US GAAP Q1 2026 Update

Valuation Highlights For Private Funds

- *2025 IPEV Guidelines*
- *SEC Valuation Highlights*
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- *ALTSLA: Come and See Us!*

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1 IPEV Guidelines: Highlights from New Edition

What has changed

On December 11, 2025, the IPEV Board released a new edition of the **International Private Equity and Venture Capital Valuation Guidelines** (the “Guidelines”). The 2025 edition supersedes the 2022 version and applies to quarterly reporting periods beginning on or after April 1, 2026. Importantly, the IPEV Board did not “rewrite” the framework: aside from a minor clarity change to section 1.4, the emphasis of the update is additional explanatory text and expanded practical guidance to help firms apply Fair Value concepts more consistently in real-world situations. Financial reporting standards do not require that the Guidelines be followed. However, while management must conclude for themselves whether their Fair Value measurements are compliant with relevant financial reporting standards, measuring Fair Value in compliance with relevant IFRS and US GAAP financial reporting standards can be achieved by following the Guidelines.

At a high level, the 2025 Guidelines introduce expanded guidance on **Artificial Intelligence (AI) and Sustainability** and significantly broaden the “how-to” content on common valuation issues. The Introduction adds a dedicated discussion on AI and separates Sustainability as its own topic. Beyond these thematic additions, the Guidelines include targeted expansions and clarifications intended to improve application in practice, such as: reinforcing that **Price of a Recent Investment is not automatically Fair Value** and that Fair Value generally changes at each Measurement Date; expanding discussion on what is “Known or Knowable”; enhancing calibration examples; adding discussion of scenario analysis; expanding guidance for debt instruments; further aligning to accounting standards when assessing whether transaction price represents Fair Value; providing significant added guidance on complex capital structures and liquidation preferences; adding guidance on secondary market discounts/premia when valuing fund interests; and expanding Section 2 coverage across transaction costs, real estate, sustainability, limited-information/co-investments, more frequent valuation cycles, and venture debt/convertible instruments.

View the full 2025 IPEV Valuation Guidelines

1 IPEV Guidelines

Valuation Guidance: Highlights

Here are some of the highlights from the new Guidelines:

1) Remeasure Fair Value as of the Measurement Date

The "Price of a Recent Investment" is not a default that precludes re-estimating Fair Value at each Measurement Date. In particular, the following factors may indicate that the price was not fully representative of Fair Value: (a) different rights attached to new and existing investments; (b) disproportionate dilution of existing investors arising from a new investor; (c) a new investor motivated by strategic consideration; (d) market conditions existing when the price was agreed upon by parties regardless of timing of close; and (e) the transaction may be considered a forced sale or a rescue package.

2) Apply the "Known or Knowable" principle consistently

Valuations should be based on reliable information that was known or knowable as of the Measurement Date. The information used in fair value measurement could be one or more months in arrears (for instance, use of September 30 close information for a December 31 valuation if the Q3 financial information is the latest available as of 12/31).

3) Convertible debt: break out equity and debt components

The Guidelines emphasize the importance of calibrating the inputs to reflect the debt and equity component both at the Initial Investment Date, and then updating such inputs to reflect the movement in the debt component and the equity component separately at subsequent Measurement Dates.

4) Apply sustainability factors only where they are measurable

The Guidelines emphasize measurable valuation issues only. Sustainability/ESG considerations should be reflected in Fair Value only to the extent they are measurable, while broader sustainability disclosure frameworks are outside scope.

5) Use AI to support the process, not replace judgement

AI tools (including LLMs) can assist valuation work, but they are not a substitute for professional judgement and skepticism. Responsibility for inputs, methodology, and conclusions remains with the valuer.

View the full 2025 IPEV Valuation Guidelines

IPEV Guidelines

Implementation steps

6) Liquidation preferences should be considered and property accounted for in the model

The Guidelines include significant additions for complex capital structures and liquidation preferences. At the date of a transaction, the impact of liquidation preferences is included in the price paid, meaning that from a calibration perspective, a 2x liquidation preference is embedded in the price paid and the Fair Value would be the price paid, not increased to 2x.

7) For fund interests using NAV: apply appropriate controls and adjustments

Where reported NAV is used as a starting point, the Guidelines underscore the need for appropriate controls over valuations received and potential adjustments based on the best available information at the Measurement Date.

8) For limited information: refer to market trends and consider a risk adjustment

The obligation to determine Fair Value does not change when information is limited. To the extent the information is stale, the Valuer would generally seek to reflect market movements and anticipated performance through the Measurement Date. If limited or no information is available, a Market Participant may require an increased rate of return to compensate the risk associated with the lack of information, which may reduce Fair Value.

9) For co-investments: do not automatically adopt another party's conclusion

Information from the lead investor should be used by the co-investor in determining the co-investor's Fair Value conclusion. However, the co-investor should reach their own Fair Value conclusion and not automatically adopt the lead investor's Fair Value conclusion.

10) Secondary transactions: challenges in their use as indications of Fair Value

The Guidelines emphasize that secondary transactions are negotiated and may be influenced by factors beyond Fair Value, including assumptions and return expectations that are often unique to the counterparties. In addition, specific transactions may not be determined to be orderly. Finally, they may include baskets of interests in different private funds and/or portfolio company securities, which may obscure availability of pricing information for an individual Fund interest/security.

View the full 2025 IPEV Valuation Guidelines

2 SEC Enforcement Valuation Cases

Current SEC Focus Areas

The SEC continues to highlight valuation as a recurring regulatory risk area, particularly where valuation intersects with conflicts of interest, disclosure quality and illiquid/complex assets. In its FY2026 examination priorities, the SEC's Division of Examinations explicitly identifies valuation as a core area commonly evaluated within investment advisers' compliance programs. This emphasis underscores that weak valuation governance (e.g., insufficient policies, inadequate implementation, or poor documentation) can be a central topic during exams and, where significant, may elevate to broader regulatory consequences.

The SEC also highlights valuation scrutiny in private funds and complex/less liquid strategies, where subjectivity and conflicts tend to increase. The Division notes a specific focus on advisers that have not previously advised private funds, including reviews for "liquidity, valuation, fees, disclosures, and differential treatment of investors (including use of side letters)." In parallel, for registered investment companies, the Division flags funds with "significant holdings of less liquid or illiquid investments," specifically calling out associated issues around "valuation and conflicts of interest." Together, these priorities point to heightened attention on (i) valuation methods and inputs for illiquid positions, (ii) consistency between valuations and disclosures, and (iii) whether conflicts are identified, managed, and transparently disclosed.

Finally, valuation focus extends to broker-dealers' pricing practices for illiquid instruments. The Division states it will review trading-related practices including "the pricing and valuation of illiquid instruments". This reinforces a broader theme that valuation risk is not limited to advisers/funds. Pricing governance, documentation, and disclosure around illiquid instruments remain a SEC priority area across market participants. Please refer to link below for BlueVal's recent presentation on SEC Valuation Enforcement Cases at the ASA International Valuation Conference in Puerto Rico.

View BlueVal's presentation at ASA Conference on SEC Valuation Cases

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SEC Enforcement Valuation Cases

SEC v. Madison Capital Funding LLC (Sales of Loans to Affiliated Funds)

In February 2026, the SEC announced a settlement with Madison Capital Funding LLC relating to how it priced principal "loan transfer" transactions between March and May 2020 (i.e., sales of recently originated senior loans from Madison Capital's balance sheet to private funds it advised). The funds' advisory agreements and offering materials represented that affiliated transactions would be completed at "fair value" / "fair market value," on terms no less favorable than an arm's-length transaction, and that an independent review agent would provide consent to each sale.

Madison Capital's written valuation policy contemplated using its purchase price minus the unamortized loan fee (or discount) as the sale price, with any "market adjustments" made in Madison Capital's sole discretion. In practice, Madison Capital executed 143 sales during the early COVID-19 shock at par value less the unamortized loan fee, and the SEC found it did so without performing additional analyses to determine whether fair market value had declined given rapidly changing market conditions (including widening spreads, reduced liquidity, and downward price pressure in the loan market).

The Madison Capital matter illustrates that "fair value" in affiliated transactions cannot be treated as a static convention (e.g., par-less-fee) when the market environment changes materially. The SEC's theory effectively treats fair valuation as a dynamic, event-responsive process: when market conditions shift, managers should reassess whether the previously used pricing convention still represents fair market value and should document the contemporaneous rationale for any conclusion.

Read the Full SEC Case

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SEC Enforcement Valuation Cases

SEC v. United Parcel Service, Inc. (UPS) (Misleading Information to Valuation Firm)

In November 2024, the SEC charged UPS for failing to value its UPS Freight business in accordance with US GAAP, resulting in a significant impairment of goodwill and a material misstatement in its financial statements.

As of the Valuation Date, UPS had hired a third-party valuation firm to provide a goodwill impairment analysis of UPS Freight. UPS did not inform the valuation firm that a sale of UPS Freight was in the works, and that a term sheet at $800 million (later adjusted to $650 million net) had already been signed. In addition, UPS had internal documentation (also not shared with the valuation specialist) supporting a valuation of UPS Freight at $350M-$650M, well below the external firm’s concluded value of approximately $2.0 billion. As a result, no goodwill impairment was taken. A goodwill write-down was only recorded in Q4 2020, subsequent to the execution of the sale agreement.

From a valuation perspective, the SEC v. UPS case highlights the importance of considering how inputs are framed and how conflicting evidence is handled to reach a reliable valuation conclusion. Internal analyses, performance trends, market data, and transaction signals should have been treated as impairment indicators and incorporated into the analysis, rather than sidelined.

Another central weakness in this case concerns the information flow to the valuation specialist. The reliability of an external valuation analysis is critically dependent on the quality of the information that the valuation specialist obtains from company’s management. New transactions, as well as changes in projections, reported results and capital structure may have a material effect on the specialist’s valuation conclusion. Management plays a critical role in ensuring that the specialist’s inputs are complete and the output reconciles to the full body of available evidence as of the valuation date.

View BlueVal’s presentation at ASA Conference on SEC Valuation Cases

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SEC Enforcement Valuation Cases

SEC v. ZM Quant Investments Ltd and others (Token Pricing / Market Data Manipulation)

In October 2024, the SEC charged ZM Quant Investments Ltd and Others for artificially inflating the price and trading volume of certain crypto assets. ZM Quant received a “gas fee” on the trades it generated on various crypto trading platforms.

The SEC’s allegations describe a situation where trading activity in tokens such as NexFundAI and Saitama reflected artificial trades between internal accounts to create the appearance of a market interest that was not substantiated by actual arm’s length transactions. The increase in reported trading volume resulted in inflated prices, altered volatility, and “market” indicators that no longer reflected arm’s length transactions.

In newer or thinly traded assets, it is especially important to consider trading patterns to determine if the reported transactions can provide suitable indications of fair value. If a meaningful share of trading volume is artificial, volume can look deep even when liquidity is shallow. Volatility can be altered by wash trades. Especially in the presence of lockups, vesting schedules, or when the position size is large relative to daily liquidity, distorted volume and volatility can lead to altered discounts and inflated values.

View BlueVal’s presentation at ASA Conference on SEC Valuation Cases

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SEC Roundtable on Private Markets

Private Investments for Retail Investors: Valuation and Other Considerations

On March 4, 2026, the SEC conducted a roundtable to discuss governance, valuation, and other considerations with the aim of promoting responsible retailization. The roundtable was moderated by Brian Daily, Blair Burnett and Michael Republicano and included as speakers: Cliff Asness, Katie King, Marc Pinto, John Finley, Pete Driscoll, John Mahon, Jamila Abston Mayfield, Bryan Morris and Blake Nesbitt.

Panel 1 “When Two Words Collide”: Asset classes historically offered in the private markets continue to migrate into publicly offered vehicles. What are the opportunities and challenges this presents for managers, investors, and regulators? What should the investing public consider?
Panel 2: “Fund Governance”: As managers seek innovative ways to deliver exposure to private market assets in response to retail demand, what challenges does this present from a governance perspective? What opportunities does the industry have for improving fund governance?
Some valuation takeaways:

- Valuation policies should closely match the type of assets held in a fund’s portfolio. Policies have to be customized to the strategy and type of assets, and may be different across funds under common management.
- The crystallization of carry calculated based on unrealized gains v. realized gains at exit in evergreen funds enhances the impact of valuation conclusion on investor returns.
- Private credit instruments in retail funds may have to be valued more frequently than quarterly to reflect changes in market inputs (risk-free rate, credit spreads and other).
- Secondary market for fund interests: if a fund interest is purchased at 70 cents, marking it a 100 cents soon after the transaction date under the practical expedient can create a value distortion. Consider amortizing the discount over a period of time and/or reassessing it periodically.
- The SEC is likely to pay special attention to valuation in periods of market stress and related party transactions. Transfer of securities among funds under common management is an especially sensitive area of SEC monitoring.

View SEC's Private Market Roundtable

3

Valuation of Carried Interest

Types of Carried Interest

Carried interest is a performance-based share of a fund's future profits. Its value today reflects (1) how much profit is expected and (2) how likely and how soon those profits will actually be realized.

From a GP/Carry perspective, Funds may be broadly described in two categories:

Private Equity structure:

- AUM is a fixed commitment by LPs, called as investments are made; the Fund life is limited
- Carry is generated and paid out to the GP only when the underlying investments are sold
- Cash flow from carry is lumpy and back-end-loaded
- Often used when investments are illiquid and expected to be held for some time

Hedge Fund structure:

- AUM may vary over time depending on periodic contributions and withdraws by LPs
- Carry is crystalized and paid out on a periodic basis based on the stated NAV of the Fund; investments need not be sold to generate and pay out Carry
- Cash flow from Carry may be lumpy or regular
- Often used when investments are liquid, and holding period may vary; fund life is 'evergreen'

Learn More about Valuation of Carried Interest in Private Equity and Venture-Capital Firms

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Valuation of Carried Interest

Types of Distribution Waterfall

Carried Interest cash flows to the General Partner depend on the type of waterfall that the Fund has adopted.

European Waterfall: Whole Fund distribution waterfall. The GP starts receiving its carried interest distribution only after the LPs have received cumulative distributions equal to their aggregate capital contributions to the fund plus their preferred return (or hurdle), if applicable.

See Institutional Limited Partners Association (ILPA) "Whole Fund" Model LPA

American Waterfall: Deal-by-deal distribution waterfall. The GP starts receiving its carried interest distribution as soon as the LPs have received cumulative distributions equal to the sum of their capital contributions used to fund each realized portfolio investment and to pay expenses plus the preferred return on such capital contributions. Many such deal-by-deal waterfalls also require that LPs recoup their capital contributions used to fund portfolio investments (and related expenses) that have been written off or that have otherwise suffered a material impairment and have been permanently written off, or that have otherwise suffered a material impairment and been permanently written down before the GP receives any carried interest distribution.

See ILPA "Deal-by-Deal" Model LPA

See ILPA "Deal-by-Deal" Model LPA

3 Valuation of Carried Interest

Private Equity Structure: Discounted Cash Flow Method

The valuation of carried interest in a private equity structure is typically modeled using a discounted cash flow (DCF) method under the income approach. The DCF method projects a carried interest's projected future cash flows and discounts them using a discount rate that reflects the risk profile of cash flows. Some of the key considerations in developing a DCF model for the valuation of carried interest include:

Projected v. Accrued Carry: In addition to the carried interest already accrued in the balance sheet, the valuation of the GP carry would typically include an off-balance-sheet component that is related to the projected future cash flows through the Fund's termination. For funds that are in the commitment and investment period, the projected cash flows component may have significantly more value than the accrued carry as of the valuation date.

Projection of Future Cash Flows: the projection of future cash flows requires a comprehensive analysis of the fund's ownership structure, fee structure and investment strategy. In some cases, Monte Carlo simulation can be used to model certain aspects of the cash flow projections. The Fund's private placement memorandum, offering documents and investor marketing materials may help develop estimates on target returns, timing and amount of cash flows, and allocation of cash flow distributions among equity stakeholders.

Discount Rate: Carried interest represents a share in the residual claim on a fund's distribution after the return of invested capital, and accrued preferred return to the limited partners have been distributed. For private equity funds, PitchBook suggests that carry distributions are most likely to occur six to eight years into a fund's life. As such, the discount rate for the cash flows associated with carried interest is typically higher than the discount rate associated with management fees to the Fund's management company, as well as the discount rate associated with the fund's cash flows to equity for the fund taken as a whole.

The valuation of carried interest is one of the most complex areas of fund valuation. Even if a fund does not have accrued carried interest on its books as of the valuation date, the fair value of the carry can still be significant based on projected distributions. **BlueVal has significant experience in this area: we look forward to working with you on GP carry valuations**.

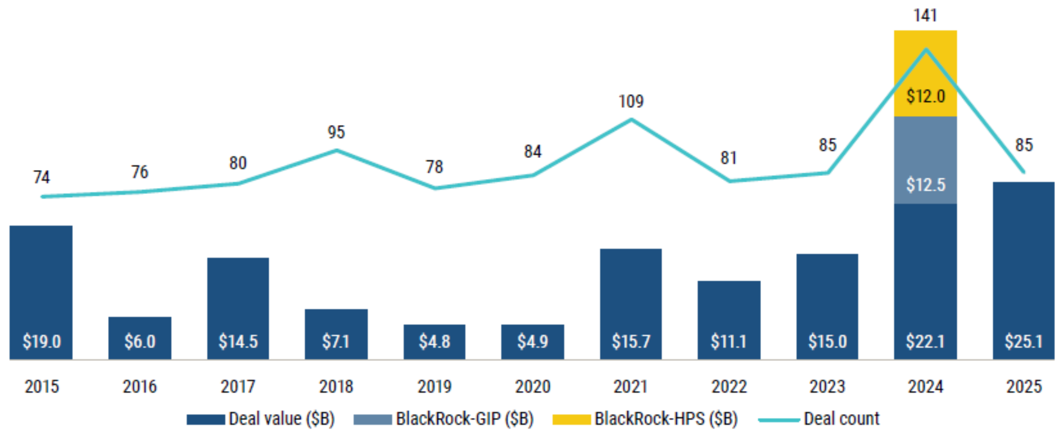
Learn More

3 General Partner Stakes: Deal Activity

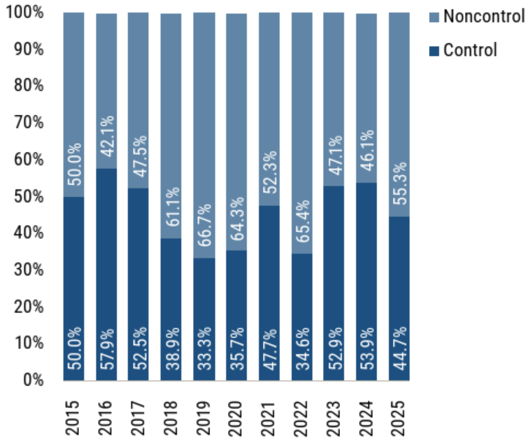
Q4 2025 Update

2025 marked a banner year for alternative asset manager deal activity, finishing as the second-highest year on record based on aggregate deal value (behind only the 2024 peak): 85 deals were announced or closed, totaling $25.1B. In the second chart to the right, transactions are categorized as strategic (balance-sheet) acquisitions versus GP stakes investments (minority interests typically purchased with LP capital from dedicated GP-stakes funds).

Alternative asset manager deal activity

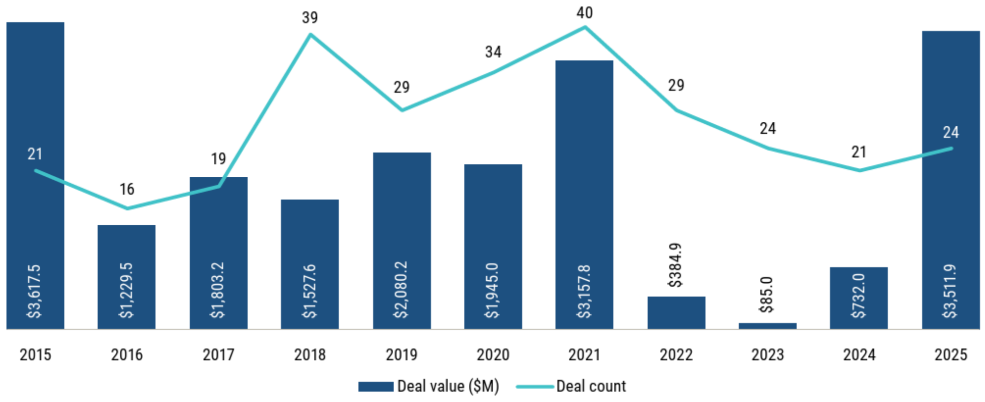


Share of alternative asset manager deal count by type



Both charts above highlights two concurrent themes: continued industry consolidation via strategic M&A and sustained investor demand to own GP revenue streams as an alpha-generating exposure. Strategic dealmaking remained active into Q4 2025, reflecting continued platform-building and distribution-driven consolidation across alternatives. In parallel, GP stakes deal activity increased year-over-year, with 24 deals totaling $3.5B, supported by growing participation from middle-market managers as well as continued activity at the large end of the market. Overall, it reinforces a market that is simultaneously consolidating and deepening investor ownership of GP economics.

GP stake deal activity



Source: Q4 2025 US public PE and GP deal roundup. PitchBook Data, Inc.

ALTSLA2026

March 23–25, 2026 • Los Angeles, CA

BlueVal is pleased to participate as a sponsor at ALTSLA 2026, the West Coast's premier alternative investment conference, taking place March 23-25, 2026 in Los Angeles. As a sponsor, BlueVal looks forward to connecting with allocators and managers to discuss current market themes and valuation considerations across private alternative strategies.

Key conference topics include:

- **Private credit** (direct lending, opportunistic credit, portfolio risk)
- **Private equity & secondaries** (liquidity, pricing, GP/LP alignment)
- **Hedge funds & liquid alternatives** (macro, relative value, risk management)
- **Venture & innovation** (AI-driven themes, growth markets)
- **Real assets & infrastructure** (inflation protection, cash-yielding assets)
- **Allocator outlook** (portfolio construction, diversification, and market regime shifts)

Meet the BlueVal team at ALTSLA 2026. Come to our stand and/or reach out to us to arrange a meeting:
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BlueVal

BlueVal is a U.S.-based specialist valuation firm with a focus on business and portfolio valuation and on servicing the alternative investment community. We have deep expertise in managing audit and tax-related valuations and we work closely with our clients to meet their transaction, audit and tax compliance needs.

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For questions regarding this report or out services, please contact:

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Antonella Puca is listed in Forbes 2025 America's Top CPAs for Valuation