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Via Online Portal: https://iosco.qualtrics.com/jfe/form/SV_4Z6GjHIJcEydIc

The Board of the
International Organization of Securities Commissions
Oquendo 12, 28006
Madrid, Spain

Re: Valuing Collective Investment Schemes, Consultation Report CR/05/2025

Dear Sir or Madam:

MFA¹ appreciates the opportunity to provide comments to the Board of the International Organization of Securities Commissions (“IOSCO”) on its Consultation Report entitled “Valuing Collective Investment Schemes (CIS)” (the “**Consultation**” or “**Consultation Report**”).² MFA members manage private funds pursuant to a myriad investment strategies, some of which involve investing in assets that are illiquid or trade infrequently, such as private credit, distressed debt, and investments in emerging markets. We further appreciate the increased importance of valuation controls as regulatory authorities consider expanding the availability of alternative investments (through registered fund products) to more non-professional or retail investors.

The liquidity of a portfolio holding is often unrelated to its merits as an investment. Operating companies worldwide rely on financing from private credit and other funds. The financing these companies receive in the form of direct loans or otherwise illiquid investments require different valuation tools than publicly traded equity, for example. An illiquid investment does not by itself evidence a valuation problem: it simply requires the use of different valuation tools, consistent with longstanding accounting rules and that have long been utilized by investment managers in valuing illiquid investments in funds offered to retail and institutional investors.

¹ Managed Funds Association (“**MFA**”), based in Washington, D.C., New York City, Brussels, and London, represents the global alternative asset management industry. MFA’s mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

² IOSCO, Valuing Collective Investment Schemes (CIS), CR/05/2025 (Nov. 2025), avail. at <https://www.iosco.org/library/pubdocs/pdf/IOSCPD811.pdf>.

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MFA shares IOSCO’s initiative to review and update the 2013 CIS Valuation Principles³ and the 2007 Hedge Fund Principles⁴ (collectively, the “**Principles**”) into a unified, modern set of recommendations responsive to (i) the increased prevalence of less liquid and illiquid assets (including private assets) in collective investment vehicles and (ii) greater retail participation in such strategies. The proposed 13 Recommendations (“**Recommendations**”) cover policies and governance, conflicts, fair value methodologies and testing, third-party valuation service providers, consistency, pricing errors, timely valuation, disclosures, and recordkeeping. These recommendations appear intended to align with established regimes such as U.S. Securities and Exchange Commission (“**SEC**”) principles under the Investment Advisers Act of 1940 (“**Advisers Act**”), Investment Company Act of 1940 (“**1940 Act**”) Rules 2a-5 and Rule 31a-4, applicable frameworks under the Alternative Investment Fund Management Directive (“**AIFMD**”), the Undertakings for Collective Investment in Transferable Securities (“**UCITS**”), and somewhat with supervisory and compliance expectations expressed in the Financial Conduct Authority’s (“**FCA’s**”) multi-firm review of private markets valuation (“**FCA Valuation Review**”).⁵

Executive Summary

Taking into account the wide range of asset classes and investment arrangements in which private funds engage, our recommendations emphasize the importance of maintaining flexibility in valuation methodologies and corporate governance structures. This flexibility allows firms to determine the most appropriate valuation approach in alignment with applicable accounting principles, investor expectations, and their own internal controls frameworks. MFA agrees with the Consultation that the proposed valuation practices should only apply to open-end funds (“**OEFs**”). We believe further clarification should be made to distinguish private funds and funds other than OEFs. In our letter, we highlight some of these important distinctions.

We further recognize the importance of pricing controls, stale valuation risks, and pricing errors. MFA also seeks to ensure proportionality of regulation for smaller firms while fostering investor protection for private fund investors.

³ IOSCO, Principles for the Valuation of Collective Investment Schemes, Final Report, Int’l Org. of Sec. Comm’ns (May 2013), at 1–2, 11–14, avail. at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD413.pdf>.

⁴ IOSCO, Principles for the Valuation of Hedge Fund Portfolios, Consultation Report, Int’l Org. of Sec. Comm’ns (Mar. 2007), at 1–2, 5–9, avail. at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD240.pdf>.

⁵ Financial Conduct Authority, Private Market Valuation Practices: Multi-Firm Review (Mar. 5, 2025), avail. at <https://www.fca.org.uk/publications/multi-firm-reviews/private-market-valuation-practices>.

- **General Support of Objectives:** We support IOSCO’s objective of enhancing valuation practices and governance standards. The proposed Recommendations for OEFs incorporate key lessons from episodes of market stress and the growing prevalence of funds investing in illiquid assets.
- **Scope and Proportionality:** While the Recommendations primarily target OEFs, IOSCO suggests they may serve as good practice for other funds, including private funds. We urge IOSCO to:
 - clarify for regulatory authorities that private funds remain outside formal scope.
 - recognize operational differences (closed-ended structures, infrequent NAV calculations).
 - apply proportionality to avoid imposing retail-style governance burdens on institutional funds.
- **Alignment with Existing Frameworks:** Private funds are already subject to robust valuation requirements under regimes such as AIFMD and SEC rules and obligations. MFA recommends that IOSCO acknowledge these effective, long-standing regulatory frameworks to prevent duplication and regulatory fragmentation.
- **Technical Recommendations:**
 - **Illiquid Assets:** Valuation frequency and methodology should reflect asset characteristics and fund structure.
 - **Back-testing:** While useful for certain portfolios, depending on asset class and investment strategy, it may be impractical for certain bespoke private assets.
 - **Third-Party Oversight:** Requirements should consider cost and feasibility for smaller managers and leverage existing oversight obligations currently applicable to managers.
 - **Record-Keeping:** Valuation matters are subject to existing recordkeeping requirements in the U.S. and elsewhere.
- **Governance During Market Stress:** We agree that governance controls should be sufficiently flexible to adapt during stressed conditions and support empowering investment managers the flexibility to design their valuation controls framework to work during stressed and other market conditions. It is important for the Consultation to also allow flexibility for private funds with contractual restrictions that safeguard against liquidity risk during times of stress.
- **Disclosure.** For private funds, disclosure should remain tailored to sophisticated investors and contractual agreements.

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MFA appreciates the opportunity to comment on this important consultation. Should IOSCO Staff have questions or require additional information, please do not hesitate to contact either Rob Hailey (rhailey@mfaalts.org) or the undersigned (jflores@mfaalts.org).

Sincerely yours,

/s/ Jillien Flores

Jillien Flores
Executive Vice President
Chief Advocacy Officer
MFA

Annex

Comments on IOSCO Consultation Report CR/05/2025 — *Valuing Collective Investment Schemes (CIS)*

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?

MFA Response:

Yes. IOSCO’s proposal to merge the prior IOSCO valuation principles into a consolidated, principles-based set of recommendations is appropriate and timely. Consolidation of valuation principles recognizes that many registered/authorized open-ended funds now employ strategies historically associated with hedge funds and hold private and less liquid assets. Asset managers generally could benefit from a harmonized valuation framework across product types. Firms offering multiple investment strategies through multiple funds often consolidate valuation and pricing controls to unify governance, transparency, and methodology standards applicable to alternative strategies.

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

MFA Response:

Yes. The focus on OEFs (open-ended funds offering periodic redemption based on NAV) is consistent with IOSCO’s investor protection objectives, particularly given the heightened risks of first-mover advantage and dilution where valuation mis-measurement occurs under stress in the face of increased shareholders redemptions.¹

Private funds use contractual limitations to manage investor redemptions. As such, they do not face the type of “run risk” observed in other market segments, even amid significant market disruptions such as the 2020 COVID-19 shock and other periods of market stress. MFA therefore strongly opposes extending the Consultation principles to private funds. MFA member firms take seriously their valuation obligations under fiduciary and regulatory requirements, recognize the conflicts of interest, make considerable disclosure to investors of valuation practices and often rely on third-party pricing services to provide input into the manager’s pricing decisions. It is critical to bear in mind that the obligation to appropriately value portfolio assets rests with the investment manager.

¹ IOSCO, Valuing Collective Investment Schemes (CIS), CR/05/2025, (Nov. 2025), at ¶16, avail. at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD811.pdf>.

MFA emphasizes that “fair value” is anchored in applicable accounting standards (IFRS 13/ASC 820) and that 1940 Act Rule 2a-5 (US)² and AIFMD Level 2 (EU)³ provide compatible frameworks for governance, methodologies, testing, and recordkeeping.

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?

MFA Response:

We agree. For funds other than OEFs (e.g., closed-ended funds, private funds), IOSCO’s approach to presenting the recommendations solely as good practices is appropriate. MFA seeks greater emphasis on the optionality of the recommendations to regulatory authorities regarding non-OEFs. Given diverse structures and dealing mechanics, accuracy and independence in valuation remain crucial, but application should be proportionate and the private fund manager must remain empowered to tailor its pricing and valuation controls to its portfolio assets. For example, AIFMD Article 19 expressly permits either internal or external valuation functions, subject to independence and competence requirements.⁴ It may be helpful, particularly to smaller private fund managers, if the final IOSCO report includes an annex mapping the recommendations to closed-ended fund contexts (e.g., valuation frequency, back-testing practices).

Question 4: In order to facilitate flexible implementation, do you agree that the Recommendations should only serve as good practices to other funds?

MFA Response:

Yes. Given the diverse nature of the private funds industry, with a broad diversity of strategies, fund structures, and sizes, a monolithic, inflexible approach to asset valuation would be ill-suited and mis-serve investors. Accounting standards globally have long provided appropriate guidance for portfolio asset valuation, particularly for illiquid assets that are subject to fair value requirements. We appreciate that regulatory authorities may elect to apply some of the

² SEC, Good Faith Determinations of Fair Value, Investment Company Act Rel. No. IC-34128 (Dec. 3, 2020) (final rule 2a-5), avail. at <https://www.sec.gov/files/rules/final/2020/ic-34128.pdf> (defining “readily available market quotations,” outlining board/designee obligations, methodologies, testing, pricing service oversight). We note that Rule 2a-5, as we discuss in response to Question 14, is somewhat misguided in its interpretation of a “readily available market quotation,” particularly as it relates to quotation conventions in the fixed income securities markets.

³ Commission Delegated Regulation (EU) No 231/2013 (AIFMD Level 2) (19 Dec. 2012), arts. 67–74 (valuation policies and procedures; independence; external valuer qualifications), avail. at <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:083:0001:0095:en:PDF>.

⁴ Directive 2011/61/EU (AIFMD), art. 19 (valuation of AIF assets; independence; external valuer), consolidated with AIFMD II amendments (2024), avail. at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0061>.

Consultation recommendations more prescriptively to funds where retail exposure or inter-fund transfers are material,⁵ but MFA opposes any mandatory application of the Consultation recommendations to private funds with professional investors.

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

MFA Response: No response.

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?

MFA Response: No response.

Policies and Governance

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

MFA Response:

Generally, yes. Recommendation 1 and the related Consultation paragraphs comprehensively capture key valuation elements: roles and responsibilities; independence; conflict controls; methodology selection; testing; overrides; pricing error controls; third-party valuation agent due diligence; frequency; timeliness and accuracy of valuations; notifications; regulatory alignment.⁶

Valuation policies and procedures are part of an investment manager's overall compliance obligations. Applicable rules such as U.S. Investment Advisers Act of 1940 ("**Advisers Act**") Rule 206(4)-7 require managers to conduct an annual review of their procedures, including valuation and pricing controls. MFA recommends that the Consultation rely on these well-established, existing controls to consider updates or enhancements to manager's valuation infrastructure, rather than mandating a complete policies and controls refresh in anticipation of a new fund launch as the Consultation appears to suggest.⁷

⁵ Consultation, *supra* note 1, at ¶¶ 22–24.

⁶ *Id.* at ¶¶ 32–34.

⁷ *Id.* at ¶ 33.

Manager policies and procedures, such as those explicitly required under Advisers Act Rule 206(4)-7 typically address when and how pricing calibration or adjustment (to initial transaction price) and back-testing should be performed for Level 3 assets.⁸ Managers typically either embed escalation and contingency triggers for stressed market conditions or rely on existing controls for issues such as committee quorum, senior management involvement, and pricing suspensions where fair value cannot be achieved.⁹

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

MFA Response:

Establishment of a valuation committee (or equivalent) can help promote pricing independence, consistent application, and transparent decision-making with appropriate recordkeeping. We note that the FCA 2025 review of private market valuation practices found that valuation committees enhance independence and recordkeeping.¹⁰

Many private funds maintain pricing or valuation committees that are comprised of a broad array of senior investment and other professionals across the manager. This diversity brings the full expertise of the manager to valuation questions, inputs, methodologies and oversight, which can be particularly valuable for illiquid assets. Other private funds may not include investment personnel on their valuation committees, which can help to maintain independence between front and back office from a governance perspective. In these firms, investment personnel are not included in the valuation committee but are generally consulted for context and perspective on projections, potential transactions, and current fair value.

Retail funds that are registered under the SEC's 1940 Act are subject to Rule 2a-5, which recognizes board oversight (or its valuation designee) over fair value determinations. We note that private funds are not subject to a regulatory requirement to maintain a board of directors and many are not structured to do so. Further, in many jurisdictions regulators lack the authority to mandate that private funds establish a board of directors. We thus believe it would be inappropriate for regulators to mandate the establishment and maintenance of a board of directors to oversee valuation functions.

⁸ *Id.* at ¶¶76–78, Rec. 3.

⁹ See, e.g., 1940 Act Section §22(e)(2) (suspension of redemptions in emergencies when fair determination is impracticable).

¹⁰ FCA, Private market valuation practices (Mar. 5, 2025), avail. at <https://www.fca.org.uk/publications/multi-firm-reviews/private-market-valuation-practices>.

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?

MFA Response:

MFA recognizes the potential conflict of interest regarding valuation issues and the importance of valuation in determining accurate performance and management fee calculations. We do not support a mandate to remove investment or portfolio management staff from the valuation process: they are the investment professionals with the most familiarity with the asset being valued and the overall markets and often develop the pricing models the manager uses to support investment decisions. Removing or diluting their influence over pricing would, we believe, result in less reliable valuations and ultimately have the opposite effect of the Consultation's goals.

There are other means to mitigate the potential conflict of interest appropriately. First, valuation committees benefit from a broad array of investment manager professionals participating in the process. This includes investment and portfolio management professionals, but also compliance, legal, finance, and risk management professionals. Some firms also seek to have investment professionals valuing particular assets other than those professionals who made the decision to own the asset in question as a conflicts check – i.e., a measure of independence. A private credit fund manager, for example, may have the investment professionals responsible for securitisations or structured finance overseeing the valuations of direct loans, with the loan desk performing valuations of securitisations or structured finance.

Firms also often prepare a skills matrix to document the pricing expertise within the firm and provide periodic training to help identify and address conflicts, testing, and pricing model risks. Investment and portfolio management professionals should be included in valuation committee meetings to provide the relevant information needed to make timely and appropriate fair value decisions. In addition, voting members should include those with sufficient valuation expertise.

Many firms also rely on one or more third party valuation services to provide pricing data to the manager that serve as important data points in determining portfolio asset valuations. This independent pricing source, while not the final word on valuation issues, can offer a useful check of the prices arrived at by the manager. We discuss the use of pricing services in response to Question 21 of the Consultation.

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

MFA Response:

In the face of extreme events, markets can become volatile and stressed as they absorb or adjust to major shocks. Rather than rely on a different set of procedures to address pricing issues during stressed conditions, MFA recommends that the firm's policies, procedures, and controls be broad and flexible enough to encompass a variety of market

conditions, including stressed conditions. In addition to establishing policies, procedures, and controls that provide the appropriate level of flexibility managers are obligated to periodically review those policies, procedures, and controls and update them as appropriate.

We understand that stressed conditions may require consideration of different methodologies under extreme (and rare) situations, or increased meeting cadence, senior escalation, and temporary dealing suspensions where fair value cannot be determined. These can all be addressed through a firm's standing valuation procedures that are crafted with input from investment and portfolio management professionals, along with legal, compliance, and risk management professionals.

The FSB's Holistic Review of March 2020 provided context for impaired price discovery even in normally liquid markets,¹¹ and highlighted the efforts of private funds and other asset managers to maintain strong valuation controls in the face of severe liquidity constraints and impaired price discovery across a wide array of asset classes. To maintain credible valuations, these managers relied on established fair value policies that emphasized consistency and governance. Where observable market inputs were unavailable or unreliable, firms applied internal valuation models, supplemented by judgment-based adjustments and independent oversight committees.¹² Many managers increased the frequency of valuation reviews and stress testing to reflect heightened volatility and uncertainty. In parallel, they reinforced liquidity risk controls -- such as monitoring investor capital call timing, negotiating financing lines, and managing redemption or withdrawal requests under fund terms -- to avoid forced asset sales at distressed prices.¹³ These measures were designed to ensure valuations remained supportable and aligned with fiduciary obligations, even as traditional pricing benchmarks broke down.¹⁴

We suggest IOSCO add illustrative triggers (e.g., extreme bid-ask spreads, pricing service alerts, failure of inputs) to prompt a firm's consideration of whether to increase its internal scrutiny over valuation decisions.¹⁵

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

MFA Response:

Valuation issues are not new, and asset managers, particularly private fund managers that invest in illiquid or hard-to-value portfolio assets, have long maintained strong valuation practices. These practices, which evolve over time and

¹¹ FSB, Holistic Review of the March Market Turmoil (Nov. 2020) (impaired liquidity and price discovery across markets), avail. at <https://www.fsb.org/uploads/P171120-2.pdf>.

¹² *Id.* at 3–4.

¹³ *Id.* at 6–7.

¹⁴ *Id.* at 9–10.

¹⁵ See Consultation, *supra* note 1, at ¶163.

reflect learnings from each period of stress, have served private funds and their investors well through robust controls, extensive disclosure, and strong corporate governance. From a governance standpoint, if an investment manager has an internal valuations team, consideration should be given to the reporting line of that team and whether it should be functionally, hierarchically segregated from the investment and portfolio management teams.

Pricing challenges are an important component of a manager's valuation controls environment, particularly in stressed situations. While the use of one or more pricing services can provide inputs regarding the valuation of a portfolio asset, as noted, the valuation obligation rests with the manager. Challenges are not, we suggest a sign of malfeasance or weak controls: they are the opposite. Pricing decisions made by an asset manager should be subject to vigorous debate and discussion within a manager where circumstances warrant to arrive at the most accurate price under the circumstances and based on the information available to the manager *at that time*.

Conflicts of Interest

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?

MFA Response:

Yes. Disclosure is a key conflict of interest mitigant regarding valuation issues. Private funds devote considerable attention to ensuring that their disclosure practices and controls are properly disclosed to prospective investors. Private fund investors also have their own expectations regarding illiquid portfolio asset valuations. The Consultation framework generally reflects global standards (AIFMD independence; SEC fiduciary oversight; FCA expectations).¹⁶ MFA supports supplemental, clear disclosures where residual conflicts remain (*e.g.*, marketing performance of a private credit fund that is based on valuations) and robust controls.

If IOSCO intends to recommend to regulatory authorities that "residual" conflicts of interest should be disclosed, consistent with Recommendation 2, it would be helpful for IOSCO to define this term and provide additional guidance regarding what conflicts are "residual" and nature and frequency of the residual conflicts disclosure. We suggest that examples may be helpful in this regard. If IOSCO is intending to use the phrase "residual conflicts" as a catch-all to encompass all other conflicts beyond those that are described in the Consultation, then MFA recommends use of a term other than "residual" since it may not describe the remaining conflicts to asset managers and IOSCO's expectations with sufficient clarity.

MFA notes that not every conflict, particularly conflicts relating to valuation, can be properly mitigated or managed, nor would it be appropriate for regulatory authorities to seek to manage and mitigate all valuations conflicts. Private fund managers devote considerable attention to identifying, organizing, and managing conflicts and apparent conflicts. For

¹⁶ Consultation, *supra* note 1, at ¶¶ 50–56; Rec. 2.

those conflicts that cannot be reasonably mitigated, investor disclosure is important. Private fund investors are sophisticated, often institutional investors that can appreciate and understand conflicts disclosure. Appropriate conflicts disclosure thus should be encouraged.

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

MFA Response: No response.

Methodology (Fair Value, Selection, Amortized Cost, Back-testing & Calibration)

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

MFA Response:

Yes. The Consultation mirrors longstanding accounting controls that prioritize quoted prices where available and reliable (known as “**Level 1**” assets), maximizes observable inputs where available and relevant (“**Level 2**” assets), and confines fair valuing assets (“**Level 3**” assets) to limited circumstances where “the quoted price 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.”¹⁷ This valuation hierarchy is consistent with IFRS 13/ASC 820, SEC Rule 2a-5 (defining “readily available market quotations” and requiring fair value determinations in good faith),¹⁸ and AIFMD Level 2¹⁹ rules on methodology consistency.

MFA notes, however, that SEC Rule 2a-5 itself is flawed and warrants reconsideration to address long-standing, widespread market conventions as it relates to fixed income securities. The SEC definition of “readily available” market quotations fails to account for the bespoke and dealer-mediated quoting conventions that define fixed income markets, where most pricing is transmitted via inter-dealer systems or dealer-to-client interactions, rather than through public, retail-style exchanges.

¹⁷ *Id.* at ¶160.

¹⁸ SEC, Good Faith Determinations of Fair Value, Investment Company Act Rel. No. 34128 (Dec. 3, 2020) (final rule 2a-5) (defining “readily available market quotations,” outlining board/designee obligations, methodologies, testing, pricing service oversight).

¹⁹ European Comm’n Delegated Regulation (EU) No 231/2013 (AIFMD Level 2), arts. 67–74 (valuation policies and procedures; independence; external valuer qualifications).

The SEC definition limits “readily available quotation” to an exchange-based last sale or independent bid/offer price.²⁰ By relying on a rigid standard of “readily available” and potentially excluding these well-established, market-wide pricing mechanisms, the SEC’s approach could unnecessarily constrain valuation practices that are both prevalent and reliable in bond markets. It is necessary for the SEC to better harmonize 1940 Act Rule 2a-5 to align it more closely with actual fixed income market structures, rather than enforcing a definition predicated on equity or exchange-traded paradigms. This modernization is essential to preserve liquidity, ensure fair pricing, and maintain operational efficiency in fixed income AIF management. MFA encourages IOSCO to recommend that the SEC address this shortcoming under the 1940 Act and that it *not* recommend that member states adopt a definition of “readily available quotation” based strictly on the SEC approach.

For private and illiquid assets, IOSCO’s emphasis on model validation is well founded, but requiring a purely independent check on pricing models is unnecessary. Pricing models are subject to periodic review by the private fund manager and valuation issues are an important component of a manager’s annual and ongoing compliance reviews under the Advisers Act, the 1940 Act, and other comparable regulatory regimes. Private fund investors also make known their expectations regarding valuation issues and require managers to adopt and implement appropriate controls. Managers thus are best positioned to assess whether its conflicts of interest warrant an independent check on its pricing model, and MFA recommends that the Consultation avoid a heavy-handed mandate in this regard. MFA also notes that many smaller managers may lack the resources to engage third-party pricing services and as such a rigid requirement would be at odds with fostering the growth of smaller private fund managers.

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?

MFA Response:

Yes. Back-testing and calibration are central for valuation of Level 3 assets, particularly given the regulatory, fiduciary, and litigation risks of mispricing portfolio assets. In adopting Rule 2a-5, the SEC also highlighted these methods as often appropriate, even if not mandated, to confirm pricing accuracy and adjust pricing models where necessary.²¹ Managers typically document expected exit variances, analysis of biases (e.g., volatility smoothing), and periodic model re-calibration to market conditions.

²⁰ See 1940 Act Rule 17a-7(a)–(b)(1)–(4) (defining “readily available quotation” as exchange-based last sale or independent bid/offer prices).

²¹ See note 18, *supra*.

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

MFA Response:

While the Consultation presents an exhaustive list of controls, a private fund manager – based on the fund’s investment fund strategy and a range of other factors, may employ additional controls. These controls can include:

- Independent portfolio reviews (sample checks by external valuation specialists).
- Price-source triangulation (comparing broker quotes, vendor models, and internal DCF outputs).
- Sensitivity analyses of key unobservable inputs.
- Event-driven ad-hoc valuations protocols.

It is critical that IOSCO and the subsequent consultation place a premium on flexibility for alternative asset managers to develop and implement the tools that the manager determines most appropriate to arrive at an appropriate pricing methodology given its strategy and existing controls.

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

MFA Response:

No response.

Pricing Overrides

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

MFA Response:

MFA agrees that a manager’s valuation procedures should describe the general processes for considering and effectuating pricing overrides. Pricing overrides are typically a function of the manager’s valuation or pricing committee. Pricing overrides typically occur when a pricing service or valuation agent arrives at a portfolio asset price that is disputed by the investment manager. We believe this type of dialog between the manager’s portfolio managers and the pricing service is generally healthy and important for arriving at an accurate price, particularly for illiquid assets. Pricing overrides moreover are appropriate when the manager has more relevant or recent information that the external valuer may be unwilling to consider; however, overrides should not be made without sufficient support for a different value conclusion. Managers and pricing services often discuss differing valuation methodologies and align on the particular valuation methodology for valuing a particular type of asset, such as a direct loan.

Managers must be afforded the flexibility to challenge pricing service prices when they are in dispute. We therefore would oppose a rigid materiality thresholds or inflexible escalation requirements. Investment manager pricing or valuation committees are typically empowered to override prices when the committee disputes or disagrees with a pricing service valuation. Pricing overrides are typically documented as part of the pricing or valuation committee function and subject to applicable recordkeeping requirements.

Managers also perform initial and ongoing due diligence of pricing service managers. Part of that ongoing review necessarily involves a periodic review of pricing overrides: are there asset classes where overrides are more frequent? Is there a dispute over the pricing methodology used by the pricing vendor? These and other factors will play into the ongoing relationship with the pricing or valuation agent.²²

Consistent Application and Periodic Review

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

MFA Response: No response.

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

MFA Response:

Investment managers, as fiduciaries, are already obligated to perform reasonable vendor management over third parties the manager engages to perform functions on its behalf, including providing portfolio asset prices for consideration by the investment manager. It again is important for managers to retain the flexibility to oversee the pricing or valuation agents it uses. As we note in our response to Question 10, private fund managers are currently obligated to periodically review their policies, procedures, and controls and updating them as appropriate.

Overly prescriptive, inflexible requirements are unnecessary and may do more harm than good. It is not appropriate for a regulatory authority to insist on an annual, independent review of pricing service methodologies.²³ Back-testing of asset valuations similarly would be subject to a manager's periodic compliance review process, such as the annual process required under the U.S. Advisers Act rules. It similarly is not necessary to impose automatic, trigger-based pricing service reviews when back-testing variances exceed set thresholds. Again, the manager is best positioned to determine the nature of its review of pricing service prices and should be empowered to develop its own protocols for reviewing pricing service prices, consistent with applicable accounting and industry valuation standards. This ongoing

²² See Consultation, *supra* note 2, ¶184.

²³ See *id.*, at ¶193.

pricing service due diligence will be covered in the ordinary course in the manager’s procedures and remains subject to applicable recordkeeping requirements.

Use of Third-Party Valuation Service Providers

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?

MFA Response:

Generally, yes. The pricing service framework²⁴ mirrors AIFMD requirements for external valuers and SEC expectations for pricing services oversight under 1940 Act Rule 2a-5. As we discuss in our response to Question 20, above, investment managers are obligated to perform initial and ongoing due diligence of firms to which the manager delegates certain functions, including pricing.

MFA does not support a recent suggestion from the FCA that pricing services be subject to periodic rotations to take a “proactive” measure of managing conflicts. If a manager elects to rotate its pricing services, it is free to do so but absent a material conflict, the disruption of transitioning between pricing services on a periodic or annual basis will outweigh any purported benefit of a different pricing service. We also note that managers may utilize multiple pricing services – either to use a “matrix” approach to arrive at a valuation that reflects a blended valuation based on pricing service prices or to leverage the particular expertise of a pricing service in pricing particular assets (e.g., lending for infrastructure project may require a different pricing skillset than a direct loan to an operating company).

MFA supports providing investors with appropriate disclosure of the services pricing services provide and the limitations on pricing service roles. Again, the manager retains the ultimate responsibility for valuing portfolio assets.

Timely Valuation

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

MFA Response:

The concept of “stale” valuations is often times misused. A stale price we suggest is one where market prices are available (*i.e.*, a Level 1 asset) and not used or where a valuation is discernable based on observable inputs (*i.e.* a Level 2 asset) and, again, not used.

²⁴ See *id.*, at ¶¶94-101.

A principal goal of manager’s valuation processes is to ensure that its valuations are accurate. Suggesting that valuations that may remain unchanged for a period of time are somehow inaccurate, MFA suggests, misses the point. Either the valuation of a given Level 3 asset is arrived at pursuant to the manager’s policies and procedures that are reasonably designed to fair value assets accurately and consistent with applicable accounting guidance, or it is not. Put differently, an asset can have a continuous fair value over a certain period of time and not be “stale.” IOSCO’s recommendation should instead seek to ensure that managers’ existing valuations are representative of current asset values without imposing prescriptive requirements.

There exist many asset classes that do not trade or have other discernable inputs to aid in valuations. A direct loan to an operating company that is held in a private credit fund will typically provide the fund, as lender, with financial statements on a quarterly basis. Absent other information available about the borrower, the private credit fund manager may only revise its valuations of the underlying loan on receipt of the quarterly financials. This does not mean that the valuation of that loan is stale or somehow incorrect: rather, it means that the manager is conducting valuations based on the information available to it, when the information is available.

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

MFA Response:

No response.

Disclosure

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

MFA Response:

No response.

Pricing Errors

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

MFA Response:

No response.

Record Keeping

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

MFA Response:

Alternative asset managers already are subject to detailed recordkeeping requirements under the Advisers Act, the 1940 Act,²⁵ and AIFMD expectations.²⁶ Alternative asset managers, as part of their existing corporate governance controls, maintain records of pricing committee meetings and communications regarding pricing or valuations issues are covered by their existing electronic communications retention controls. It therefore is unnecessary to recommend additional recordkeeping requirements to regulatory authorities that have enacted appropriate recordkeeping requirements for asset managers to add additional specific requirements covering valuations issues.

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

MFA Response: No response.

²⁵ See *supra* note 18 (defining “readily available market quotations,” outlining board/designee obligations, methodologies, testing, pricing service oversight).

²⁶ Note 19, *supra*, arts. 67–74 (valuation policies and procedures; independence; external valuer qualifications).