



Valuing Collective Investment Schemes (CIS)

CONSULTATION REPORT

The Board of the
International Organization of Securities Commissions



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Executive Summary

1. In May 2024, the Board of the International Organization of Securities Commissions (IOSCO) agreed on a mandate for Committee 5 to review and update IOSCO's 2013 Principles for the Valuation of Collective Investment Schemes ("2013 CIS Valuation Principles"). In addition to the 2013 CIS Valuation Principles, the workstream has also taken into account the extent to which IOSCO's 2007 Principles for the Valuation of Hedge Fund Portfolios ("2007 Hedge Fund Principles") may fall within the scope of the work.
2. This Consultation Report consults on proposals to draw upon the two sets of Principles and develop a combined set of updated Recommendations, which will supersede both the 2013 CIS Valuation Principles and 2007 Hedge Fund Principles ("the Principles").
3. The Consultation Report reviews a range of areas, covered in the two previous sets of Principles, that could benefit from updating in light of recent market developments, such as an increase in Collective Investment Schemes (CIS) holding less liquid and illiquid assets,¹ including private assets, as well as increased retail investment in such schemes.
4. The report begins with an introductory section, which includes a terminology section that defines key terms used frequently throughout the report and sets out the context, rationale and methodology for undertaking this workstream.
5. The body of the report presents proposed updated Recommendations, alongside an explanation of what these seek to achieve, and a series of questions requesting feedback. Generally speaking, IOSCO seeks comments on how the Recommendations are drafted, as well as whether any explanations provided for the Recommendations need further refining.
6. The content of the Recommendations has been updated to take into account developments in the market that have emerged since the previous Principles were published. In addition, there is a new proposed Recommendation on record keeping.
7. The areas that the new proposed Recommendations cover are as follows: policies and governance, conflicts of interest, methodology, use of third party valuation service providers, consistency in valuation, pricing errors, timely valuation, disclosure practices, and record keeping.

¹ See terminology section at the end of Chapter 1 on page 11.

8. IOSCO is seeking comments on this Consultation Report on valuing CIS. IOSCO will consider all consultation responses and anticipates publishing a final report in the 2nd or 3rd quarter of 2026. Once the recommendations are finalized, IOSCO expects that Securities Regulators² will actively promote their implementation by responsible entities within the context of the relevant CIS in their respective jurisdiction. Hence, the implementation of the recommendations may vary from jurisdiction to jurisdiction, depending on local conditions and circumstances.
9. This report contains information and questions that will be of interest to asset managers, depositaries, third party valuation service providers, accountancy firms, all firms providing facilities to fund investors, professional services firms providing legal and support services to operators of CIS, and asset management trade associations.
10. Comments may be submitted through the following survey [link here](#) by **2 February 2026**.
11. **Important:** All comments will be made available publicly, unless anonymity is specifically requested. Comments will be converted to PDF format and posted on the IOSCO website. Personal identifying information will not be edited from submissions. If you require technical assistance on completing the survey, please contact: itsupport@iosco.org. If you have questions about the report or the consultation, please contact John Wennstrom (j.wennstrom@iosco.org), Head of Financial Stability and Emerging Risks.

² See Terminology section at the end of Chapter 1 on page 11.

Chapter 1: Introduction

Overview

12. IOSCO is seeking comments on this consultation report regarding proposed revisions to its 2013 CIS Principles and 2007 Hedge Fund Principles, collectively referred to as the “Principles.”
13. IOSCO proposes a new set of Recommendations in this document that draw upon, but supersede, the 2013 CIS Principles and the 2007 Hedge Fund Principles. The proposed revisions are intended to ensure that IOSCO’s CIS valuation standards remain relevant to current market practice. In particular, they intend to account for recent market developments. In recent years there has been an increase in CIS holding less liquid and illiquid assets, including private assets,³ as well as increased retail investment in such schemes, which heightens investor protection concerns.⁴ The recent experience of valuation difficulties during recent times of market volatility also frames these revisions.
14. The intended scope of the Recommendations and references to CIS and fund(s) are Open Ended Funds (OEFs) (as defined below). In addition, Securities Regulators and responsible entities may also consider whether the Recommendations could also serve as good practices for Other Funds (as defined below) that fall outside the scope of this report.

Background to IOSCO Policy Work

15. Robust valuation practice is a critical component of asset management, ensuring that assets are properly valued and investors are not disadvantaged. Amongst other things, asset valuations determine the net asset value (NAV) of a fund⁵, and the NAV is then used to calculate the price at which investors transact in units of a fund. Proper valuation also serves as important information for investors when making asset allocation decisions and selecting funds as well as financial reporting, performance reporting and presentation, and calculating fees paid to CIS service providers (such as the CIS operator). If asset valuations are improper, investors may unfairly pay more or receive less for their shares which can lead to diminished returns for investors as well as a loss of investor confidence.

³ See Terminology section at the end of Chapter 1 on page 11.

⁴ See IOSCO’s [‘Thematic Analysis: Emerging Risks in Private Finance – Final Report’ \(2023\)](#)

⁵ NAV is calculated based on the value of the fund’s portfolio assets less liabilities.

16. The valuation challenges and issues posed during periods of stressed market conditions can be even more critical. For example, as certain corporate bonds became less liquid in the face of the 2020 COVID-19 shock on financial markets, valuation became more challenging. In consequence, price discovery in some markets including those for less risky assets that are normally highly liquid, such as government bonds, was impaired.⁶ In the more serious cases, where valuations do not properly incorporate the cost of reduced market liquidity in times of market stress, this can be a potential source of first mover advantage.
17. The IOSCO Board agreed a mandate in 2024 to review the 2013 CIS Principles and subsequently decided to extend the review to the 2007 Hedge Fund Principles.⁷ The mandate was informed in part by IOSCO's 'Thematic Analysis: Emerging Risks in Private Finance – Final Report' (2023).⁸ Preparatory work included surveying IOSCO members' implementation of the Principles and engagement with industry representatives and standards setters.
18. As mentioned at paragraph 13 above, the review is also intended to take into account the evolution of the market since publication of the Principles, with the emergence of new business models and fund structures.
19. For these reasons, IOSCO believes it is appropriate to review and update the Principles to ensure they reflect market developments.

Scope

20. The updated Principles will take the form of Recommendations that will supersede the 2013 CIS Principles and the 2007 Hedge Fund Principles when the final report of the Recommendations is published.⁹ Securities Regulators should consider the Recommendations and their appropriate application for CIS within the intended scope of the Recommendations.

⁶ Financial Stability Board, 'Holistic Review of the March Market Turmoil' (November 2020) <https://www.fsb.org/uploads/P171120-2.pdf>

⁷ IOSCO concluded in its initial work that IOSCO members have broadly implemented the 2013 CIS Valuation Principles, although there is some variation according to national regimes, applicable IOSCO members have also broadly implemented the 2007 Hedge Fund Principles in relevant markets, although there are some regional differences in respect of how they have been applied depending on whom the CIS can be sold to (i.e. retail or professional and institutional clients).

⁸ ['Thematic Analysis: Emerging Risks in Private Finance – Final Report' \(2023\)'](#)

⁹ Since publication of the Principles, IOSCO has developed a new taxonomy of standards.

21. To ensure that the updated Recommendations can be applied in a flexible manner appropriate to various fund structures, and recognising jurisdictional differences in the regulation of fund structures, the Recommendations will:

- a) Apply to registered / authorised / public open-ended funds (OEFs).¹⁰ In certain jurisdictions, these registered / authorised / public OEFs may hold less liquid and illiquid assets, including private assets, and may adopt hedge fund like strategies.¹¹
- b) For Other Funds, including for example (i) closed-ended funds¹² and (ii) CIS for which the applicable jurisdiction regulates the responsible entity but does not impose valuation requirements at the level of the CIS,¹³ the new Recommendations may serve as potential Good Practices¹⁴ for Securities Regulators and responsible entities to consider. In particular, IOSCO notes how the structures of Other Funds differ from OEFs, and these Recommendations are not specifically drafted with those particular structures in mind.

22. We propose that Money Market Funds (MMFs) are excluded from the scope of this consultation. This reflects the separate regulatory approach

¹⁰ An OEF is a registered / authorised / public CIS which provides redemption rights to its investors from its assets, based on the NAV of the CIS, on a regular periodic basis - in many cases on a daily basis. In certain jurisdictions, this may also include CIS that can be redeemed less frequently (e.g. weekly, monthly or even less frequently, depending on the jurisdiction). Whether a fund is an OEF depends on jurisdictional classifications. This report is not seeking to delineate the specific boundary between OEFs and CEFs. IOSCO acknowledges that individual regulators will make that determination for their own jurisdiction.

¹¹ Building on the 2007 Principles for the Valuation of Hedge Fund Portfolios, which this report supersedes, OEFs include registered / authorized / public OEFs which adopt hedge fund like strategies but exclude unregistered / unauthorized / non-public funds such as US hedge funds and other US private funds. In addition, Long-Term Asset Funds (LTAFs) in the UK and registered / authorized retail Alternative Investment Funds (AIFs) such as some European Long-term Investment Funds (ELTIFs) in the EU which are open-ended are in scope of these Recommendations.

¹² It will depend on jurisdictional classifications. For example, US interval funds are classified as closed-ended funds in the US.

¹³ For example, private hedge funds, private equity funds, etc. Private funds are funds that are either aimed at professional investors and/or are not generally open to direct investment from the general public.

¹⁴ For recommendations, IOSCO expects Securities Regulators to actively promote their implementation by responsible entities within the context of the relevant CIS in their respective jurisdiction. Whilst good practices are not recommendations, given how they may represent a good way of dealing with certain issues, IOSCO encourages Other Funds to consider adopting them where appropriate, within each jurisdiction's regulatory framework. Individual Securities Regulators may decide to apply the Recommendations to Other Funds in their respective jurisdictions, at such level and extent as more than Good Practices, as they may consider appropriate.

traditionally taken by IOSCO towards MMFs, their explicit definition in regulation as a separate category of fund and their unique characteristics regarding limitations on the assets that MMFs can invest in, valuation, use of amortized cost, liquidity management etc., as set out in IOSCO's *Policy Recommendations for Money Market Funds (2012)*.¹⁵

23. The valuation issues discussed in paragraphs 15 to 16 above may be less relevant for Exchange-Traded Funds (ETFs) due particularly to their distinct product structures and characteristics, including in-kind creation and redemption features and retail investors mainly transacting in the secondary market. As a result, some of the proposed Recommendations and specific guidance in this report may be less applicable to ETFs, given their unique characteristics. On the other hand, proper valuation facilitates the arbitrage mechanism of ETFs (especially for ETFs that transact in cash) which helps to keep the price of an ETF closely aligned with its NAV. In addition, with the emergence of new types of ETFs, including active ETFs and ETFs with exposures to less liquid and more novel asset classes and more complex investment strategies, as well as the fact that not all ETFs provide in-kind creations and redemptions, proper valuation is important. Appropriate valuation is also critical for calculating various fees and charges paid by a fund. Accordingly, we seek comments as to whether ETFs should be included or excluded from the scope of these Recommendations.
24. Different jurisdictions vary in the scope of their application of regulation to CIS and will have to consider their own regulatory landscape and market structure to determine the interpretation and application of the Recommendations to their responsible entities. These Recommendations are drafted in a manner that is sufficiently flexible to account for this tailored application among jurisdictions. In addition, given how Other Funds encompass a wide range of fund structures as well as the significant regulatory differences between jurisdictions, there is flexibility for Securities Regulators and responsible entities to consider how these may apply in their jurisdictions. IOSCO further recognizes that not all of the good practices and guidance mentioned in this report will necessarily apply to all such entities or in all jurisdictions.

Background to scope

25. In determining this scope, we have considered the scope of the previous Principles. The 2013 CIS Principles refer to those CIS that are open-ended and provide regular redemptions to shareholders at net asset value but exclude CIS for which the applicable jurisdiction regulates the CIS operator but does not impose valuation requirements at the level of the CIS, for which the principles serve as best practice, as applicable.

¹⁵ IOSCO '[Policy Recommendations for Money Market Funds: Final Report](#)' (2012)

26. The 2007 Hedge Fund Principles do not define hedge funds but state that the principles apply to 'all hedge fund structures' because of the confluence of structural and other risks around valuations in hedge funds. Whilst the 2007 Hedge Fund Principles focus on hedge funds, they acknowledge that the valuation of complex or illiquid financial instruments is by no means an issue unique to hedge funds and may also be relevant to other industry sub-sectors such as private equity.
27. Whilst targeted at different parts of the funds sector, the two sets of Principles both sought to ensure the appropriate valuation of assets and the fair treatment of fund investors.
28. Other factors considered in determining the appropriate valuations framework include the nature of the fund structure, its governance and investor base, as well as:
- a) Whether the fund is open-ended or closed-ended (see terminology);
 - b) Whether the CIS and/or its responsible entity is registered/regulated/licensed;
 - c) The dealing frequency of the CIS; and
 - d) Whether the CIS has exposure to liquid, less liquid or illiquid assets under both normal and stressed market conditions.

General questions:

Question 1: Do you agree that the 2013 CIS Principles and the 2007 Hedge Fund Principles should be merged into a combined set of Recommendations?

Question 2: Do you agree with the scope of the Recommendations to focus on registered / authorized / public OEFs and is it sufficiently clear?

Question 3: Do you agree with the proposed scope of registered / authorized / public OEFs? Similarly, should there be any changes to the scope of Other Funds?

Question 4: In order to facilitate flexible implementation, do you agree that the Recommendations should only serve as good practices (please refer to footnote 14 above) to Other Funds?

Question 5: Do you agree that MMFs should be out of scope?

Question 6: Should ETFs be in or out of scope? Should only certain types of ETFs be included, such as ETFs that transact primarily on a cash basis but not in-kind ETFs? Are there any specific Recommendations that are not applicable to ETFs? Should the Recommendations only apply as good practices to ETFs, to allow sufficient flexibility given the distinct characteristics of ETFs?

Terminology

For simplicity, unless otherwise stated we use the following terms for the purpose of this report:

Asset – All types of assets in a fund's portfolio. The types of assets that a fund holds may vary according to the fund's investment objectives and applicable regulations. For example, assets include, but are not limited to, equity and fixed income securities, positions in derivatives, other financial instruments, private assets, and short positions. Assets do not include liabilities such as borrowing for leverage purposes.

CIS and fund(s) – OEF(s) unless the context otherwise specifies.

Fair value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.¹⁶ In general, fair value is defined in accordance with the applicable accounting standards in a jurisdiction unless the applicable regulations require otherwise.

Illiquid assets – Assets including those for which there is little or no secondary market trading and buying and selling assets is difficult and time consuming (i.e. weeks or months, not days) even in normal market conditions. Individual transactions of “illiquid” assets may, therefore, be more likely to affect market values.

Less liquid assets – Assets whose liquidity is contingent on market conditions, but which would generally be readily convertible into cash without significant market impact in normal market conditions. In stressed market conditions, they might only be readily convertible into cash at a significant discount and their valuations might become more difficult to assess with certainty.

Liquid assets – Likely to be assets that are readily convertible into cash without significant market impact in both normal and stressed market conditions.¹⁷

¹⁶ Definition of “fair value” according to International Financial Reporting Standards (IFRS) 13 and Accounting Standards Codification (ASC) 820 under the US Generally Accepted Accounting Principles (GAAP).

¹⁷ The three definitions on liquid, less liquid and illiquid assets were introduced by IOSCO's [Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes \(2025\)](#).

Open Ended Funds (OEFs) – Funds within the intended scope of the Recommendations. OEFs exclude MMFs.

Other Funds – Funds outside the intended scope of the Recommendations for which the Recommendations may serve as potential Good Practices.

Private assets – Assets that generally are not publicly traded. Examples of private assets include private equity, private debt, real estate, infrastructure etc. The term private finance is also used. As set out in IOSCO's 'Thematic Analysis: Emerging Risks in Private Finance – Final Report' (2023)', the term "private finance" is broad, and definitions can vary across jurisdictions. However, it generally encompasses activities relating to capital raising and lending provided by nonbank investors to companies through bilateral transactions. Private finance is mainly arranged through private investment funds, including private equity and private debt funds, although direct investment is possible by large institutions.

Responsible entity – The entity / entities responsible for the overall operation of a OEF and in particular its compliance with the legal / regulatory framework in its respective jurisdiction (e.g., the fund manager or the fund board). The Recommendations are addressed to the entity/entities responsible for the overall operation of the OEF, and their implementation may vary from jurisdiction to jurisdiction, depending on local conditions and circumstances.

Review – The term here is used in the general sense of the word to review or assess, (e.g. periodic review by the responsible entity of the valuation policies / procedures including the valuation methodologies), not as understood as a technical term under applicable accounting/auditing/attestation standards or terminology in the applicable jurisdiction and/or any professional engagement or missions.

Securities Regulator – The authorities which are empowered to authorize, supervise and/or enforce against relevant rules and legislation relating to the operation of CIS or their managers in their respective jurisdictions.

Third Party Valuation Service Providers – External and independent service providers which provide valuation services to the responsible entity. For substantive discussion, see Use of Third Party Valuation Service Provider.

Chapter 2: Overview of Proposed Updates

This chapter sets out the key updates that are proposed in this Consultation Report.

29. In addition to merging the Principles into a unified set of Recommendations (as set out in the Appendix), the key revisions are:

- **Oversight arrangement.** Proposed Recommendation 1 sets out that the responsible entity should establish an appropriate oversight arrangement and valuation function as part of the fund's valuation governance framework.
- **Governance under stressed market conditions.** Proposed Recommendation 1 sets out additional guidance on how the responsible entity could ensure that governance arrangements are in place to deal with stressed market conditions.
- **Management of conflicts of interest.** Proposed Recommendation 2 sets out a framework for managing conflicts of interest including additional examples of conflicts and mitigations.
- **Fair value.** Proposed Recommendation 3 sets out that the responsible entity should ensure that assets are valued at fair value in line with applicable regulations, accounting standards, and rules and articles of incorporation of the CIS.
- **Back testing.** Proposed Recommendation 3 provides additional guidance on back testing and calibration (see Methodology below), which could be important tools to allow the responsible entity to review the appropriateness and accuracy of valuation methodologies and processes.
- **Use of Third-Party Valuation Service Provider.** Proposed Recommendation 7 enhances requirements on how the use of third party valuation service providers should be properly documented in the fund's valuation policies and procedures (e.g., the circumstances under which third party valuation service providers are used and for which asset types, the assessment of the independence and qualification of the third party valuation service provider, the process by which their inputs/reports are provided to the responsible entity and included in the valuation process, etc.).
- **Stale valuations.** Proposed Recommendation 9 enhances timely valuation requirements by setting out that the responsible entity

should ensure that the policies and procedures take into account how to address stale valuations.

- **Record keeping.** Proposed new Recommendation 13 on record keeping to demonstrate that the responsible entity is fulfilling its valuation obligations and maintaining appropriate documentation to support fair value determinations. Records often provide the primary means to document whether assets have been valued in a manner consistent with applicable law, valuation policies and procedures, and disclosures. They also provide evidence to third parties, including auditors, to enable them to perform their duties related to audits of financial statements. They also facilitate effective regulatory oversight.

30. Overall IOSCO is proposing a total of 13 Recommendations. As set out above, these are derived from IOSCO's 2013 CIS Principles and the 2007 Hedge Fund Principles. The key revision for each Recommendation is as follows:

- **Recommendation 1:** (*merges CIS Principle 1 and Hedge Fund Principle 1*): General recommendation on valuation policies and procedures, governance and oversight. **Substantive change on addition of effective and independent oversight arrangement of the valuation function and enhanced requirements on governance arrangements under stressed market conditions.**
- **Recommendation 2:** (*merges CIS Principle 3 and Hedge Fund Principle 5*): General recommendation on conflicts of interest. Additionally, incorporates external pricing provider conflicts from Hedge Fund Principle 6. **Substantive enhancements to framework whereby conflicts are identified and avoided, or mitigated, with residual conflicts disclosed.**
- **Recommendation 3:** (*merges CIS Principle 2 and Hedge Fund Principle 2*): General recommendation on methodology considerations. **Enhancing guidance to value fund assets at fair value in line with applicable fund regulations and accounting standards and elaborating of guidance on back testing and calibration in the valuation process.**
- **Recommendation 4:** (*Hedge Fund Principle 7*) General recommendation on policies and procedures for handling and documenting price overrides. **No major changes.**
- **Recommendation 5:** (*merges CIS Principle 4 and Hedge Fund Principle 3*): General recommendation on consistent application of policies and procedures for valuing fund assets. **No major changes.**
- **Recommendation 6:** (*merges CIS Principle 6 and Hedge Fund Principle 4*): Sets out policies for periodic review of valuation policies and procedures. **No major changes.**

- **Recommendation 7:** (*merges CIS Principle 7 and Hedge Fund Principle 8*): General recommendation on third party valuation service providers. **Substantively enhanced guidance to include policies and procedures for circumstances when third party valuation service providers are used, including the requirement to undertake due diligence to assess the independence and qualification of third party valuation service providers.**
- **Recommendation 8:** (*formerly CIS Principle 9*) General recommendation that the purchase and redemption of OEF units should be effected at NAV based on forward pricing. **No major changes.**
- **Recommendation 9:** (*formerly CIS Principle 10*) General recommendation on matching valuation frequency with dealing frequency and ensuring that valuations are not stale. **Substantive addition of process to address stale valuations by setting out both qualitative and quantitative thresholds that could have a significant impact on the previous valuation.**
- **Recommendation 10:** (*formerly CIS Principle 11*) General recommendation that NAV should be available to investors at no fee. **No major changes.**
- **Recommendation 11:** (*merges CIS Principle 8 and Hedge Fund Principle 9*) General recommendation on disclosure to investors, valuation policies and procedures, and other relevant information. **No major changes.**
- **Recommendation 12** (*formerly CIS Principle 5*): General recommendation on pricing errors, including reporting and compensation. **Enhancing guidance on pricing errors and the related treatment.**
- **Recommendation 13:** (*new Recommendation*) Sets out importance of record keeping for consistent valuation and compliance/regulatory oversight, and recommendation on policies and procedures for effective record keeping. **This includes substantive information on the appropriate level of records and documents that should be maintained, and on designating specific entities responsible for record keeping.**

Chapter 3:

Recommendations

POLICIES AND GOVERNANCE

Recommendation 1: The responsible entity should establish comprehensive, documented policies and procedures to govern the valuation of fund assets and ensure an appropriate level of independence in the valuation processes.¹⁸

31. Strong governance over the valuation policies and procedures and related processes is essential to ensuring the proper valuation of fund assets in a fair, accurate, and consistent manner. For valuation, it consists of both oversight and decision-making.

Policies and Procedures

32. Clear and appropriate policies, procedures and documentation are core components of ensuring robust governance around a valuation process. Depending on jurisdictions, they can aid compliance with applicable valuation requirements and regulations, provide accountability of fund personnel, help prevent manipulation and fraud by insiders, protect investors, aid risk management, and ensure proper valuations.
33. The responsible entity should establish comprehensive written valuation policies and procedures that are appropriately tailored for both the fund structure and investment strategy and are robust enough to ensure the integrity of the valuation.¹⁹ The written valuation policies and procedures should generally provide for a reasonable review of all material aspects related to valuation functions prior to the launch of a new CIS, new

¹⁸ This could be through independent oversight or independence in the valuation function depending on jurisdictional requirements.

¹⁹ The precise mechanism by which the valuation policies and procedures are to be approved will generally depend on the type of fund, the local regime in which the fund operates, as well as the entity that is performing the valuations. See e.g., Rule 2a-5 Adopting Release (Dec. 3, 2020), available at <https://www.sec.gov/files/rules/final/2020/ic-34128.pdf>, at pp.38-40. In Europe, these requirements are covered by the AIFMD including the [Commission Delegated Regulation \(EU\) No 231/2013 of 19 December 2012](#) supplementing Directive 2011/61/EU and by the UCITS Directive including the [Commission Directive 2010/43/EU of 1 July 2010](#) implementing Directive 2009/65/EC.

strategies and asset classes, and clearly allocate operational tasks and responsibilities for asset valuation.

34. At the discretion of the respective jurisdictions, and depending on factors such as the type of fund, asset class and jurisdictional requirements, the documented policies and procedures could generally set out the following:

- a) the roles and responsibilities of each of the parties involved in the valuation process (i.e. the valuation committee, alternative arrangements or designee, and any third party valuation service provider) including the competence of the personnel who are responsible for valuing assets;
- b) the policy for ensuring that valuation decisions are not subject to undue influence from investment/ portfolio management staff and investment advisers where there is a conflict of interest;
- c) the policy for addressing conflicts of interest including disclosure of any known conflicts that could impact the valuation;
- d) the valuation methodology to be used for valuing each type of asset including under normal and stressed market conditions;
- e) the identification of relevant international valuation standards / guidelines / recommendations to ensure compliance with these principles over time;
- f) the testing of the appropriateness and accuracy of the valuation methodologies, including the frequency in which such testing occurs;
- g) the controls over selection of valuation inputs, sources, models and methodologies;
- h) the valuation controls (especially for assets with a greater risk of inappropriate valuation) and valuation adjustments (if any);
- i) the process for handling and documenting price overrides, including the materiality thresholds and escalation channels for resolving differences in asset valuations;
- j) the process to detect, prevent and correct pricing errors;
- k) the frequency of reviewing the valuation policies and procedures and controls over any change in the policies and procedures;
- l) the circumstances under which third party valuation services providers are used and related due diligence and controls;
- m) the appropriate frequency for valuing assets, while accounting for frequency of subscription and redemption and, where relevant, the appropriate time for closing the books for valuation purposes;

- n) the process for addressing stale valuations including types of market events and materiality thresholds which may prompt a refreshed valuation;
- o) the notification and / or reporting process to relevant internal and external parties, including when issues arise;
- p) information needed to support jurisdictional rules related to the valuation process.

Governance

Governance: Valuation function

- 35. The responsible entity should ensure an effective and appropriate level of independence or independent oversight (see Governance Oversight Arrangements section) of the valuation function for valuing CIS assets,²⁰ What may constitute an appropriate level of independence will also depend on the specific circumstances of the responsible entity.
- 36. To minimise the risk of conflicts, outputs of the valuation function should not be subject to undue influence by investment / portfolio management staff and investment advisers / delegates. This can be achieved in a number of ways, for example:
 - a) hierarchical and functional separation from investment / portfolio management staff and investment advisers / delegates;
 - b) where investment/portfolio management staff and investment advisers are involved in the valuation of CIS assets, ensuring effective oversight of the valuation process;
 - c) where valuation is undertaken by a valuation committee or equivalent arrangements, either limiting investment / portfolio management staff and investment advisers to non-voting roles or limiting the weight of their votes.
- 37. Depending on jurisdiction, smaller firms and advisers may benefit from more flexible governance arrangements. For example, where practical or feasible, this could include separating reporting lines for the individuals responsible for performing valuation activities from other investment /

²⁰ For example, US Rule 38a-1 requires a fund's board, including a majority of its independent directors, to approve the fund's policies and procedures, and those of each adviser and other specified service providers, based upon a finding by the board that the policies and procedures are reasonably designed to prevent violation of the Federal securities laws. 17 CFR 270.38a-1(a)(2). See also, Rule 2a-5 Adopting Release (Dec. 3, 2020), available at <https://www.sec.gov/files/rules/final/2020/ic-34128.pdf>, at p.38.

portfolio management staff, or by using a third party valuation service provider.

Governance: Oversight Arrangements

38. The responsible entity should also establish an appropriate oversight arrangement. An appropriate oversight arrangement can serve as an important control mechanism within a fund's governance framework. The oversight arrangement could promote greater accountability for and transparency of valuation judgements; bring objectivity to the valuation process; arbitrate and resolve disputes concerning the valuation determinations; and balance any undue influence from conflicted parties.
39. The oversight arrangement should establish and review the valuation policies and procedures (including designated valuation methodologies); outline accounting policies and valuation standards appropriate for both normal and stressed market conditions; and exercise oversight over asset valuations including the approach to addressing stale valuations and price overrides.
40. The oversight arrangement may be carried out by the responsible entity itself, for example the fund manager or fund's board. While the responsible entity retains ultimate responsibility, oversight can also be delegated to a valuation committee or other equivalent arrangements, where applicable, operating under the authority of the responsible entity. In cases where the oversight arrangement is not implemented by the responsible entity itself, the oversight arrangement should report to the responsible entity (or a risk committee or equivalent that reports to the responsible entity) which should ensure that the valuation process is robust and in line with jurisdictional requirements.
41. Where the oversight arrangement is delegated to the valuation committee or equivalent arrangements, there should be sufficient independence, and portfolio management staff and investment advisers should not have undue influence.²¹
42. The exact structure and composition of any valuation committee or equivalent arrangement should be appropriate for the nature, size and complexity of the activities of the responsible entity, including the investment strategies pursued and fund structures, bearing in mind any potential conflicts of interests, and the characteristics of the assets valued by it.
43. Some responsible entities could have a dedicated valuation committee which exercises control and decision-making over valuations. To allow sufficient flexibility, some firms and particularly smaller responsible

²¹ In jurisdictions where portfolio management and investment advisers can vote on the valuation committee, they should not exert undue influence on valuation decisions.

entities may choose alternative arrangements that are functionally equivalent in providing oversight.

44. The valuation committee or equivalent arrangements should be comprised of individuals who have the authority and experience to provide meaningful input into and to challenge the valuation process and should have experience and knowledge of the fund's assets and investment strategies. For example, this could mean that a majority of the valuation committee is comprised of personnel from a variety of disciplines from the responsible entity (such as accounting, finance and risk) including the senior management in charge of the valuation function and independent board members.
45. The independence of a valuation committee can also be strengthened by the appointment of persons who are neither connected to the responsible entity to represent the interests of investors nor have a financial interest in the fund (e.g., independent board members).

Governance under stressed market conditions

46. The responsible entity should ensure that governance arrangements are in place for valuation during stressed market conditions and exceptional circumstances. Likewise, the responsible entity should ensure that governance arrangements are in place for asset specific conditions and events (e.g., an OEF invested in a portfolio company which suddenly moves from a going concern situation to a distressed situation).
47. Stressed market conditions can arise as a result of a range of factors including geopolitical, macroeconomic, and other significant global or local events as well as asset specific conditions. Valuation can be particularly challenging under stressed market conditions as deteriorating market liquidity creates uncertainty over valuations against available market prices.
48. Governance arrangements for stressed market conditions should help firms to continue to achieve valuation of assets at fair value despite stressed conditions. This could include a switch of valuation methodology or models from those used under normal market conditions and, where necessary, decision-making which may include more frequent meetings of the committee and greater involvement of senior management.
49. There might additionally be certain exceptional circumstances where the assets cannot be valued appropriately and fair value cannot be achieved, such as due to material uncertainty over the valuation inputs arising from an idiosyncratic market event. Where permitted in jurisdictions (in the laws and regulations where the fund is domiciled), ²² it may be

²² For example, US registered investment companies generally may not suspend redemptions except for certain limited circumstances, including “for any period

appropriate to consider suspending dealing to protect holders from receiving an unfair valuation. The oversight function should also additionally review and maintain an additional decision-making approach in such circumstances. As with stressed market conditions, this could include more frequent meetings of the committee and greater involvement of senior management (i.e. with escalation to senior management).

Questions

Question 7: Have the key elements of documented policies and procedures been captured?

Question 8: Do you agree that a valuation committee or equivalent arrangements may be helpful?

Question 9: Have the key features for the structure and responsibilities of a valuation committee or equivalent been accurately described? If not, what changes or additions should be included? Are there any other good practice examples for a valuation committee that would be useful to include?

Question 10: Do you agree with the proposed approach to stressed market conditions and exceptional circumstances?

Question 11: Are there any other good practices or examples of governance practices under stressed market conditions that would be useful to include?

CONFLICTS OF INTEREST

Recommendation 2: The responsible entity should seek to identify, monitor and address potential conflicts of interest in the valuation process. Residual conflicts of interest should be disclosed. The responsible entity should also seek to ensure an appropriate level of independence in the application of valuation policies and procedures.

50. Conflicts of interest are a fundamental risk in the valuation process because they can create bias that may distort valuations, inflate manager fees, and result in higher expenses. This in turn can harm investors by negatively impacting their returns.

during which an emergency exists as a result of which (A) disposal by the company of securities owned by it is not reasonably practicable or (B) it is not reasonably practicable for such company fairly to determine the value of its net assets.” See Section 22(e)(2) of the Investment Company Act of 1940. In Europe, for UCITS and AIF funds, provisions for suspensions of subscriptions and redemptions are provided for notably in the Directives [2011/61/EU](#) and [2009/65/EC](#) and the delegated acts.

51. The responsible entity should seek to identify, document, monitor and assess all potential material valuation-related conflicts of interest as part of the overall management of conflicts of interest, including any material changes in conflicts of interest in relation to the valuation committee or designee and any other third party valuation service providers. Monitoring conflicts of interest involves the responsible entity periodically assessing any material risks to achieving fair value as a result of conflicts of interest.
52. The responsible entity should seek to avoid these conflicts of interest. Where they cannot be avoided, the valuation policies and procedures should provide for the arrangements and controls to mitigate, manage, monitor or otherwise address these conflicts of interest. Residual conflicts of interest should be disclosed.

Types of conflict

53. Conflicts of interest regarding valuation could arise in a number of ways.²³ For example:
- a) In some cases, portfolio management staff and investment advisers / delegates can input data and prices and / or provide a view on the appropriateness of a valuation, particularly where assets are complex or illiquid, and they may in practice be the most reliable or only source of information for the asset.
 - b) In cases where the responsible entity charges fees based on the OEF's NAV or individual staff involved in the valuation process are remunerated based on fund performance, there may be incentive to overvalue assets to increase the fees charged. Similarly, third party valuation service providers or external advisers tasked by the responsible entity with performing valuation-related duties may have particular conflicts of interest, such as by being compensated with fund shares.
 - c) If valuations are used to price the transfer of assets between affiliated funds or related entities, there may be incentive to influence valuations away from fair value depending on the interests of the affiliated funds or related entities.²⁴
 - d) If the external pricing provider for the prices of a complex or illiquid instrument is also the counterparty for that instrument, or an affiliate of the counterparty, such as with many derivative contracts, there may be a conflict of interest for that external pricing provider to

²³ If the responsible entity delegates valuation activities to investment advisers, these conflicts may also apply to delegated managers.

²⁴ This may also be relevant to certain closed-ended funds.

influence the price given they or an affiliate may hold a position in the same or opposite direction to that held by the responsible entity.

- e) Conflicts of interest could also arise with respect to third party valuation service providers affiliated with the responsible entity with which they need to maintain continuing business relationships. Such third party valuation service providers could be incentivized to provide higher or more aggressive valuations to retain business and/or earn higher fees.
- f) The responsible entity may also have incentive to undervalue assets in order to avoid perception of overvaluation and reputational damage, or to provide investors with artificially low volatility assets to aid with portfolio management, which could result in investors misallocating their assets or redeeming and subscribing at prices that do not reflect fair value, or asset misallocation.²⁵
- g) The marketing of funds investing in private assets can often cite performance for both realised and unrealised investments, where responsible entities are conflicted in potentially overvaluing assets to present stronger performance to prospective investors.

Addressing conflicts of interest

54. The actions taken to address conflicts of interest will depend upon the organisational set up of the responsible entity and the type of fund, asset class and jurisdictional requirements, among other things. The responsible entity should ensure that all reasonable steps have been taken to avoid conflicts of interests, and when they cannot be avoided, reasonable steps are taken to mitigate, manage and monitor the potential conflict of interest. Addressing conflicts of interest can be achieved through a number of means including:

- Separation of the valuation function from investment / portfolio management and / or investment advisers (See Policies and Governance);
- Appropriate oversight and review of the valuation function and policies, procedures and processes (see Policies and Governance);
- Use of a qualified and independent third party valuation service provider (See Use of Third Party Valuation Service Providers);

²⁵ The Financial Conduct Authority's [multi-firm review](#) of valuation processes for private market assets published in 2025 found some examples of managers making conservative adjustments in valuation case studies to provide a less volatile valuation profile over time and/or a better opportunity for an 'uplift' upon exit.

- Where conflicts of interest relate to external pricing providers, the responsible entity can:
 - o Consider the reputation, experience, consistency and quality of the pricing source;
 - o Compare instrument prices against the prices of any related financial instruments and / or their hedges;
 - o Compare against prices generated by a third party; and
 - o Test the appropriateness of prices using implied parameters (e.g., spreads, volatilities etc.) or review the inputs used in model-based pricing.
55. Where it is not feasible to eliminate the material conflict of interest or mitigate it sufficiently, the residual conflicts of interest should be properly documented and disclosed to investors for example, clearly indicating in marketing documents where performance is based on valuing unrealised investment (see Disclosure).
56. In some jurisdictions, depositaries are used – in the context of their oversight and control function – to verify that the responsible entity has appropriate valuation policies and procedures and carries out valuation appropriately, therefore providing another check on the valuation policy and the way it is implemented.

Questions

Question 12: Do you agree with the overall framework that conflicts of interest should be identified and documented, and conflicts of interest that cannot be avoided are to be mitigated, managed and monitored, and disclosed?

Question 13: Do you agree with the list of conflicts and mitigations?

METHODOLOGY

Recommendation 3: The policies and procedures should identify appropriate methodologies that will be used for valuing each type of asset held. The responsible entity should ensure all fund assets are valued at fair value.

57. Proper valuation is critically important to an OEF and its investors. An OEF uses its NAV to process subscriptions and redemptions. NAV is also important information for investors when making asset allocation decisions and selecting funds. Thus, it is essential that the computed NAV appropriately reflects the value of the OEF's assets less liabilities. Otherwise, some investors may enter or exit the OEF at prices that do not correspond to the value of their share in the portfolio, which could lead to unfair treatment and diminished returns for investors.

58. The responsible entity should be aware of the characteristics of an asset that the OEF holds. The valuation policies and procedures should document the methodologies to be used for valuing each type of asset, which could include inputs, models and the selection criteria for pricing and market data sources.

Determining fair value²⁶

59. While each jurisdiction may have different rules and guidance for determining the fair value of particular types of assets, IOSCO has identified certain general practices that may be useful in considering the appropriate methodologies for valuing CIS assets.

60. First and most importantly, valuations should be determined in good faith. Equally, fair value should generally prioritise quoted prices where available.²⁷ In general, and where possible, assets should be valued according to current market prices (e.g., mark-to-market), providing that those prices are available, reliable, and frequently updated. The responsible entity should generally not use models to value an asset when quoted prices are available in an active market. However, there are cases where the quoted price of an asset or identical asset is not readily available or is reasonably considered not to be reliable or reflective of an exit price at the measurement date. For instance, this may occur because markets are less active or inactive. In such cases, the responsible entity should, in good faith, and with due skill, care and diligence, conduct a fair value determination of the asset using another valuation technique. Where possible, the valuation process should generally maximize the

²⁶ In general, fair value is defined in accordance with the applicable accounting standards in a jurisdiction unless the applicable regulations require otherwise. For example, the US Investment Company Act of 1940 ("1940 Act") defines 'fair value' as the value of securities for which no readily available market quotations exist. Otherwise, the 1940 Act requires funds to value their portfolio investments using the 'market value' of their portfolio securities when market quotations are "readily available." Readily available market quotations are defined as a security whose value is determined solely by reference to level 1 inputs as defined by U.S. GAAP. This report uses the term 'fair value' in the broader sense that cover both 'market value' (as used in the 1940 Act) and 'fair value' (used in both the 1940 Act and more broadly).

²⁷ Under IFRS, fair value Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. For comparison, for US registered funds, rule 2a-5 under the 1940 Act defines a 'market quotation' as readily available only when that "quotation is a quoted price (unadjusted) in active markets for identical investments that the fund can access at the measurement date, provided that a quotation will not be readily available if it is not reliable." This definition is consistent with the definition of a "level 1" input in the fair value hierarchy outlined in U.S. GAAP. Active markets are generally defined as markets where transactions take place with sufficient frequency and volume for pricing information to be provided on an ongoing basis.

use of relevant observable inputs and minimizes the use of unobservable inputs.²⁸

61. Some less liquid assets can be inherently difficult to value because the assets are infrequently traded or not publicly listed, for example certain listed securities which are not on an active market, and certain over-the-counter (OTC) derivatives, such as interest rate swaps, etc. Where possible, funds should use observable inputs for similar assets to calculate the fair value.
62. For illiquid assets that do not have regular market pricing or readily observable market data, the responsible entity should determine the fair value of the asset, which may involve using a valuation model. These illiquid assets may include private assets.
63. If a market is inactive or less active, it may be more difficult to value less liquid or illiquid assets. While there may be some jurisdictional differences in what constitutes an inactive market, inactive markets generally might exhibit some of the following characteristics:
 - a) Few recent transactions;
 - b) A fall in the volume of transactions;
 - c) A higher incidence of stale prices or inexecutable prices;
 - d) Indices that previously were highly correlated with the fair values of the asset or liability are now demonstrably uncorrelated with recent indications of fair value for that asset or liability;
 - e) There is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the responsible entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability;
 - f) There is a wide bid-ask spread or significant increase in the bid-ask spread; or
 - g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (that is, a primary market) for the asset or liability or similar assets or liabilities.²⁹

²⁸ For example, unadjusted, quoted prices for identical assets or liabilities in active markets, such as stock exchange prices for listed securities.

²⁹ Note that for SMEs on a local exchange it is common to have an active secondary market, but no significant activity in new issuances. See IFRS 13 for more detail.

64. The responsible entity should assess the activity of the markets and the assets in the portfolio and change the valuation methodology when necessary.

Methodology selection

65. The responsible entity should have regard to applicable generally accepted accounting standards in the local jurisdictions³⁰ as well as industry standards / guidelines and practices in determining the fair value of fund assets.
66. The valuation policies and procedures should set out the methodology to be used for valuing each type of asset including inputs, models and the selection criteria for pricing and market data sources.
67. For less liquid and illiquid, assets, including private assets, the methodology could also include the model or the technique used to measure the fair value of an asset, the observable and unobservable inputs used to populate the model, and the factors and assumptions underlying inputs that cannot be substantiated by external evidence such as internal company data.
68. The methodology used to fair value the assets should be consistent with the manner in which fair value is calculated in accordance with the applicable accounting standards the responsible entity uses to prepare its financial statement. Any fair value information presented by the responsible entity should not conflict with information in the responsible entity's financial statements.
69. The responsible entity, when selecting the methodology to value an asset, should take into account the sensitivity and appropriateness of the methodology based on the nature of the assets. The selection process should include an assessment of the methodologies appropriate in the circumstances by appropriately qualified and experienced parties. The responsible entity may consider using available industry guidelines to ensure their approach is in line with standard market practice.
70. If a model is used to value an asset, the model should be explained and justified in the valuation policy and procedures. The policies and procedures should specify how the model and its inputs will be checked for appropriateness.
71. The responsible entities should ensure that, a model also is reviewed and validated by a person with sufficient expertise who has not been

³⁰ In selecting the methodology to value an asset, the responsible entity should have regard to whether the assets being valued will be presented in financial statements and subject to fair value requirements set out in the applicable generally accepted accounting principles used to prepare those financial statements.

involved in the process of building that model before being used. The validation / approval process should be appropriately documented.³¹

72. An appropriate process to review and challenge key assumptions of the methodology could also help to enhance the robustness of the asset valuations. For example, this could include conducting stress testing on valuation models for sensitivity to changes in assumptions, challenging inputs used to support the valuation, and using a secondary methodology to check the valuation derived from primary methodology.
73. If a third party valuation service provider has been engaged, the responsible entity should carry out reasonable due diligence on the provider. This may include a review of the entire valuation report to determine whether the valuation derived from it is appropriate. Among other things, the responsible entity may wish to consider the methodology and parameters used, evaluate whether the valuation range provided by the third party valuation provider is unreasonably wide, and examine the extent to which the valuer has relied on information provided by the manager to support the valuation work performed.

Amortised cost method

74. The amortised cost method should only be used to approximate fair value under limited circumstances.³² In jurisdictions where it is permitted, the amortised cost method is used for valuing certain types of debt assets with low residual maturity.³³
75. In limited circumstances where amortised cost method is used, in order to mitigate the risk of mispricing the OEF, the responsible entity should continue to monitor for any material deviations between amortised cost and what might otherwise be the fair value under prevailing market conditions (e.g., changes in interest rates, credit spreads, liquidity premiums or other market events), as the responsible entity should conduct a fair value adjustment if material discrepancies arise.

³¹ Some jurisdictions require that a model to be subject to a prior approval by the senior management of the responsible entity.

³² Some jurisdictions have more stringent requirements.

³³ For example, short-term debt securities (such as debt securities with remaining maturities of 60 days or less in the U.S.), or money market instruments with low residual maturity and no specific sensitivity to market parameters such as credit risk, are more likely to be suitable as there is less risk of material discrepancy between the mark to market value of the instruments and the value calculated through amortisation. For money market funds, please refer to IOSCO's 2012 ["Policy Recommendations for Money Market Funds"](#).

Box1: Further guidance on OEFs that invest in or have exposure to illiquid and private assets:

As noted in IOSCO's 'Thematic Analysis: Emerging Risks in Private Finance – Final Report' (2023), in recent years, retail investor participation in private finance has increased in certain jurisdictions. Certain jurisdictions have also expanded access to retail investors via a series of new investment funds, including OEFs.³⁴ Set out below is some further guidance for OEFs that invest in or have significant exposure to illiquid assets (including private assets) in valuing their underlying assets.

1) Example of good practices for OEFs in determining fair value for private or illiquid assets:

- Valuation decisions generally should not be made to artificially limit the impact of public market movements and appear less volatile.
 - o For example, when valuing corporate bonds in a portfolio, if there is a spread between broker quotes, it may be appropriate to choose a price within the spread that is most representative of fair value in the circumstances, rather than making adjustments intended to limit the volatility over time.
 - o As a further example, where the valuation of illiquid assets (including private assets) includes subjective inputs (for example the asset-specific risk premium in discounted cash flow), it is appropriate to ensure decision-making on the inputs are consistent over time.³⁵
 - o Additionally, where valuations are provided by third party service providers, it would be appropriate to choose a methodology and inputs that give as accurate and narrow a range of valuations possible. This reduces the risk associated with a wide valuation range where responsible entities have more discretion to choose values to smooth valuation movements over time.
- In valuing a private equity investment, in certain jurisdictions it may be appropriate for a responsible entity to use a discounted cash flow model as the primary methodology. In such cases, a secondary methodology may be used to check the valuation derived from

³⁴ For example, Long-Term Asset Funds (LTAFs) in the UK and European Long-term Investment Funds (ELTIFs) in the EU.

³⁵ See footnote 25.

primary methodology. For example, the responsible entity can compare the valuation outcomes of discounted cash flow model over time to those reached by using a multiples-based methodology and conduct further work where there are significant differences to understand the implications for estimating fair value.

2) Example of valuation methodologies for open-ended Fund of Funds (FoF) that invest in underlying funds (which could include Other Funds):

- Where the shares of underlying funds are listed and actively traded (e.g. ETFs or listed closed-ended funds), the last available market price is normally used for fund valuation.
- Where the underlying funds are not listed, the NAV per share of the underlying funds may generally be used for fund valuation. This is subject to applicable accounting standards and local regulations (for example requirements that the underlying fund carries and reports on all investments at fair value).

In such instances, the responsible entity of the OEF should evaluate the need for adjustments to the underlying fund's NAV where appropriate (e.g. changes in value subsequent to reported NAV, timing differences between underlying fund and investment fund reporting dates, etc.).

If the last NAV available of the underlying fund requires adjustment, such adjustments should be made on the basis of information that the responsible entity has access to. In addition, the responsible entity of the OEF should review the underlying fund's valuation practices and ensure that the underlying fund values all assets at fair value.

3) Example of problematic use of amortised cost for OEFs that invest in private debt:

- OEFs that invest in private debt with a long-term maturity can become sensitive to valuation fluctuations by changes in interest rates and the issuer's credit spread. The use of amortised cost can lead to stale valuations of debt instruments, which may no longer reflect fair value. This situation could be problematic for OEFs that invest in private debt (whether directly or through another fund that invests in private debt), which need to ensure that subscriptions and redemptions are executed on an updated NAV.

Back testing and calibration

76. Back testing and calibration can be important tools to allow firms to review and test the appropriateness and accuracy of fair value methodologies. Back testing and calibration can also be useful to identify

certain market trends, as well as potential poor performance or conflicts of interest by the entity or third parties performing valuations. Back testing for example may involve comparing the realised value of an asset upon exit to the last fair value valuation to assess and understand potential biases or other broader trends in the valuation process.

77. Calibration is an important method of reflecting market conditions within a model. Calibration involves using the initial fair value purchase price or other observed market transactions as the starting point to calibrate key assumptions in a methodology at future measurement dates so as to ensure that subsequent model-based valuations are consistent with initial fair value assumptions and prevailing market conditions. For example, key assumptions may include the discount/premium applied to a multiple or asset-specific risk premiums in a discounted cash flow analysis.
78. Depending on jurisdiction, calibration may be required as a result of applicable accounting rules. Where applicable,³⁶ the responsible entity could consider whether it would be appropriate to include back testing and calibration as part of its oversight of the valuation function. If back testing or calibration is performed, the responsible entity could consider the back testing results properly to identify insights about any potential limitations or biases in the valuation models, assumptions, inputs and approach, and assess whether adjustments of the methodology or overall valuation process adopted would be appropriate in response to evolving market conditions.

Questions

Question 14: Do you agree with the guidance set out in relation to fair value, methodology selection and use of amortised cost?

Question 15: Do you agree that back testing and calibration can be important tools to test the appropriateness and accuracy of fair value methods and processes?

Question 16: What other tools should be highlighted in this report that responsible entities could use to review their valuation methodologies?

³⁶ See e.g., Rule 2a-5 Adopting Release (Dec. 3, 2020), available at <https://www.sec.gov/files/rules/final/2020/ic-34128.pdf> ("While we believe that calibration and back-testing are methods that should be used for testing the appropriateness and accuracy of funds' fair value methodologies in many circumstances, the final rule does not require calibration and back-testing, nor does it preclude boards or valuation designees, where applicable, from using other appropriate testing methods.) In Europe, the provisions in relation to the review of individual values of assets are notably provided in the AIFMD regulation including the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU.

Question 17: Are there any other good practice examples, including in applying fair value adjustments that would be useful to include here?

Pricing overrides

Recommendation 4: The policies and procedures should describe the process for handling and documenting price overrides, including the review of price overrides by an independent party.³⁷

79. A price override is the rejection of a value for an asset that was determined according to the established valuation policies and procedures. For example, in certain circumstances, the value of an asset determined in accordance with the established valuation policies and procedures may be inaccurate. The responsible entity, third party valuation service provider or other party involved in the pricing process may therefore propose an override and use another value.
80. The responsible entity should identify the specific personnel with duties associated with price challenges, including those with the authority to override a price. Depending on jurisdictions, this may be achieved in the policies and procedures or other relevant procedure by which the responsible entity specifies such functions.
81. The responsible entity should also ensure appropriate oversight of the personnel or entities charged with the authority to challenge or override prices. Depending on the fund entity and jurisdiction, this may include oversight by the fund board, a valuation committee or other independent party.
82. The policies and procedures should describe the process for performing price overrides, including:
 - a) Documenting the reason for the price override (such as certain exceptional events);
 - b) Describing the method for determining the appropriate price; and
 - c) Ensuring appropriate oversight of price override procedures by the responsible entity, the fund board, a valuation committee or independent party.
83. Documentation of price overrides should generally occur contemporaneously with the override and could also help facilitate appropriate oversight by the responsible entity or independent

³⁷ Depending on the particular facts and circumstances, the fund board, valuation committee or a third party valuation service provider may be deemed as an “independent party” for the purpose of valuation.

party. Depending on jurisdictional requirements, in case of significant price overrides there should be an escalation process in place to the responsible entity, such as senior management or the fund board where this is proportionate.

84. The repeated use of overrides for a particular asset should trigger a review of the policies and procedures (including the designated methodologies) where this is proportionate. For example, it may be appropriate to review any other assets in the fund that are related to the overridden instrument to assess whether any additional adjustments are also required.

Questions

Question 18: Are there any other considerations for pricing overrides?

CONSISTENT APPLICATION AND PERIODIC REVIEW

Consistent application of valuation policies and procedures

Recommendation 5: The assets held or employed by an OEF should be consistently valued according to the policies and procedures.

85. Consistent application of chosen methodologies is essential to achieving fair and robust valuation.
86. A fund's assets should be consistently valued in accordance with the designated methodologies, although selected methodologies may also be changed if a different methodology is determined to be more representative of fair value.³⁸ Changes of methodology should be communicated to and, depending on the nature of the change, approved by the senior management of the responsible entity. Where material adjustments are made to the designated methodologies in the policies and procedures, the responsible entity should consider whether this should be disclosed to investors.

³⁸ For example, SEC rule 2a-5(a)(2)(i) requires "[s]electing and applying in a consistent manner an appropriate methodology or methodologies for determining (and calculating) the fair value of fund investments, provided that a selected methodology may be changed if a different methodology is equally or more representative of the fair value of fund investments, including specifying the key inputs and assumptions specific to each asset class or portfolio holding." In Europe this requirement is notably provided in the AIFMD regulation including the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU.

87. The policies and procedures should outline a mechanism that enables the monitoring of whether the party or person carrying out the valuation is following the policies and procedures. The policies and procedures, including the designated methodologies, should generally be consistently applied:

- a) across similar types of assets (e.g. assets that share similar economic characteristics); and
- b) across all funds that have the same fund operator, taking time zone and trading strategies into account; and
- c) over time, unless circumstances arise that suggest the policies and procedures require updating, or there are particular market or asset conditions that may require divergence from the normal valuation policy.

88. The desirability of consistent application of the policies and procedures over time should be considered in relation to Recommendation 6 on periodic review.

Questions

Question 19: Are there any other considerations for consistent application of valuation policies and procedures?

Periodic review

Recommendation 6: The responsible entity should provide for the periodic review of the valuation policies and procedures to ensure their continued appropriateness and effective implementation. The OEF valuation policies and procedures should be reviewed at least annually.

89. The valuation policies and procedures, including the designated methodologies, should be reviewed both periodically and in response to idiosyncratic and market events to ensure they continue to be appropriate and effective. This review should itself be set out in the policies and procedures and should include how a change to the valuation policies and procedures – including to designated methodologies – can be executed, and in what circumstances doing so would be appropriate. The review of methodologies should include reviewing the appropriateness and accuracy of methodologies used, and frequency of valuations, and making any adjustments necessary. Annual reviews, for example, can be undertaken by internal auditors or internal control functions, depending on jurisdictional requirements.

90. The oversight arrangement should oversee the application of those policies and procedures on a periodic basis and at least annually, including: (i) assessing whether the valuations are consistent with designated methodologies; (ii) reviewing and challenging valuation as part of a risk management framework, including critical review of inputs,

methodologies and outputs and challenging the assumptions and judgements to ensure valuation adjustments are made solely based on fair value.

91. Events that may necessitate a review may include, for example:

- a) Fund-level events, such as:
 - a change in investment strategy or new type of asset where there may be a need to determine whether the existing policies and procedures remain appropriate; or
 - if back testing results regularly show that realised prices are not in line with valuations.
- b) Market-level events, such as:
 - market-wide events calling into question whether a particular valuation methodology continues to be appropriate; or
 - if the valuation process can no longer be carried out due to an emergency or other service disruption.

92. Any changes to the policies and procedures will need to balance the need to update these with the benefits of consistent application over time.

93. Subject to local laws and regulations, the valuation process should be subjected to some form of periodic scrutiny by a third party.³⁹ The terms of such review may vary by jurisdiction.

Questions

Question 20: Are there any other key considerations for periodic review of valuation policies and procedures that should be addressed?

USE OF THIRD PARTY VALUATION SERVICE PROVIDERS

Recommendation 7: The responsible entity should conduct initial and periodic due diligence on third party valuation service providers that are appointed to perform valuation services. The process for the use of third party valuation service providers should be properly documented in the fund's valuation policies and procedures.

94. In recent years, there has been an increased use of third party valuation service providers to assist in fair value determinations for funds, particularly hard to value assets. Such third party valuation service providers could include, among others, an external valuer. The role that third party valuation service providers play could vary widely depending

³⁹ In some jurisdictions, the engagement must be conducted in accordance with internationally recognized standards issued by the IAASB.

on the terms of engagement and the services provided by them are not standardised.⁴⁰

95. Valuation can be especially challenging for less liquid and illiquid assets, such as private assets and corporate bonds. For funds holding less liquid and illiquid assets, the responsible entity, whilst retaining the ultimate responsibility, may consider appointing third party valuation service providers to assist in fair value determinations.
96. The responsible entity could consider, on a case-by-case basis, whether appointing a third party valuation service provider would be appropriate. In doing so, the responsible entity should take a proportionate approach, taking into account the fund's underlying assets and the responsible entity's own human and technical resources. In determining each specific engagement, the responsible entity may also consider the appropriateness of the services for the relevant underlying assets and be mindful of any limitations that may exist in the services provided by the third party valuation service providers.
97. The responsible entity should set out in the fund's valuation policies and procedures the use of third party valuation service providers, including the following:
 - a) The circumstances under which third party valuation service providers are used (e.g. for hard to value assets under stressed market conditions, etc.);
 - b) The third party valuation providers used and for which asset types (e.g. specifying which types of services would be used for different types of assets);
 - c) The independence (where applicable) and qualifications of the third party valuation service providers and whether (and when) a change of third party valuation providers is appropriate;

⁴⁰ The third party valuation service providers could perform a substantive or very limited role in determining the fair value of an asset. This will either consist of either (i) performing, under the responsibility of the responsible entity, the valuation function of the responsible entity by acting as external valuer, or (ii) providing support services to the responsible entity which itself performs internally the valuation function. The scope can range from substantive to very limited support depending on the valuation engagement. For example, the third party valuation service provider may only be engaged to price assets through external data provider; or to perform work for a specific aspect of the valuation (e.g. determination of the appropriate discount rate to use for a private business valuation); or to perform valuation based on assumptions provided by management which are not evaluated by the third party valuation service provider for plausibility or reasonability; or to perform valuation work and provide a valuation report that includes all relevant information (e.g. data, valuation methodology and assumptions) and a range of values from which the responsible entity will determine the specific value on the range to be used for the relevant asset, etc.

- d) The internal function that will review the valuation work performed by the third party valuation service provider to ensure it is robust, proper, fair and reasonable;
 - e) The due diligence of the responsible entity over the services provided by the third party valuation service providers, and
 - f) The roles and responsibilities of the responsible entity and the third party valuation service provider with respect to any inputs and assumptions used to prepare the valuation, including a process for exchange of information between the responsible entity and the third party valuation service provider to ensure that all necessary information required for the purpose of performing the valuation task is provided.
98. Where the responsible entity decides to appoint a third party valuation service provider, reasonable initial due diligence as well as periodic due diligence (including ongoing monitoring of valuation services) should be conducted by the responsible entity. This may include reviewing the qualifications of the third party valuation service provider, including (i) its independence, where applicable, or if an affiliated entity, ensuring that conflicts of interest are managed; (ii) whether it has and maintains appropriate systems, processes and controls, and valuation policies and procedures; and (iii) whether it has sufficient personnel with an appropriate level of knowledge, experience and training commensurate with the tasks to be performed.

Box 2. Examples of good practices for consideration in respect of the third party valuation service providers:

- Whether the third party valuation service provider has a good reputation and possesses relevant qualifications (e.g. whether the provider fulfils any professional registration requirements as required under applicable laws and regulations or the provider is a member of a recognized valuation professional organization in the local jurisdiction).
- Whether the provider is independent, taking into account where applicable, amongst others, (i) whether the responsible entity and the provider are having the same ultimate holding company, (ii) whether the responsible entity or the provider is a subsidiary of the other, (iii) whether there is any common director(s) for the responsible entity and the provider.
- The source and timeliness of the underlying information to be used, any use of estimates, methodologies to be applied and limitations for conducting valuation by the third party valuation service provider.
- As part of periodic due diligence, the responsible entity performs ongoing monitoring of services provided by the third party valuation service provider, including e.g.

- o ensuring that the services provided are continuously in compliance not only with legal and regulatory provisions but also with contractual provisions;
- o ensuring that the quality of the services are satisfactory;
- o assessing over time the adequacy of the organisational structure and the procedures of the third party valuation service provider with respect to the services provided; and
- o determining if the third party valuation service provider is qualified and able to perform these functions.

99. Investors should also be informed about the fund's use of third party valuation services providers, including what limitations may exist in the service provision and the relevant risks associated with the use of the service.

100. In addition, if a third party valuation service provider is being appointed, the third party valuation service provider's services should be periodically reviewed (e.g. annually). When the use of third party valuation service providers is necessitated by assets that present higher risks (e.g. for asset classes involving a higher valuation risk) or has a significant potential impact on the fund's valuation (e.g. the valuation service covers assets representing a significant portion of the fund's net asset value), the responsible entity may consider whether a more frequent periodic review would be appropriate. Alternatively, a change of third party valuation provider may be considered.

101. Notwithstanding the use of a third party valuation service provider, the responsible entity retains responsibility and liability for the valuations of the fund's assets.

Questions

Question 21: Do you agree with the overall framework for the use of third party valuation service providers, including specifying the use of third party valuation service providers in the valuation policies and procedures, undertaking due diligence and exercising appropriate oversight?

TIMELY VALUATION

Forward pricing

Recommendation 8: The subscription and redemption of OEF units generally should be effected at NAV based on forward pricing.

102. Forward pricing is generally understood to be the practice of effecting purchase and redemption of OEF units at the next computed NAV after receipt of the order. Generally, dealing cut-off time (i.e., the time before which orders have to be received) and valuation time (i.e., the time at which the NAV is calculated) are established so that investors receive

the correct NAV for their redemption and purchase orders.⁴¹ As a result, investors will not know the NAV per share at the time of placing the order, and all investor orders will be treated the same (i.e., given the same NAV) if the orders are received by the cut-off time in good order.⁴²

103. Forward pricing ensures that incoming, continuing and outgoing investors are treated equitably such that purchases and redemptions of OEF interests are effected in a non-discriminatory manner. Historical pricing is the pricing method whereby investors purchase or redeem units/shares based on the last calculated NAV of the OEF. In general, historical pricing would most likely have to be justified only if the risks of abusive trades by insiders and resulting dilution of CIS interests are minimized.⁴³

Valuation frequency

Recommendation 9: An OEF should be valued on any day that units are subscribed or redeemed, and the responsible entity should ensure that valuations are not stale.

104. Investors should be able to purchase or redeem units at prices that fairly reflect the OEF's NAV (based on the fund's portfolio assets less liabilities, valued both at the point of dealing).
105. If an OEF's assets are not valued on any day that units are purchased or redeemed,⁴⁴ it is possible that investors could purchase or redeem units at an outdated or stale price, which could negatively impact investors.
106. Therefore, the responsible entity should ensure that the frequency of NAV calculation is aligned with the fund's dealing frequency and the valuation of the underlying assets.

⁴¹ In some jurisdictions, a CIS may offer and sell shares only on specific days (dealing day). The CIS will announce the deadline for such dealing days. In these circumstances, an investor will receive the NAV for the applicable dealing day if the order is received in good order by the dealing day's deadline.

⁴² When an order is considered received by the CIS may vary according to operational requirements in various jurisdictions. For example, in some jurisdictions, an order paid for by personal check will not be considered received in good order until the check has cleared.

⁴³ Historical pricing may be acceptable in certain jurisdictions for particular CIS. In these cases, this principle may not apply to those CIS for which the applicable jurisdiction has permitted the use of historical pricing. Due consideration should nevertheless be given to risks related to late trading and market timing

⁴⁴ In general, applicable regulations might not require a CIS's portfolio to be valued on days when the applicable jurisdiction's stock exchange is closed, such as a holiday.

Stale valuations

107. Stale valuation refers to a valuation which does not accurately reflect the most recent information that should be used to value an asset at the measurement date. Even if an investor is not seeking to subscribe or redeem units, stale valuation can impact investors' interests, for example it may affect the fees charged based on the fund's NAV.
108. Stale valuation is a risk especially for illiquid assets, given that they are not actively traded on public exchanges. Stale valuations can also be a risk for less liquid assets, for example when fixed income assets are less frequently traded during periods of market volatility.
109. Valuation of illiquid including private assets may be reliant on inputs such as periodic financial statements, operational performance updates, and comparable transactions. Without reliable and updated data, valuations can quickly become stale, particularly in dynamic or volatile markets.
110. Even for other assets (including publicly traded securities), there is also a risk of stale valuations where significant events affecting an underlying asset take place shortly after a fund has completed its valuation, but which the nature of the event would require adjustment.
111. The responsible entity should set out a process to monitor, identify and address stale valuations. For example, the responsible entity could set out relevant criteria that may necessitate the consideration of a re-valuation.
112. Examples of events that may necessitate a re-valuation:
- a) Asset-level events:
 - Significant events that occur after market closure but before the specific time set for the fund's NAV calculation (e.g. after-hours earning announcement of a specific investment).
 - Timing events resulting from differences between domestic and international market open or closes that lead to a significant difference in last traded price of an investment.
 - Events that change the value of private investments in between set valuation dates, for example material changes in the investee company's business plan, events such as fraud, or commercial disputes or litigation.
 - b) Fund-level/broader market events:
 - Heightened redemption orders and / or significant market changes that may have a material impact on the value of a fund's underlying investments.
 - This could include ongoing monitoring of the value of the portfolio in-between set valuation dates based on updated market data

inputs (e.g., significant changes in key economic indicators or major shifts in economic policy, etc.).

113. Stale valuations may also be a risk for OEFs investing in Other Funds where the reporting frequency of an OEF and that of the underlying fund are not fully aligned.⁴⁵ The responsible entity of the OEF should take into account the NAV calculation frequency of the OEF and the NAV calculation frequency of the underlying fund to help ensure that such an underlying fund NAV does not require adjustment. For example, if there is not alignment, the responsible entity of the OEF should take a view on the extent to which the underlying NAV is up to date (see Methodology), with the aim of ensuring that the NAV of the underlying fund does not contribute to a stale NAV of the OEF.

Questions

Question 22: Do you agree with the incorporation of a defined process for addressing stale valuations into the policies and procedures?

Question 23: Are there other aspects of timely valuation that this Recommendation should address?

DISCLOSURE

NAV disclosure

Recommendation 10: An OEF's NAV should be available to investors at no fee.

114. OEFs provide for regular redemptions and sales to investors at the next computed NAV after receipt of the orders. In addition, the NAV serves as important information for investors when making asset allocation decisions and selecting funds. Therefore, it is important that the NAV is available to investors at no fee.
115. In some jurisdictions, the responsible entity is not required to disclose or publish its NAV on a regular basis directly to investors, but the NAV is generally available on a daily basis in financial publications and websites and may also be available on the responsible entity's website.

Valuation arrangement disclosure

Recommendation 11: The responsible entity should seek to ensure that arrangements in place for the valuation of the assets in the portfolio and other relevant information are disclosed appropriately to investors in the OEF offering documents or otherwise made transparent to investors.

⁴⁵ This can include Other Funds such as closed-ended funds or private funds.

116. Effective transparency is essential for permitting investors to conduct necessary due diligence and provide greater scrutiny. Clear and detailed valuation-related disclosure also enables investors to better understand judgements in the valuation process, allowing investors to make more informed investment decisions.
117. Disclosure to investors about the OEF's valuation arrangements should be in line with the relevant jurisdictional regulations and disclosure regimes. This may include general information about how assets are valued and how frequently they are valued. The relevant information should be updated and made available to investors when these valuation arrangements materially change (accompanied by, as appropriate, an explanation and quantification of the effect of such a change).⁴⁶
118. When the portfolio contains less liquid or hard-to-value assets, specific relevant information should be made available. This information may appear in relevant risk disclosures or, where relevant, disclosures of conflicts of interest. Where there are material conflicts of interest for example where performance is based on valuing unrealised investments, this should be clearly indicated in marketing documents. For instance, a conflict could arise because advisers have an incentive to use unrealised valuations to inflate performance.
119. Where material, other relevant information that could be made available to investors includes, but is not limited to:
- a) The accounting standards applied and the application of any international valuation standards / guidelines;
 - b) A description of the valuation procedures and methodologies used in determining the valuation of assets and NAV;
 - c) A description of any material conflicts of interest associated with the parties who are valuing the assets such as where valuations have been provided by or influenced by the responsible entity;
 - d) Information about contractual arrangements with pricing services;

⁴⁶ For example, in the U.S., registered funds are required to disclose in the prospectus information about the pricing of fund shares, including the method used. See Item 11 in Form N-1A. In a separate Statement of Additional Information registered funds in the U.S. are expected to describe the valuation procedures that the fund used to determine the NAV and public offering price of its shares. See Instruction 1 to Item 23 in Form N-1A. In Europe, the funds' valuation rules are provided in the funds' prospectuses as requested for AIFs in [Directive 2011/61/EU](#) of the European Parliament and of the Council of 8 June 2011 and for UCITS in [Directive 2009/65/EC](#) of the European Parliament and of the Council of 13 July 2009.

- e) The percentage of the fund's portfolio that falls into each of the three levels of the fair value hierarchy, where meaningful and applicable to investors;⁴⁷
- f) Increase in the percentage of a fund's portfolio invested in hard-to-value assets; and
- g) Issues in relation to the valuation of hard-to-value assets.

Questions

Question 24: Are there other aspects of valuation-related disclosure that should be addressed in this Recommendation?

PRICING ERRORS

Recommendation 12: A responsible entity should have policies and procedures in place that seek to detect, prevent, and correct pricing errors. Pricing errors that result in a material harm to OEF investors should be addressed promptly, and investors fully compensated.

120. A pricing error occurs when an OEF's NAV per unit is incorrect as a result, in principle, of one or more factors or circumstances causing the NAV calculation to yield an incorrect result. A pricing error can result in an investor purchasing or redeeming shares at the incorrect NAV. An incorrect NAV could also potentially affect the OEF's payments to its service providers and to the fund manager, among other things.

121. The factors or circumstances resulting in pricing errors can occur for a number of reasons for example human errors, inadequate control procedures, shortcomings in the administrative processing of operations, imperfections or deficiencies in the functioning of IT, accounting or communication systems, or non-compliance with the valuation rules provided for in the law and relevant regulations as well as in the OEF's constitutive documents and/or offering documents. These factors or circumstances may arise at the level of the entity which calculates the NAV but also at other levels of the OEF organisation such as the third party valuation service provider.

⁴⁷ According to the international accounting standards, the fair value hierarchy sets out three levels of inputs for valuation which are in general terms: Level 1 inputs are those for which there are quoted prices in active markets for identical assets or liabilities. Level 1 assets are generally liquid assets such as listed equities on major exchanges. Level 2 inputs are non-Level 1 inputs that are observable either directly or indirectly for the asset or liability. Level 2 assets are generally less liquid assets such as fixed income securities (e.g. government or corporate bonds) where market data such as yield curves or pricing from similar instruments is available. Level 3 inputs are unobservable inputs and require a subjective valuation process. Level 3 assets are generally illiquid assets such as private credit, private equity and distressed debts, etc. Level 3 assets are not normally traded frequently and are hard to value.

122. Accordingly, a responsible entity should have policies and procedures in place ensuring, for example, that OEF assets and liabilities are valued in accordance with applicable laws and regulations, constitutive documents and valuation policy and procedures. OEF policies and procedures should seek to detect and prevent pricing errors as well as identifying those pricing errors that materially harm investors, as determined by the appropriate jurisdiction's guidance, determination, or rules as appropriate.
123. The accuracy of the NAV calculation depends on a series of internal or external factors linked to the nature and complexity of each OEF such as the nature and characteristics of the investments, the liquidity and volatility of the markets on which the OEF's assets are traded, the availability of up-to-date information on asset prices, the reliability of the information sources used and other elements relevant for the calculation of the NAV.
124. Materiality may ultimately depend on the particular circumstances and jurisdictional requirements. Conversely, significant NAV calculation errors may not only include isolated calculation errors which have a material impact on the NAV but could also include simultaneous or successive calculation errors that, on an aggregate basis, reach or exceed that threshold.
125. Upon discovery of a significant NAV calculation error, the responsible entity should take prompt action to put in place a remedial plan in order to take the necessary measures to correct the situation in which the OEF finds itself as a result of this error and, where applicable, compensate the loss of OEF and/or investors that redeemed or subscribed units of the OEF during the error period based on an erroneous NAV. The remediation of any loss should be considered, at least, for the dates on which NAV calculation errors were significant (as determined by the responsible entity).
126. The responsible entity should also review and, where necessary, amend its policies and procedures to avoid such errors in the future.
127. For an OEF, a notification process to national regulators regarding significant NAV errors could be put in place for supervisory purposes.

Box 4. Examples of good practices for remedial action plan in case of significant NAV errors

In case of a significant NAV calculation error, the remedial action plan of the responsible entity could involve the following steps:

- identifying with precision the origin of the error and take prompt action to correct the source of the error to ensure that the next NAVs are correctly calculated;
- determining the corrected NAVs for the period over which there was an error period;
- applying the corrected NAV to the subscriptions and redemptions made based on an erroneous NAV in order to determine the amount which must be repaid to the OEF and/or the investors that have suffered a loss as a result of the error;
- after completing correction of NAVs and computation of the loss resulting from the significant NAV calculation error for the OEF and/or its investors, proceed without delay, to reflecting in the relevant accounting records the payments to be received and/or the payments to be made in the relevant accounting entries;
- informing investors to be compensated because of the significant NAV calculation error, including providing detail on how compensation is expected to be paid;
- proceeding to compensate the OEF and/or investors;
- developing and implementing a remedial action plan (where appropriate, adjustment or strengthening of internal controls in place for the OEF) in order to avoid such errors in the future.

Questions

Question 25: Are there other aspects of pricing errors that should be addressed in this Recommendation?

RECORD KEEPING

Recommendation 13: The responsible entity should maintain appropriate documentation to demonstrate compliance with their valuation obligations

128. Records and documents can serve a critical role in demonstrating whether fund assets have been valued consistently with the established policies and procedures and thereby protecting the interests of investors.
129. Proper record-keeping strengthens the accountability of entities and personnel engaged in the valuation process, mitigate the risk of potential valuation error and facilitate internal compliance functions related to

valuation (including detection of possible conflicts, fraud or other misconduct, etc.).

130. Appropriate documentation can also provide essential evidence to third party valuation service providers and auditors in performing their respective duties, as well as to regulators conducting regulatory oversight of the valuation process.

131. The significance of proper recordkeeping is particularly pronounced in light of recent market developments that have resulted in funds increasingly holding less liquid and illiquid assets, which can involve more complex valuation methodologies and procedures.

132. The responsible entity should therefore decide the recordkeeping practice in relation to valuation based on what is appropriate for their specific circumstances (including the applicable regulatory requirements). This may include for example the nature, size and complexity of the activities of the responsible entity fund size, fund structure, operations, investment strategies, asset types and investors profile (e.g. institutional vs retail investors).

133. The responsible entity should set out its valuation record-keeping practices for example in the fund's valuation policy and procedures. Depending on local jurisdictional requirements, this could include the following:

Designated entities or persons for record keeping

134. The responsible entity should designate specific entities or persons⁴⁸ responsible for collecting and retaining the applicable record, given that valuation procedures can often involve multiple parties (e.g., fund personnel, third party valuation providers, etc.) that can increase the risk that relevant documentation is not properly kept or inadvertently destroyed.

Types of record and documents to be retained

135. The specific types of records that may be relevant will typically depend on a number of factors, including the type of fund, type of security, valuation methodology, jurisdiction, market considerations etc. The records to be maintained may also vary based on the subjectivity of the inputs used in determining fair value. As a guiding principle, the documentation required should be sufficient for a third party not involved in the valuation process (e.g. regulators, auditors, investors) to verify the valuation process. For example, the responsible entity should ensure that methodologies are properly documented for all assets to monitor

⁴⁸ Depending on jurisdiction, the responsible entity or manager would typically have primary responsibility for maintaining these records, although the responsibility for maintaining records may also be delegated in appropriate circumstances.

methodological consistency over time, the drivers of any changes in methodology and to support the valuation in question. This could include underlying data, assumptions and limitations of model-based valuations, in addition to the rationale for using them (preferably contemporaneously) to facilitate later review

136. Where the responsible entity has appointed third party valuation service providers to assist in the valuation process, an appropriate level of records and documents should be maintained. For example, this may include (i) records that appropriate due diligence process on the third party valuation service provider has been performed; (ii) a list of the specified types of investments for which the third party valuation service provider has been designated; (iii) the details of service provided by the third party valuation provider; and (iv) legal or contractual terms relating to the use of the third party valuation service providers.

Minimum retention period and data accessibility

137. The responsible entity should, subject to local jurisdictional requirements, specify the period for which valuation-related records should be retained taking into account the significance and relevance of the respective documents.
138. The responsible entity should also ensure that the required records are maintained in a secured and accessible format. This will help ensure that the availability of records should securities regulators, external auditors or investors wish to review the valuation determinations and process. Additionally, it could support the responsible entity and its personnel in a broad range of other operational and compliance functions that rely on the available documentation to perform their work.

Questions

Question 26: Do you agree with the creation of a new Recommendation on record keeping?

Question 27: Are there other aspects of recordkeeping that this Recommendation should address?

Appendix –

List of proposed recommendations

Recommendation 1: The responsible entity should establish comprehensive, documented policies and procedures to govern the valuation of fund assets and ensure an appropriate level of independence in the valuation processes.

Recommendation 2: The responsible entity should seek to identify, monitor and address potential conflicts of interest in the valuation process. Residual conflicts of interest should be disclosed. The responsible entity should also seek to ensure an appropriate level of independence in the application of valuation policies and procedures.

Recommendation 3: The policies and procedures should identify appropriate methodologies that will be used for valuing each type of asset held. The responsible entity should ensure all fund assets are valued at fair value.

Recommendation 4: The policies and procedures should describe the process for handling and documenting price overrides, including the review of price overrides by an independent party.

Recommendation 5: The assets held or employed by an OEF should be consistently valued according to the policies and procedures.

Recommendation 6: The responsible entity should provide for the periodic review of the valuation policies and procedures to ensure their continued appropriateness and effective implementation. The OEF valuation policies and procedures should be reviewed at least annually.

Recommendation 7: The responsible entity should conduct initial and periodic due diligence on third party valuation service providers that are appointed to perform valuation services. The process for the use of third party valuation service providers should be properly documented in the fund's valuation policies and procedures.

Recommendation 8: The subscription and redemption of OEF units generally should be effected at NAV based on forward pricing.

Recommendation 9: An OEF should be valued on any day that units are subscribed or redeemed, and the responsible entity should ensure that valuations are not stale.

Recommendation 10: An OEF's NAV should be available to investors at no fee.

Recommendation 11: The responsible entity should seek to ensure that arrangements in place for the valuation of the assets in the portfolio and other relevant information are disclosed appropriately to investors in the OEF offering documents or otherwise made transparent to investors.

Recommendation 12: A responsible entity should have policies and procedures in place that seek to detect, prevent, and correct pricing errors. Pricing errors that result in a material harm to OEF investors should be addressed promptly, and investors fully compensated.

Recommendation 13: The responsible entity should maintain appropriate documentation to demonstrate compliance with their valuation obligations.