

Europe: UK's FCA Intensifies Scrutiny on Private Markets Valuations

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The UK's Financial Conduct Authority has published the findings of its [multi-firm review of valuation processes for private market assets](#). This review follows the highlighting of vulnerabilities in private markets stemming, in part, from opaque valuations, in both the Bank of England's [June 2024 Financial Stability Report](#) and IOSCO's [September 2023 report on emerging risks in private finance markets](#).

The FCA's review, which is directed at fund and portfolio managers and investment advisers, acknowledges areas of generally sound practice within the industry. These include investor reporting, documenting valuations, use of third-party valuation advisers and consistent application of established valuation methodologies.

However, the review also includes action items for firms (search for "Actions for firms") and identifies the following areas of weakness:

- firms need to improve their identification and documentation of potential conflicts of interest arising throughout the valuation process, for instance in relation to continuation fund transactions, NAV-financing, the use of unrealised performance in marketing for new vehicles, and redemptions and subscriptions in open-ended funds;
- firms should ensure an adequate level of independence in valuation processes, for example by ensuring that the valuation committee's voting membership is mostly made up of individuals independent of portfolio management with sufficient valuation expertise; and
- firms should enhance processes for ad hoc valuations in times of market disruption, for instance by identifying the thresholds and types of events that would trigger ad hoc valuations.

The FCA expects firms to consider its findings and identify any gaps in their valuation approach taking into account their size and the materiality of identified gaps.

As private markets continue expanding with the introduction of new practices to navigate the race to liquidity, which may pose several conflicts issues, regulatory developments requiring valuation

discipline and transparency represent a trend likely to persist.

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