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UK FCA's Review of Valuation Processes for Private Market Assets — Key Findings and Implications for Private Equity and Private Credit Fund Sponsors

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On March 5, 2025, the U.K. Financial Conduct Authority (FCA) released its much-anticipated findings from a multifirm review examining valuation processes for private market assets. This review, launched amid growing concerns over transparency and governance in the rapidly expanding private markets sector, focused on private equity, venture capital, private debt and infrastructure assets. With the U.K. cementing its position as Europe's largest hub for private market asset management — overseeing approximately £1 trillion of the £3 trillion in global private assets under management covered by the review — the FCA's findings carry significant weight for fund sponsors, investors and regulators alike. This update summarizes the FCA's key observations, highlights areas of good practice and of concern, and explores the specific implications for private equity and private credit fund sponsors operating in this evolving landscape.

Background and Scope of the Review

The FCA's review was prompted by the exponential growth of private markets, which have become a cornerstone for investors seeking diversification and higher returns, and for corporates accessing long-term capital. Unlike public markets, where frequent trading ensures regular price discovery, private market assets rely heavily on judgment-based valuation methodologies. This opacity introduces risks, including potential conflicts of interest, inconsistent practices and harm to investors — particularly as retail investor exposure to these assets increases. The review encompassed firms managing funds or providing portfolio management and advisory services across various private asset classes, assessing their compliance with FCA Principles and, for Alternative Investment Fund Managers (AIFMs), specific rules under FUND 3.9 and the AIFMD Level 2 Regulation.

The FCA's methodology involved two phases: an initial questionnaire distributed to 36 firms, followed by an in-depth analysis of a smaller subset through document reviews, on-site visits and case studies of asset-level valuations. While the regulator did not independently verify fair value assessments, it sought to evaluate the robustness of governance frameworks and valuation processes, focusing on checks and balances to mitigate misconduct and investor harm.

Key Findings: Strengths and Weaknesses

The FCA identified several areas of good practice that underscore the industry's capacity to manage valuation challenges effectively. Firms generally demonstrated transparency in investor reporting, providing both quantitative and qualitative performance data at fund and asset levels, often supplemented by regular investor engagement. Process documentation was robust, with many firms adhering to consistent valuation methodologies aligned with international standards, such as the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The use of third-party

valuation advisers was also highlighted as a positive trend, enhancing objectivity — though the FCA emphasized the need for firms to oversee these advisers rigorously and disclose their roles to investors.

However, the review also exposed significant gaps requiring attention. A primary concern was the inadequate identification and documentation of conflicts of interest beyond those tied to fees and remuneration. While many firms mitigated fee-related conflicts through structured policies, other valuation-related conflicts — such as those arising from investor marketing, secured borrowing, asset transfers, subscriptions, redemptions and volatility — were often overlooked.

Another critical weakness was the lack of functional independence in valuation processes. Although a few firms showcased strong separation between valuation and portfolio management functions, others struggled to demonstrate sufficient expertise or independence within their valuation committees. This raised concerns about the impartiality of valuations, particularly in firms where investment teams heavily influenced outcomes. The FCA also flagged deficiencies in ad hoc valuation processes, noting that some firms lacked defined triggers or procedures for revaluing assets during market disruptions, potentially exposing investors to outdated or inaccurate pricing.

Consistency in applying valuation methodologies emerged as another focal point. While most firms maintained uniformity within asset classes, variations in approaches — such as differing discount rates or comparable sets in private equity — could hinder investor comparability across funds. The FCA praised firms that employed secondary methodologies as a “sense check” to validate primary valuations, suggesting this practice as a benchmark for the industry.

Implications for Private Equity Fund Sponsors

For private equity fund sponsors, the FCA’s findings signal a need for heightened diligence in governance and valuation frameworks. The emphasis on conflicts of interest is particularly relevant, given the sector’s reliance on unrealized performance to drive fundraising and fee structures. Sponsors must now scrutinize their marketing practices to ensure that valuation stability does not obscure underlying risks, a task complicated by the periodic nature of private equity valuations. The FCA’s observation that asset write-downs could reduce management fees — potentially deterring timely adjustments — underscores the need for robust policies to align sponsor incentives with investor interests.

The push for functional independence poses both a challenge and an opportunity. Sponsors with in-house valuation teams must bolster oversight, potentially by expanding the role of independent valuation committees or engaging third-party advisers more extensively. This shift could increase operational costs but also enhance credibility with institutional and retail investors wary of perceived bias. Additionally, the call for defined ad hoc valuation processes requires sponsors to establish clear thresholds — such as market downturns or asset-specific events — that trigger revaluations, ensuring agility in volatile conditions like those seen in recent high-interest-rate environments.

Implications for Private Credit Fund Sponsors

Private credit fund sponsors face distinct pressures from the FCA’s findings, particularly around secured borrowing and asset transfers. The review highlighted risks where sponsors inflate unrealized investment values to secure larger loans or avoid breaching loan-to-value covenants, a practice that could destabilize funds if underlying assets underperform. To address this, sponsors must strengthen documentation and transparency around borrowing-related valuations, potentially integrating stress-testing frameworks to assess resilience against market shifts.

The FCA’s focus on independence is equally pertinent for private credit, where valuation judgments often involve complex debt instruments with limited market benchmarks. Sponsors may need to invest in specialized expertise or external validation to ensure impartiality, especially as retail investor participation grows via vehicles like Long-Term Asset Funds (LTAFs). The emphasis on consistent methodologies also challenges sponsors to standardize approaches across diverse credit portfolios, balancing flexibility with comparability to meet investor expectations.

Broader Regulatory and Market Impact

The FCA's findings are not an endpoint but a springboard for further action. The regulator plans targeted follow-ups with outlier firms and a separate review of conflicts of interest in private markets, signalling ongoing scrutiny. These insights will feed into the FCA's reassessment of the AIFMD's U.K. implementation, potentially leading to rule clarifications or amendments. Internationally, the findings will inform the FCA's contributions to the International Organization of Securities Commissions' (IOSCO) efforts to harmonize global valuation standards, reflecting the interconnected nature of private markets.

For private equity and private credit fund sponsors, the immediate priority is self-assessment. Firms must evaluate their governance structures, conflict management and valuation processes against the FCA's benchmarks, addressing gaps proportionate to their size and complexity. The growing retailization of private markets amplifies this urgency, as consumer protection obligations under the FCA's Consumer Duty framework come into sharper focus. Failure to adapt risks regulatory intervention, reputational damage and investor distrust — outcomes that could undermine the U.K.'s competitive edge in this sector.

The FCA's multifirm review underscores the dual reality of private market valuations: a foundation of good practice tempered by persistent vulnerabilities. For private equity and private credit fund sponsors, the path forward involves balancing operational enhancements with strategic transparency to safeguard investor confidence. As the FCA refines its supervisory approach and collaborates globally, the private markets landscape stands at a pivotal juncture — one where robust valuation practices will define both resilience and success in an increasingly scrutinized arena. Private fund sponsors would be wise to act proactively, aligning with the FCA's expectations to navigate this evolving regulatory terrain effectively.

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