



SEC Division of Examinations Highlights Valuation as Key Focus in '2023 Examination Priorities'

INTRODUCTION

On February 7, 2023, the U.S. Securities and Exchange Commission's (SEC) Division of Examinations (Division) published its "2023 Examination Priorities" report, and, once again, valuation was identified as a key item. Among the Division's "Notable New and Significant Focus Areas" was the Investment Company Act of 1940 Rule 2a-5, which went into effect on March 8, 2021. Specifically, the Division said that it will, among other things: "(1) assess funds' and fund boards' compliance with the new requirements for determining fair value, implementing board oversight duties, setting recordkeeping and reporting requirements, and permitting the funds' board to designate valuation designees to perform fair value determinations subject to oversight by the board; and (2) review whether adjustments have been made to valuation methodologies, compliance policies and procedures, governance practices, service provider oversight, and/or reporting and recordkeeping."

Another focus area of the Division will be registered investment advisors (RIAs) to private funds. Of particular interest to the Division will be these funds' "calculation and allocation of fees and expenses, including the calculation of post-commitment period management fees and the impact of valuation practices at private equity funds."

The Division will also focus on RIAs to private funds with specific risk characteristics, including "private funds that hold certain hard-to-value investments, such as crypto assets and real estate-connected investments, with an emphasis on commercial real estate, private funds that invest in or sponsor Special Purpose Acquisition Companies, and private funds involved in adviser-led restructurings, including stapled secondary transactions and continuation funds."

When examining RIAs, the Division will focus on various aspects of RIAs' operations and compliance practices, including factors that "might impact valuation and the accuracy of RIA regulatory filings." A typical Division RIA examination includes a review of their compliance programs and disclosures across several core areas, including valuation.

Other 2023 examination priorities include the Advisers Act Rule 206(4)-1 (Marketing Rule) and Investment Company Act Rule 18f-4 (Derivatives Rule). Consistent with previous exam priority announcements, private fund advisers; adviser standards of conduct; environmental, social, and governance related issues; and cyber and digital assets remain top priorities along with other perennial priorities.

It is clear that valuation is a hot-button item for the Division. They have specialized working groups covering a range of areas, including private funds and valuation matters. With a global presence in the alternative asset industry, Houlihan Lokey's Portfolio Valuation and Fund Advisory Services practice is here to help clients and prospects with their valuation and financial reporting needs while navigating the ever-changing regulatory environment. We have close to 200 financial professionals across the United States, the United Kingdom, Asia, and the Middle East. Our professionals have valuation experience for investments in different sectors, industries, asset classes, and investment vehicles under various circumstances. Please do not hesitate to contact us with questions or inquiries related to our product offerings.

CONTACTS



Terence Tchen
Senior Advisor
310.788.5235
TTchen@HL.com

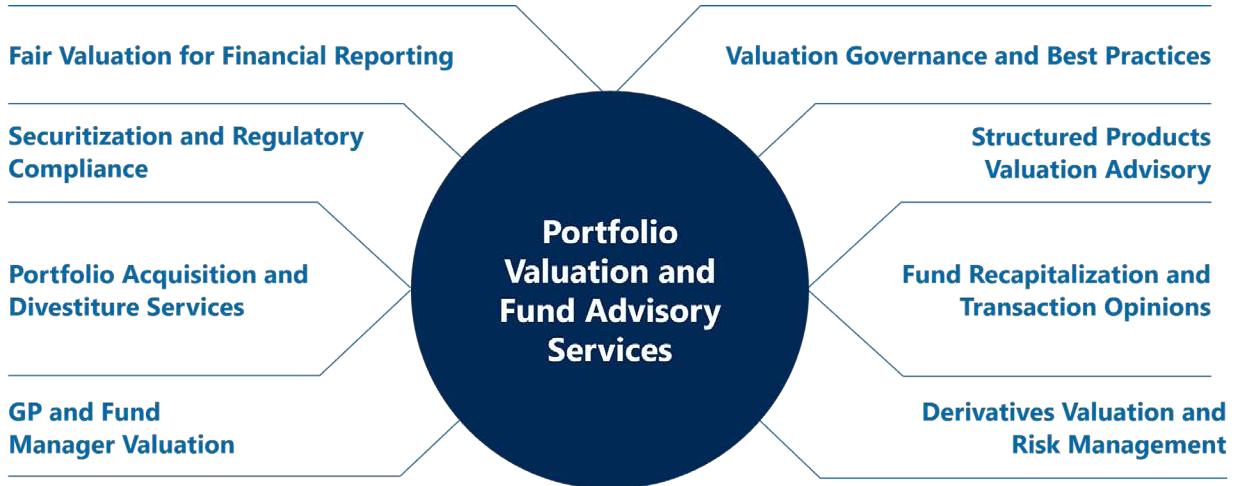


Rebecca Hu
Vice President
212.497.4128
Rebecca.Hu@HL.com

ABOUT PORTFOLIO VALUATION AND FUND ADVISORY SERVICES

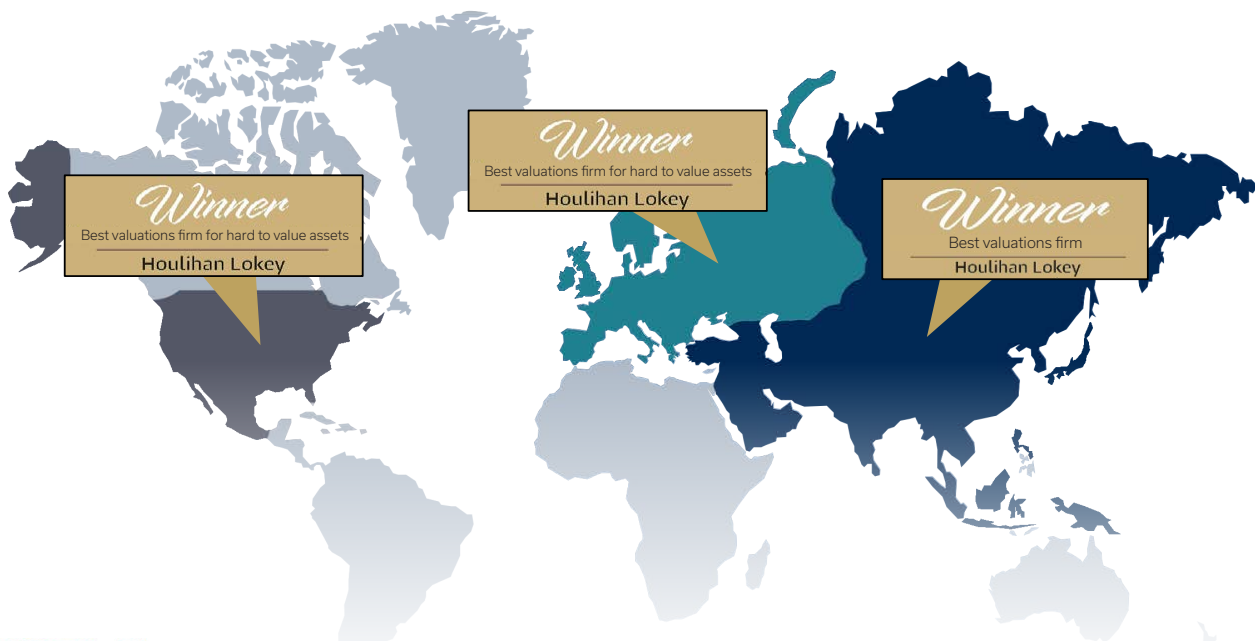
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The HFM Services Awards named Houlihan Lokey "Best Valuations Firm for Hard to Value Assets" in the U.S. in 2018–2022 and in Europe in 2020–2023, and it was named "Best Valuations Firm" in Asia in 2020–2022. Houlihan Lokey has now won these awards in all three geographic regions for three consecutive years!



The HFM Services Awards recognize hedge fund service providers that have demonstrated exceptional client service, innovative product development, and strong and sustainable business growth over the prior 12 months.



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