

SEC Adopts New Framework for Fund Valuation Practices

On December 3, 2020, the Securities and Exchange Commission (SEC) voted to adopt Rule 2a-5, a new rule to modernize fund valuation practices. The rule clarifies how fund boards can satisfy their valuation obligations, including an increase in the variety of asset classes held by funds and increase both the volume and type of data used in valuation determinations.¹

Outline of Rule 2a-5:

- I. Establish requirements for determining the fair value of a fund's investments;
- II. Permit a fund's board to assign the determination of fair value to the fund's investment advisor, subject to additional conditions and oversight requirements, which include:
 - Periodically assess and manage risks associated with fair value determination, including conflicts of interest;
 - Selecting, applying and testing fair value methodologies; and
 - Overseeing and evaluating any outside third-party valuation firms utilized.

The rule recognizes that most fund board members do not play a day-to-day role in the pricing of fund investments, and so permits boards to designate the determination of fair value to outside parties. The rule makes clear that a board's effective oversight of this process must be active.

Due to heightened regulatory scrutiny, best practice continues to be using a third-party valuation provider. Regulators regularly question fund's valuation methods during exams and look for inconsistencies in how values are assigned. The new rule also includes guidance on recordkeeping requirements associated with fair value determinations. The effective date for the new rule is 60 days after publication in the Federal Register.

Houlihan Capital is here to help your fund follow best practice guidelines should you have valuation needs. As an independent valuation firm, we pride ourselves in providing senior-level, superior quality client service, while being competitively priced at the same time. Our levels of valuation services range from a full bottoms-up valuation to providing a positive assurance review to your or your investment advisor's internal valuation. We can also assist with reviewing or drafting your valuation policy.

For more information and valuation assistance, please contact:

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¹ <https://www.sec.gov/news/press-release/2020-302>