Regulatory Update:
SEC Commentary – Fair Value Measurement and Disclosure Considerations for Private Assets

By Randy Randall, Senior Partner
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INTRODUCTION:

Kurt Hohl, SEC Chief Accountant and Brian Daly, Director of the SEC Division of Investment Management, issued a Statement on Fair Value Measurement and Disclosure Considerations for Private Assets ("Statement") on September 28, 2026.[1] Although focused on primarily on private credit, the Statement provides valuable insight into the current SEC views on valuation and offers helpful guidance to firms investing in less liquid asset classes.

KEY TAKEAWAYS:

- Valuation remains a priority for the SEC, especially with the rise of products seeking to provide retail access to less liquid asset classes.
- There is no one size fits all to valuation – selecting valuation techniques, identifying relevant inputs and weighting assumptions in accordance with applicable guidance requires thoughtful policies and procedures and clear disclosure to investors.
- A robust fair valuation process is not a "set it and forget it" exercise – the SEC expects the process to take changes affecting the specific asset as well as prevailing market conditions into account.
- Management, boards, valuation designees, and auditors each serve important roles in that the financial reporting used by investors reflects the rigor, transparency, and investor focus required by existing legal and regulatory frameworks.
- Close coordination among all these parties is vital in developing and documenting valuation methodologies for less liquid assets.

THE DETAILS:

investment in private assets continues to grow for an registrants such as registered closed-end funds, interval funds, tender offer funds, business development companies and registered private funds that are required to subsequently measure these investments at fair value. According to the Statement, the growing accessibility of private assets calls for a critical reminder that registrants maintain rigor over how these assets are valued and how those valuations and asset risk characteristics are disclosed to investors. These issues are also relevant for auditors who are responsible for evaluating management's judgments and the sufficiency of a registrant's disclosures.

[1] https://www.sec.gov/newsroom/speeches-statements/hohl-daley-statement-fair-value-measurement-disclosure-considerations-private-assets-092806?utm_medium=email&utm_source=govdelivery

The Growth of Private Credit Investments

Fund investment, as measured through regulatory filings and SEC engagement with market participants, has grown nearly 60%, from $170 billion in December 2020 to $270 billion in December 2025. Private credit assets are typically illiquid, individually negotiated loans that do not trade on established secondary markets and therefore generally lack readily available quoted prices. As such, determining their fair value frequently requires the use of significant unobservable inputs, meaning these measurements are typically categorized as Level 3 within the fair value hierarchy established by FASB ASC Topic 820.

The degree of judgment required in selecting valuation techniques, identifying relevant inputs, and weighting assumptions in accordance with FASB ASC Topic 820 can be significant. This judgment and the inherent complexity in valuing these assets calls for thoughtful policies and procedures designed to estimate fair value and to provide clear disclosure to investors.

SEC Expectations of Registrants

Although the Statement specifically addresses private credit, the same principles apply to many less liquid asset classes. The following factors apply –

- **Information Quality and Management's Responsibility -** Having access to relevant information in a timely manner is a critical aspect of fair valuation. For example, given the bespoke nature of private credit assets, the underlying arrangements may vary significantly, including in the quantity, quality, and frequency of information that borrowers provide to lenders—often driven by the specific covenants and reporting requirements negotiated in each deal. Lack of timely information does not relieve management of its responsibility to estimate fair value. Because this information forms the basis for fair value measurement, it is important for management to consider whether the reporting provisions in an arrangement are sufficient, including whether information is provided at an appropriate cadence, to support ongoing monitoring and financial reporting.
- **The Market Participant Perspective -** FASB ASC Topic 820 requires management to take into account the characteristics of an asset or liability if market participants would take those characteristics into account when pricing an asset or liability at the measurement date. This ensures that fair value measurements under U.S. GAAP reflect internal expectations only to the extent they are consistent with a market participant's perspective. Management often begins with borrower-specific information available through its direct relationship and monitoring activities, such as payment history, covenant compliance status, and operating metrics. However, FASB ASC Topic 820 requires supplementing or adjusting an entity's own data if it differs from reasonably available information that a market participant would use when pricing the asset to ensure the measurement reflects a market-based perspective. Specific to private credit, this may necessitate considering 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, provided those considerations are consistent with the assumptions a market participant would use and are reasonably available.

- **The Importance of Calibration -** At initial recognition, an investment's transaction price, when it represents fair value, provides a critical reference point for management's future measurements. When subsequent measurement relies on unobservable inputs, FASB ASC Topic 820 requires management to calibrate the valuation technique so that, at initial recognition, the result of the valuation technique equals the transaction price. This facilitates an evaluation of any difference between the transaction price and the model's indication of fair value and ensures valuation techniques reflect current market conditions. Subsequent changes in fair value should be driven by changes in the assumptions or valuation techniques consistent with a market participant's perspective. According to the Statement, robust calibration practices can include periodic reassessment of whether model outputs remain consistent with available market information such as comparable transactions, public market equivalents, secondary market indications, or relevant credit indices. Such practices may help ensure that valuation conclusions continue to reflect market participant assumptions as conditions evolve.

The key takeaway here is that fair valuation is not a "set it and forget it" exercise. A robust fair valuation process will take new information and inputs into account and adjust the fair valuation accordingly.

Disclosure Reminders

- **Fair Value Measurement Disclosures -** FASB ASC Topic 820 establishes specific disclosure requirements for recurring Level 3 fair value measurements, including quantitative information about significant unobservable inputs used in the valuation. When material, a registrant's disclosures must clearly communicate –

    - The valuation technique or techniques used in determining the fair value;
    - Inputs that are significant to the measurement, such as discount rates, credit spreads, or comparable transaction data; and
    - How changes in those inputs might result in a significantly different fair value at the reporting date.

    Avoid "boilerplate" disclosures that are not appropriately tailored to provide sufficient context to investors regarding the valuation techniques and inputs used.

- **Transparency Around Portfolio Risk Characteristics and Performance -** U.S. GAAP and Regulation S-X provide requirements for disclosing types of investments, industry and geographic region, and certain asset characteristics including, interest rates, maturity dates, income producing status and payment-in-kind interest status. Transparency in these areas may be material. Such disclosure may enable investors to distinguish between registrants generating cash income from their investment portfolio and those where a meaningful portion of reported income reflects capitalized interest, which in turn increases the registrant's exposure to the borrower rather than providing current cash returns.

- **Private Fund Secondary Activity and the Use of NAV as a Practical Expedient -** U.S. GAAP provides a practical expedient that permits management to estimate the fair value of an investment in another entity using NAV reported by that investee, provided certain conditions are met, including that the investment does not have a readily determinable fair value and that it is an investment in an investment company within the scope of FASB ASC Topic 946. To apply the practical expedient without adjustment, the NAV of the investee must be as of the measurement date and calculated in a manner consistent with

the measurement principles of FASB ASC Topic 946. In addition, management is not permitted to apply the practical expedient if, as of the registrant's measurement date, it is probable that the registrant will sell the investment for an amount different from NAV.

- **Audit Considerations –** According to the Statement, auditors play an important role in enhancing the credibility of the information received by investors regarding the fair value of less liquid assets. The complexity and judgmental nature of these fair value estimates, and their susceptibility to management bias, heighten the importance for auditors to exercise professional skepticism in gathering and evaluating audit evidence related to the fair value estimates. Auditors are expected to perform robust risk assessment procedures that take into account external factors, including industry and market conditions. Risk assessment is an iterative process, and auditors may need to modify their audit response in light of changing circumstances and new information.

About Randy Randall: *Randy Randall is a Senior Partner at Helios and a seasoned compliance executive and securities attorney with more than 35 years of experience advising investment advisers, broker-dealers, and investment companies. Before joining Helios, Randy spent more than two decades at William Blair, where he served as Chief Compliance Officer and General Counsel for the firm's Investment Management business. He counsels and advises clients on SEC and FINRA regulatory matters, compliance program design, governance, and complex legal and regulatory issues affecting the investment management industry.*