

Chapter 3

Requirements for alternative investment fund managers

3.9 Valuation

Application

3.9.1 **R** This section applies to a *full-scope UK AIFM* of:

- (1) a *UK AIF*; and
- (2) and
- (3) a *non-UK AIF*.

Responsibility of the AIFM

3.9.2 **R** An *AIFM* is responsible for the proper valuation of *AIF* assets, the calculation of the net asset value and the publication of that net asset value.

[Note: article 19(10) first sentence first paragraph of *AIFMD*]

Standard of care of the valuation

3.9.3 **R** An *AIFM* must ensure that any valuation of an *AIF*'s assets is performed impartially and with all due skill, care and diligence.

[Note: article 19(8) of *AIFMD*]

Establishment of procedures for valuation of assets

3.9.4 **R** An *AIFM* must ensure that, for each *AIF* it manages, appropriate and consistent procedures are established so that under the rules laid down in the applicable national law of the country where the *AIF* is established and the *instrument constituting the fund*:

- (1) a proper and independent valuation of the assets of the *AIF* can be performed; and
- (2) the net asset value per unit or share of the *AIF* is calculated and disclosed to investors.

[Note: article 19(1), (2) and (3) first paragraph of *AIFMD*]

Frequency of valuation of assets and calculation of net asset value

3.9.5

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- (1) An *AIFM* must ensure that the valuation procedure in ■ FUND 3.9.4 R provides for the assets of any *AIF* under the *AIFM*'s management to be valued and the net asset value per *unit* or *share* to be calculated at least once a year.
- (2) Where an *AIF* is open-ended, such valuations and calculations must also be carried out at a frequency that is appropriate both to the assets held by the *AIF* and its issuance and redemption frequency.
- (3) Where an *AIF* is closed-ended, such valuations and calculations must also be carried out in case of an increase or decrease of the capital by the relevant *AIF*.

[Note: article 19(3) second, third and fourth paragraphs of *AIFMD*]

Informing investors of valuations of assets and calculations of net asset value

3.9.6

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An *AIFM* must ensure that investors in the *AIFs* under its management are informed of the valuations and calculations in the manner set out in the relevant *instrument constituting the fund*.

[Note: article 19(3) fifth paragraph of *AIFMD*]

Performance of the valuation function

3.9.7

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- (1) An *AIFM* may perform the valuation itself, provided that:
 - (a) the valuation task is functionally independent from the portfolio management; and
 - (b) the remuneration policy and other measures ensure that conflicts of interest are mitigated and that undue influence upon the employees involved is prevented.
- (2) An *AIFM* that does not perform the valuation function itself must ensure that the function is performed by an *external valuer*.
- (3) An *external valuer* appointed under (2) must be a *person* independent from:
 - (a) the *AIF* in respect of which the valuation function is performed;
 - (b) the *AIFM*; and
 - (c) any other *persons* with *close links* to the *AIF* or the *AIFM*.

[Note: article 19(4) first paragraph of *AIFMD*]

Appointment of the depositary as an external valuer

3.9.8

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The *depositary* appointed for an *AIF* may not be appointed as an *external valuer* of that *AIF* unless:

- (1) it has functionally and hierarchically separated the performance of its depositary functions from its tasks as an *external valuer*; and

- (2) the potential conflicts of interests are properly identified, managed, monitored and disclosed to the investors of the *AIF*.

[Note: article 19(4) second paragraph of *AIFMD*]

Appointment of an external valuer

3.9.9

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Where an *external valuer* performs the valuation function, the *AIFM* must be able to demonstrate that:

- (1) the *external valuer* is subject to mandatory professional registration recognised by law or legal or regulatory provisions or rules of professional conduct;
- (2) the *external valuer* can provide sufficient professional guarantees to be able to perform the relevant valuation function effectively under this section; and
- (3) the appointment of the *external valuer* complies with the requirements of **FUND 3.10.2 R** (General delegation arrangements) and the *AIFMD level 2 regulation*.

[Note: article 19(5) of *AIFMD*]

Delegation by an external valuer

3.9.10

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AIFMs should be aware that regulation 24(2) of the *AIFMD UK Regulation* prohibits an *external valuer* from delegating valuation to a third party.

Notification of appointment of an external valuer

3.9.11

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- (1) An *AIFM* must notify the appointment of an *external valuer* to the *FCA*.
- (2) An *AIFM* must notify the *FCA* under (1) using the material change form in **SUP 15 Annex 6C R**.

[Note: article 19(7) first part of first paragraph of *AIFMD*]

3.9.12

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Under regulation 24(3) of the *AIFMD UK regulation*, the *FCA* may require an *AIFM* to appoint another *external valuer* where it considers that the appointment does not comply with **FUND 3.9.9 R**.

Subordinate measures

3.9.13

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Articles 67 to 74 of the *AIFMD level 2 regulation* provide detailed rules supplementing this section.