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SEC Issues New Statement on Fair Value Measurement of Private Credit

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Background

On September 28, 2026, the SEC issued a new statement on fair value measurement for private assets, particularly private credit investments. These assets are typically illiquid, individually negotiated loans without active secondary markets, making fair value determination complex and often reliant on unobservable inputs (i.e., Level 3 investments per ASC 820).

According to the SEC, Private Credit holdings in registered fund portfolios have grown nearly 60% in five years, from $170 billion in late 2020 to $270 billion by the end of 2025. Preqin estimates the global Private Credit market at $2.3 trillion.

The SEC Identifies Valuation Issues with Private Credit

Many registrants are required to measure private credit investments at fair value, including registered closed-end funds, interval funds, tender offer funds, business development companies and private funds registered under the Securities Exchange Act of 1934. The SEC noted in its statement on Fair Value Measurement and Disclosure that the growing accessibility of private credit requires registrants to focus on the appropriate valuation of these assets and how those valuations and concomitant investment risks are disclosed to investors. These issues are also material for auditors who are responsible for evaluating management's judgments and the sufficiency of a fund's disclosures.

Because Private Credit assets are individually negotiated loans that do not trade on established secondary markets and lack readily available quoted prices, estimating the fair value of such assets generally requires the use of significant unobservable inputs. These assets thus fall into the Level 3 basket of ASC 820.

According to the SEC, "[t]he degree of judgment required in selecting valuation techniques, identifying relevant inputs, and weighting assumptions in accordance with FASB ASC Topic 820 can be significant. This judgment and the inherent complexity in valuing these assets calls for thoughtful policies and procedures designed to estimate fair value and to provide clear disclosure to investors." Properly complying with the SEC's valuation directive requires proactive planning among a firm's Valuation Committee, Third-party Valuation Firm and Auditors.

ASC 820 requires management to take into account the characteristics of an asset if market participants would take those characteristics into account when pricing an asset (this will almost always be the case). Market participant assumptions must reflect current market evidence rather than default roll-forwards of prior period assumptions, and should not rely solely on issuer representations. This becomes especially significant during periods of high market volatility and disruption.

Consideration should be given to the broader market environment, credit spreads, general and specific liquidity concerns, borrower financial condition, and the price a market participant would demand for bearing the risks associated with the investment. In addition, the SEC highlighted Pay-in-Kind (PIK) interest, including when and how recognized, the percentage of reported income, and potential signals about borrower financial condition and/or change in credit risk, as a material disclosure for investors to assess asset quality and borrower health.

Calibration

The purchase price, or transaction price, represents an important initial reference point for fair value and subsequent fair value measurements for Level 3 assets. Assuming future fair value determinations rely upon unobservable inputs, ASC 820 requires the calibration of such future fair value estimates back to the initial transaction price. This facilitates an evaluation of any difference between the transaction price and the model's indication of fair value based upon the evolution of date-of-valuation model inputs and market benchmarks (of course, maintaining the market participant's perspective).

From the SEC's perspective, "robust calibration practices, including periodic reassessment of whether model outputs remain consistent with available market information such as comparable transactions, public market equivalents, secondary market indications, or relevant credit indices, [are] an important element of a well-functioning valuation process. Such practices ensure that valuation conclusions continue to reflect market participant assumptions as conditions evolve."

Conclusion

Across the valuation and disclosure topics discussed in this statement, the underlying message is the same: robust policies and procedures, paired with timely and adequate disclosures, help investors understand a fund's fair value process, the judgments involved, and the risks associated with private investment assets. Such policies and procedures should also reduce issues with LP's, institutional investors, auditors and other stakeholders (not to mention potential disputes and liability).

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