions for estimating fair value by using NAV reported by an investee company. The SEC also referred to the importance of auditors scrutinising the valuation model that underlies the fair value of assets reported in the financial statements.

The FCA's review and its CP26/28 proposals are broader in asset-class coverage (private equity, venture capital, infrastructure and private credit) and are framed around firm governance. One key difference is that, unlike the SEC's non-binding staff statement, the FCA's valuation expectations are moving from supervisory guidance into binding, tiered rules, with small AIFMs becoming subject to baseline valuation requirements for the first time. Both regulators converge on the importance of investor transparency.

Practical Takeaways from the FCA's Valuation Work

Valuation Committee Composition and Independence

One of the clearest practical effects of the FCA's Review is a shift in valuation committee composition. Firms are increasingly moving investment professionals out of decision-making roles on valuation committees; limiting them to a contributory, non-voting or minority-voting function; and ensuring that an independent control function, such as compliance, leads the process and prepares recommendations for the committee.

Firms that have not yet revisited committee terms of reference, voting rights and composition, and quorum rules should treat this as a priority, together with ensuring that committee minutes properly evidence how individual valuation decisions were reached.

Conflicts of Interest

Conflicts of interest remain the FCA's focus and are carried forward into CP26/28 in more granular form. Firms should map the full range of conflicts the FCA has identified and explain how potential or actual conflicts are managed. Under CP26/28, every authorised AIFMs will need to identify and manage these conflicts, extending beyond those arising from fees and remuneration to those linked to marketing, secured borrowing, asset transfers, and redemptions and subscriptions, and firms should expect their existing conflicts registers and mitigation frameworks to be tested.

Alignment with International Valuation Standards

The FCA has been explicit that its valuation proposals are not developed in isolation. The Review itself drew on international developments, including IOSCO's 2023 report on emerging risks in private finance, and CP26/28 states that its valuation chapter is fully aligned with the recently published IOSCO standards on valuations. For firms operating across multiple jurisdictions, this convergence is a practical opportunity: A valuation governance framework built to IOSCO standards should, in large part, also satisfy the FCA's proposed ALTS requirements, reducing the need for jurisdiction-specific valuation policies. Firms should map their existing methodologies and governance documentation against the IOSCO standards and the FCA's Review.

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