U.S. Securities and Exchange Commission

STATEMENT

Statement on Fair Value Measurement and Disclosure Considerations for Private Assets

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Introduction[1]

Investment in private assets continues to grow, including for an increasing number of registrants that are required to subsequently measure these investments at fair value, such as registered closed-end funds, interval funds, tender offer funds, business development companies and private funds registered under the Securities Exchange Act of 1934. The growing accessibility of private assets, including private credit, 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. Likewise, these issues are relevant for auditors who are responsible for evaluating management's judgments and the sufficiency of a registrant's disclosures.

This statement offers reminders from the staff of the U.S. Securities and Exchange Commission's Office of the Chief Accountant and the Division of

Investment Management (collectively, the "Staff"), regarding areas of significant judgment under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement,* and the importance of targeted and transparent disclosure. The Staff believes that reinforcing existing requirements under U.S. generally accepted accounting principles ("U.S. GAAP") — and, for certain registrants, including business development companies, the regulatory framework under the Investment Company Act of 1940 (the "Investment Company Act")[2] — will promote greater consistency and clarity in the financial information provided to investors.

Private Credit: Why This Area Requires Particular Care

The Staff has observed significant growth in private credit through our review of registrants' filings and engagement with market participants. Specifically, private credit investment within registered fund portfolios has grown nearly 60%, from $170 billion in December 2020 to $270 billion in December 2025.[3] Exposure to private credit assets is not limited to funds registered under the Investment Company Act and business development companies. The reminders in this statement are relevant to all registrants with exposure to private credit assets.

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,[4] meaning these measurements are typically categorized as Level 3 within the fair value hierarchy established by FASB ASC Topic 820.[5]

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.[6]

Private Credit: Valuation Reminders

Information Quality and Management's Responsibility

One of the most critical aspects of any fair value measurement is having access to relevant information in a timely manner. 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. It is important to remember that a lack of timely information does not relieve management of its responsibility to estimate fair value.[7] 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.[8] 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.[9]

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.[10]

As a practical matter, 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.[11] 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[12] 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.[13]

The Staff has observed that robust calibration practices, including 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, may be an important element of a well-functioning valuation process. Such practices may help ensure that valuation conclusions continue to reflect market participant assumptions as conditions evolve.

Private Credit: 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 for private credit assets;[14]
- Inputs that are significant to the measurement,[15] 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.[16]

Such disclosure helps users understand the key drivers of value and the degree of measurement uncertainty inherent in material reported amounts.

The Staff reminds registrants that disclosures that are not appropriately tailored, use "boilerplate" language, or present information on an overly aggregated basis may not provide sufficient context to investors regarding the valuation techniques and inputs used to measure private credit assets.[17] Clear, entity-specific disclosure helps investors better evaluate the judgments underlying these fair value measurements.

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 ("PIK") interest status.[18]

The Staff has observed best practices for the types of disclosure that may be material for investors to understand the overall risk profile of private credit portfolios and how that profile may change over time. For example, private credit assets may undergo modifications, restructurings, extensions, or periods of non-accrual that might not be readily apparent from high-level portfolio statistics. Thoughtful disclosure about these developments can help investors better understand, among other things, the quality of reported income, impacts to fair value, and changes to risk characteristics within the portfolio.

Clear non-accrual and non-performing investment disclosures may be material to investors in assessing trends in income generation and asset quality. These include the criteria management uses to classify investments as non-accrual, determine when interest accrual stops, and account for previously accrued but uncollected interest.

Similarly, clear disclosure about PIK interest, including when and how it is recognized, the extent to which it represents a growing portion of reported income, and what its prevalence may signal about borrower financial condition or potential increases in credit risk, can be material to investors in assessing the quality and sustainability of a fund's income stream.

The Staff has observed that 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

The Staff's ongoing dialogue with stakeholders has highlighted another area in FASB ASC Topic 820 that warrants consideration: the application of net asset value ("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, *Financial Services – Investment Companies*. 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.[19] Additionally, 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.[20]

It is important to remember that utilizing NAV as a practical expedient 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. The FASB recognized this when the practical expedient was adopted.[21]

The Staff reminds management that even when the criteria required to apply the practical expedient are met, its application is optional on an investment-by-investment basis.[22] Management retains ultimate responsibility for concluding that an investment meets the required criteria to apply the practical expedient.

When assessing whether the reported NAV is calculated in a manner consistent with the measurement principles in FASB ASC Topic 946,[23] the evaluation is often based on information provided by the investee fund manager during the registrant's initial due diligence and ongoing monitoring. However, registrants should consider reasonably available information, which may evolve as the secondary market for private fund interests continues to grow.[24] 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.

The staff encourages management to treat this assessment as an iterative, evidence-based process: identify relevant information (for example, investee-level policies and controls, changes in market conditions, secondary-market data), evaluate its implications for the conditions required to apply the practical expedient, and document the basis for management's conclusions.

Audit Considerations

Auditors play an important role in enhancing the credibility of the information received by investors regarding the fair value of private credit 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. This begins with auditors performing robust risk assessment procedures that take into account external factors, including industry and market conditions.[25] Risk assessment is an iterative process and auditors may need to modify their audit response in light of changing circumstances and new information.[26] In times of market disruption, an auditor should reconsider whether management's reliance on prior assumptions in valuing a private credit asset is consistent with market participant assumptions as of the reporting date.[27]

Regarding the fair value of private credit assets and other accounting estimates, Public Company Accounting Oversight Board ("PCAOB") Auditing Standard ("AS") 2501: *Auditing Accounting Estimates, Including Fair Value Measurements* establishes a risk-based approach that requires auditors to, among other things, evaluate whether the approach or method used by management to develop the accounting estimate is in conformity with the applicable financial reporting framework and appropriate for the nature of the related account or disclosure.[28] In considering the appropriateness of a registrant's use of NAV as a practical expedient, an auditor should evaluate the totality of audit evidence obtained. Auditors are also required to evaluate the reasonableness of significant assumptions and reliability of data supporting the fair value conclusions reflected in the financial statements.[29] In particular, when management measures fair value using investee-reported NAV, auditors should consider the reliability of investee financial statements and evidence supporting adjustments made by management to investee-reported NAV, by understanding the source and testing the information or relevant controls over the information, consistent with PCAOB AS 1105, *Audit Evidence*.

Auditors are reminded that audit evidence includes all the information that is used by the auditor in arriving at the conclusions on which the auditor's opinion is based.[30] In addition, audit evidence consists of both information that supports and corroborates management's assertions regarding the financial statements or relevant internal controls over financial reporting and information that contradicts such assertions. Auditors should not accept less than persuasive evidence.[31] If, in the auditor's judgment, additional evidence is needed, the auditor should perform procedures to gather such evidence.[32]

The Common Thread: Transparency and Material Disclosure

Across the valuation and disclosure topics discussed in this statement, the underlying message is the same: robust policies and procedures, paired with material disclosure, help investors understand an entity's fair value process, the judgments involved, and the risks associated with private assets.

As markets continue to develop and evolve, disclosure of the context around the basis for valuations and inherent uncertainties can be material for investors to evaluate recognized private assets measured at fair value.

Management, boards, valuation designees, and auditors each serve important roles in ensuring that the financial reporting used by investors reflects the rigor, transparency, and investor focus that the existing legal and regulatory frameworks contemplate; the objective of these reminders is to help all parties apply and understand these frameworks with confidence, providing material information to investors.

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1 This statement is provided in the authors' respective official capacities as the U.S. Securities and Exchange Commission's ("Commission's") Chief Accountant and the Director of the Division of Investment Management but does not necessarily reflect the views of the Commission, the Commissioners, or other members of the Staff. It is not a rule, regulation, or statement of the Commission. The Commission has neither approved nor disapproved its content. This statement, like all Staff statements, has no legal force or effect. It does not alter or amend applicable law, and it creates no new or additional obligations for any person.

2 See Investment Company Act, 15 U.S.C. § 80a-1 et seq.; Rule 2a-5 under the Investment Company Act, 17 C.F.R. § 270.2a-5.

3 See U.S. Securities and Exchange Commission, Investment Management Data, Registered Fund Statistics Supporting Data (XLSX), available at https://www.sec.gov/files/im-investment-registered-fund-statistics-2026512.xlsx (https://www.sec.gov/files/im-investment-registered-fund-statistics-2026512.xlsx).

4 See FASB ASC 820-10-20 (defining "unobservable inputs" as "inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability").

5 See FASB ASC 820-10-35-52 (defining Level 3 inputs as unobservable inputs).

6 Both U.S. GAAP and Rule 2a-5 under the Investment Company Act contain relevant considerations regarding valuation. For example, Rule 2a-5 under the Investment Company Act requires that a fund's board must determine fair value in good faith and may choose to designate a valuation designee, subject to board oversight, responsible for determining fair value in good faith for any or all fund investments. The Commission has stated that a violation of the rule does not necessarily mean that the actual values ascribed to a particular fund investment were in fact inappropriate. See Good Faith Determinations of Fair Value, Investment Company Act Release No. 34128 (Dec. 3, 2020) [86 FR 748, 751 (Jan. 6, 2021)]. See also FASB ASC 105-10-05-6 (addressing that provisions of the Codification need not be applied to immaterial items).

7 Rule 2a-5 under the Investment Company Act requires funds to periodically assess and manage material risk associated with the determination of the fair value of the fund's investments.

8 See FASB ASC 820-10-35-2B (describing fair value measurement as taking into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date). See FASB Master Glossary (defining "Market Participants"). A registrant's management is responsible for ensuring the financial statements fairly present, in all material respects, the financial condition, results of operations, changes in net assets and cash flows of the registrant.

9 See FASB ASC 820-10-35-9 (describing the market participant concept and the requirement that fair value measurement incorporate assumptions that market participants would use).

10 See FASB ASC 820-10-35-54A (stating that a reporting entity "shall take into account all information about market participant assumptions that is reasonably available").

11 See FASB ASC 820-10-35-24C (addressing calibration of valuation techniques to observable market data, including the transaction price at initial recognition); FASB ASC 820-10-30-3A (addressing determining whether fair value at initial recognition equals the transaction price).

12 See FASB ASC 820-10-30-3 through 30-3A (addressing circumstances in which the transaction price may or may not represent fair value at initial recognition).

13 See FASB ASC 820-10-35-25 (addressing application of valuation techniques).

14 See FASB ASC 820-10-50-2(bbb)(1) (requiring a description of the valuation technique(s) used in fair value measurement).

15 See FASB ASC 820-10-50-2(bbb)(2) (requiring disclosure of quantitative information about significant unobservable inputs used in Level 3 fair value measurements).

16 See FASB ASC 820-10-50-2(g) (requiring a narrative description of the uncertainty of fair value measurement from the use of significant unobservable

inputs if those inputs reasonably could have been different at the reporting date).

17 See FASB ASC 820-10-50-1C through 50-1D (establishing the overall disclosure objective and specific requirements for fair value measurements, including sufficient disaggregation by class of asset); see also FASB ASC 820-10-50-2(bbb)(1) (requiring disclosure of valuation techniques and inputs for Level 3 measurements).

18 See FASB ASC 946-210-50-1 (establishing disclosure requirements for the schedule of investments for investment companies other than nonregistered investment partnerships). See Rule 12-12 of Regulation S-X, 17 C.F.R § 210.12-12, and Rule 6-07 of Regulation S-X, 17 C.F.R § 210.6-07.

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

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

21 See FASB Accounting Standards Update ("ASU") 2009-12, which noted "[t]he 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." See also ASU 2009-12, BC6, which noted that, "[s]ome constituents also asserted that principal-to-principal or brokered transactions are uncommon for the types of investments within the scope of the amendments in this Update and often involve a distressed seller. Consequently, in their view, in many circumstances principal-to-principal or brokered transactions are not relevant to a fair value measurement of an alternative investment in the scope of the amendments . . . ." and BC13, which noted that, "[i]n the Board's view, on balance, the cost and effort involved in evaluating (a) the specific attributes of the investment (including any intangible benefits) and (b) any principal-to-principal or brokered transactions for an investment within the scope of amendments in this Update outweigh any benefits . . . ."

22 See FASB ASC 820-10-35-59 (addressing the use of the NAV practical expedient as an option to estimate the fair value of an investment within the scope of paragraphs ASC 820-10-15-4 through 15-5) and ASC 820-10-35-61 (addressing the use of the NAV practical expedient on an investment-by-investment basis).

23 See FASB ASC 820-10-35-59 (addressing that use of the NAV practical expedient requires that it be calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date).

24 It has been reported that total secondary transaction volume for private fund interests increased approximately 42%, from roughly $156 billion to $220 billion in 2024 and 2025, respectively. See William Blair 2026 Secondary Market Report, available at https://www.williamblair.com/-/media/downloads/ib/2026/williamblair-pca-secondary-market-report-survey-2026.pdf (https://www.williamblair.com/-/media/downloads/ib/2026/williamblair-pca-secondary-market-report-survey-2026.pdf).

25 See PCAOB AS 2110, Identifying and Assessing Risks of Material Misstatement, paragraph .05 (stating risks of material misstatement can arise from a variety of sources, including external factors, such as conditions in the Company's industry and environment), paragraph .07 (stating that the auditor should obtain an understanding of the company and its environment to understand the events, conditions, and company activities that might reasonably be expected to have a significant effect on the risks of material misstatement including relevant industry, regulatory, and other external factors) and paragraph .09 (stating that obtaining an understanding of relevant industry, regulatory, and other external factors encompasses industry factors, including the applicable financial reporting framework and general economic conditions).

26 See PCAOB AS 2110, paragraph .74 (explaining that the auditor's assessment of the risks of material misstatement and his or her planned audit procedures should be revised, or additional procedures should be performed, when the auditor obtains audit evidence that contradicts the audit evidence on which the auditor originally based his or her risk assessment).

27 See PCAOB AS 2501, Auditing Accounting Estimates, Including Fair Value Measurements, paragraph .16(b)(3) (explaining that an auditor should evaluate the reasonableness of the significant assumptions used by the company to develop the accounting estimate, including existing market information).

28 See PCAOB AS 2501, paragraph .10 (stating that the auditor should evaluate whether the methods used by the company to develop the accounting estimates are in conformity with the requirements of the applicable financial reporting framework and appropriate for the nature of the related account or disclosure, taking into account the auditor's understanding of the company and its environment).

29 See PCAOB AS 2501, paragraph .16 (explaining that the auditor should evaluate the reasonableness of the significant assumptions used by the company to develop the accounting estimate, both individually and in combination) and paragraphs .12 and .13 (explaining that the auditor should test the data used to develop the accounting estimate by evaluating information produced by the company and information from an external source in accordance with the requirements of PCAOB AS 1105, Audit Evidence).

30 See PCAOB AS 1105, paragraph .02 ("Audit evidence is all the information, whether obtained from audit procedures or other sources, that is used by the

auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence consists of both information that supports and corroborates management's assertions regarding the financial statements or internal control over financial reporting and information that contradicts such assertions.").

31 See PCAOB AS 1000, General Responsibilities of the Auditor in Conducting an Audit, paragraph .11(c) (explaining that an auditor's exercise of professional skepticism includes not being satisfied with evidence that is less than persuasive).

32 See PCAOB AS 1105, Appendix B – Audit Evidence Regarding Valuation of Investments Based on Investee Financial Results, paragraph .B2 (stating that when in an auditor's judgment additional evidence is needed, the auditor should perform procedures to gather such evidence). See PCAOB AS 2810, Evaluating Audit Results, paragraph .35 (stating that an auditor should perform procedures to obtain further audit evidence to address when an auditor has not obtained sufficient appropriate audit evidence about a relevant assertion).

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