



**Houlihan  
Lokey**

# Beyond the Statement

## Putting the SEC Staff's Private Credit Valuation Statement Into Practice

Portfolio Valuation and Fund Advisory Services—October 2026

On September 28, 2026, the U.S. Securities and Exchange Commission's Office of the Chief Accountant and Division of Investment Management (the SEC Staff) issued a statement<sup>(1)</sup> (the Statement) that introduces no new rules, but makes clear that existing fair value requirements should be applied with rigor, supported by evidence, and explained to investors in terms they understand. Recent Houlihan Lokey data shows why the reminder is timely: The share of loans we value above 97% of par has declined for five consecutive quarters, even as most borrowers remain current, non-accruals at business development companies (BDCs) posted their largest quarterly increase in more than three years, and payment-in-kind (PIK) interest has nearly doubled as a share of total interest dollars since mid-2023. Each trend corresponds to one of several themes in the Statement: market-based fair value, credit quality disclosure, and the quality of reported income.

## What the SEC Staff Said

SEC Chief Accountant Kurt Hohl and Division of Investment Management Director Brian Daly issued the joint staff Statement on fair value measurement and disclosure for private assets, with a focus on private credit. Framed as a reminder, it creates no new obligations; however, its reach is broad. The Statement addresses preparers and auditors directly, as well as the boards and valuation designees responsible for determining fair value under the Investment Company Act of 1940 and Rule 2a-5. Its examples of registrants that measure these investments at fair value include registered closed-end funds, interval funds, tender offer funds, BDCs, and private funds with securities registered under the Securities Exchange Act of 1934, and its reminders apply to all registrants with private credit exposure.

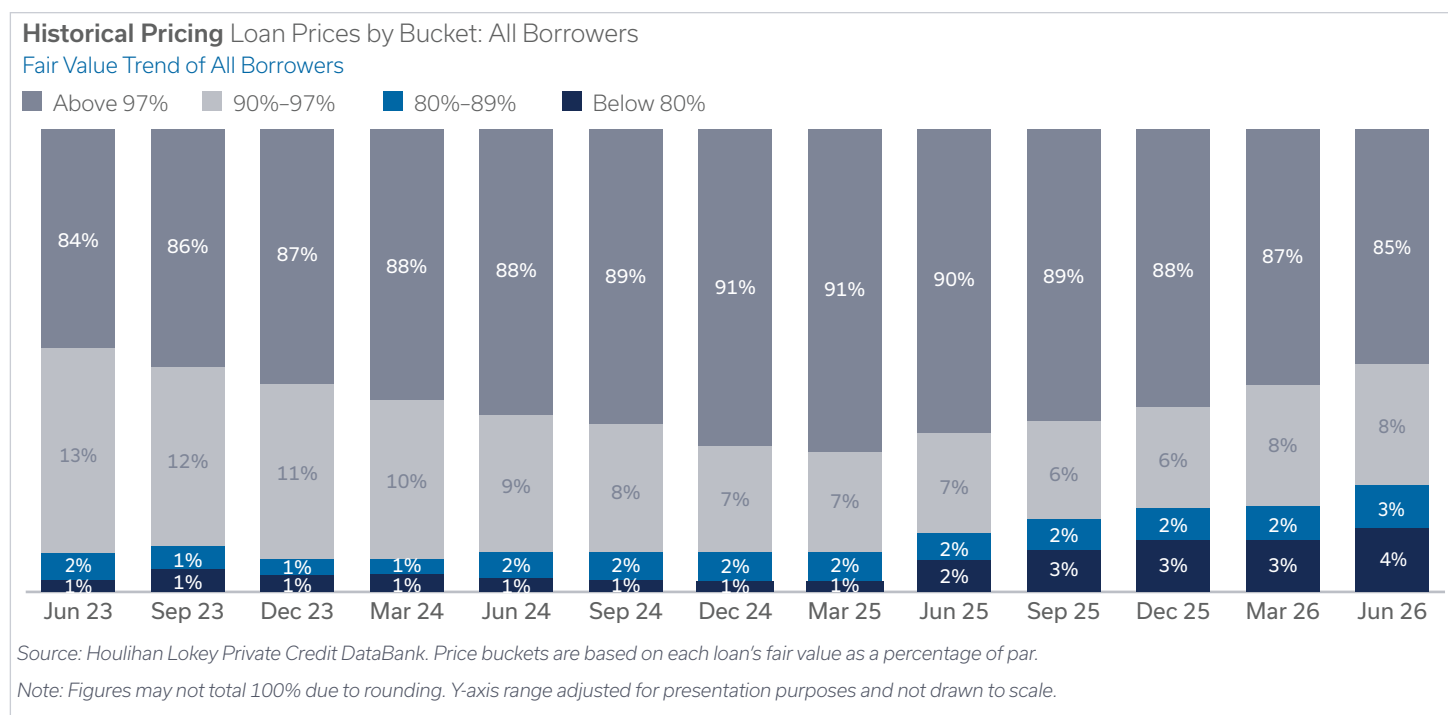
(1) Kurt Hohl and Brian Daly, *Statement on Fair Value Measurement and Disclosure Considerations for Private Assets*, U.S. Securities and Exchange Commission (September 28, 2026). The Statement has no legal force or effect and creates no new obligations.

The backdrop is scale. The SEC Staff reports that private credit in registered fund portfolios grew nearly 60%, from \$170 billion to \$270 billion, between December 2020 and December 2025. Over the same period, Investment Company Institute data shows net assets of interval funds, tender offer funds, and BDCs increasing from roughly \$140 billion to \$534 billion.<sup>(2)</sup> Because many of these vehicles transact with investors at net asset value (NAV), well-supported fair values are central to fairness among entering, exiting, and remaining investors, and clear disclosure is what allows investors to evaluate the judgments behind those values.

## What It Means in Practice

**Credit performance informs fair value but does not settle it.** Whether a borrower is current on its contractual payments is essential evidence in measuring fair value, and a borrower that stops paying will see the value of its loan decline. Current payment alone, however, does not establish fair value, which reflects what a market participant would pay for the loan's remaining cash flows as of the measurement date, given the company's performance and outlook, current spreads, liquidity, and the required rate of return.<sup>(3)</sup> Houlihan Lokey's Private Credit DataBank shows how the two can diverge: The share of loans valued above 97% of par has decreased for five consecutive quarters, from 91% in March 2025 to 85% in June 2026, roughly its mid-2023 level, and 7% of loans are now valued below 90% of par (Exhibit 1).<sup>(4)</sup> Most borrowers continue to perform and remain current on their debt service obligations, so the decline is consistent with fair values responding to market conditions, not only to credit performance.

**Exhibit 1: Share of Loans by Fair Value Price Bucket (June 2023–June 2026)**



(2) Statement, *supra* note 1; Investment Company Institute, *Valuation Governance Considerations for Private Credit Assets in Regulated Funds* (April 2026), Figure 3, p. 6 (total net assets across all strategies, not private credit alone; based on SEC filings between November and January; excludes feeder funds).

(3) FASB ASC 820-10-35-9 (fair value reflects the assumptions market participants would use in pricing the asset).

(4) Houlihan Lokey Private Credit DataBank, Q2 2026.

**Calibration is a starting point, not an anchor.** Under ASC 820, when the transaction price is fair value at initial recognition and unobservable (Level 3) inputs will be used to measure fair value in later periods, the valuation technique shall be calibrated so that, at initial recognition, the result of the valuation technique equals the transaction price. The SEC Staff adds that periodically reassessing model outputs against comparable transactions, public market equivalents, secondary-market indications, and credit indices may be an important part of a sound process.

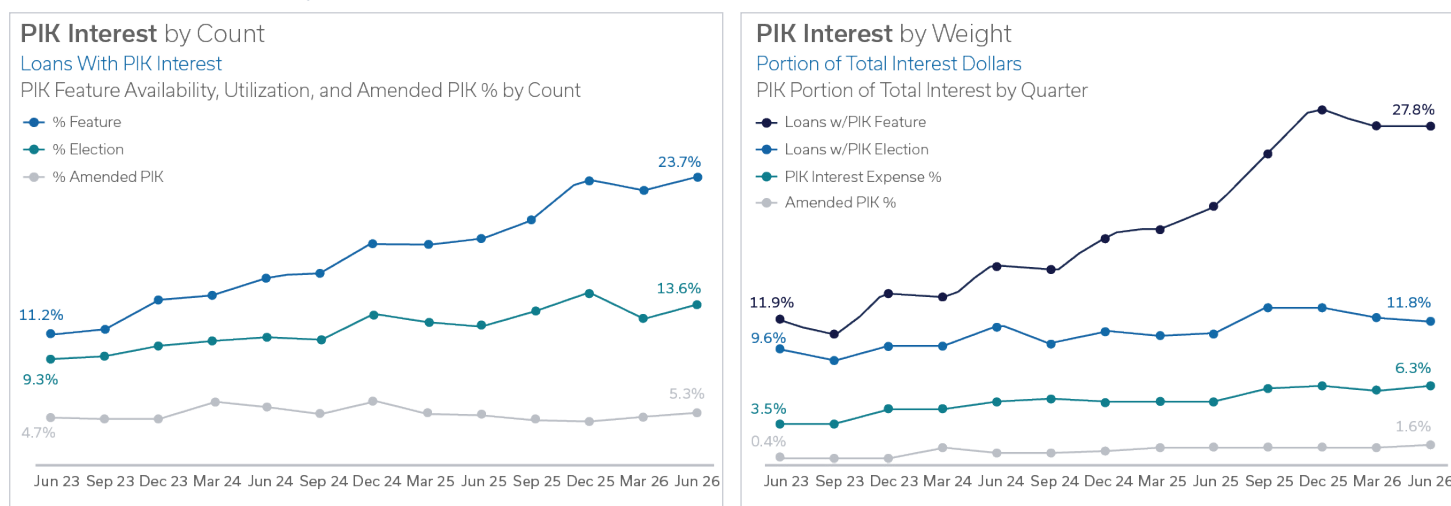
As we noted in *Calibration in Practice (March 2026)*, pricing assumptions set in a different rate-and-spread environment can lose relevance faster than structural assumptions about the borrower.<sup>(5)</sup> Recent credit data is consistent with that view: According to our *Summer 2026 BDC Monitor*, BDC non-accruals rose from 1.3% of cost in Q4 2025 to 1.8% in Q1 2026, the largest single-quarter increase in more than three years and a break from a multi-quarter range of roughly 1.1% to 1.6%. Most new additions were idiosyncratic and concentrated in the 2021–2022 vintages, loans whose original calibration reflects a very different rate-and-spread environment.<sup>(6)</sup>

**Information gaps are a valuation question, not a reason to wait.** Delayed borrower reporting does not relieve management of its responsibility to estimate fair value; reasonably available market data can help bridge the gap.<sup>(7)</sup> The SEC Staff encourages management to consider whether a deal's reporting provisions, including their frequency, are sufficient to support valuation. Reporting terms, therefore, merit attention at underwriting, not just at quarter end.

**Not all PIK is created equal.** The SEC Staff noted that clear disclosure can help investors distinguish cash income from capitalized interest and understand what the prevalence of PIK may signal about credit risk. Our Private Credit DataBank shows how much the answer depends on the measure (Exhibit 2). As of Q2 2026, 23.7% of loans by count had a PIK feature, but only 13.6% were electing to pay interest in kind.

This widening gap between availability and election suggests that, as rate headwinds ease, healthy borrowers are choosing to service their debt with cash rather than PIK. While 13.6% of loans by count are electing to PIK, this translates to only 6.3% of total interest dollars being paid in kind, a smaller share because many borrowers pay only a portion of their interest as PIK, while servicing the remainder with cash.

## Exhibit 2: PIK Availability, Use, and Income Share (June 2023–June 2026)



Source: Houlihan Lokey Private Credit DataBank. Left: share of loans by count. Right: loans weighted by size; PIK and Amended PIK as shares of total interest dollars.

(5) FASB ASC 820-10-35-24C and 30-3A; Houlihan Lokey, *Calibration in Practice: When It Informs Fair Value and When It Obscures It (March 2026)*.

(6) Houlihan Lokey, *BDC Monitor (Summer 2026; formerly the Direct Lending Update)*, based on Advantage Data; non-accruals at cost as a percentage of total portfolio cost.

(7) FASB ASC 820-10-35-54A (unobservable inputs are developed using the best information available, taking into account all reasonably available information about market participant assumptions).

PIK on loans modified after origination to add a PIK feature (Amended PIK), the category we monitor most closely for stress, represented just 1.6% of total interest dollars.<sup>(8)</sup> Each measure answers a different question: How widely PIK is available and used, how much reported income is capitalized, and how much of that income reflects borrower stress rather than original loan design. Read together, they show that the headline rise in PIK features overstates how much income is actually being capitalized, and that the stress-related category, while increasing, remains a small share of total interest dollars. The SEC Staff cautions that boilerplate or overly aggregated disclosure may not give investors sufficient context; a single PIK figure risks the same shortcoming.

**The NAV practical expedient is an election that requires evidence.** ASC 820 allows a registrant to measure an investment in a private fund at the investee's reported NAV if, among other conditions, that NAV is as of the measurement date and calculated consistently with ASC 946, which requires the fund's own investments to be carried at fair value. The election is made on an investment-by-investment basis and is unavailable if, as of the measurement date, a sale at a different amount is probable. The Statement adds no new rule here, but the SEC Staff encourages registrants to treat the assessment of these conditions as an iterative, evidence-based process that considers all reasonably available information, including secondary-market data, and to document their conclusions.

A secondary discount does not, on its own, rule out the expedient. It can reflect liquidity, timing, fees and carried interest, or buyers' views that the fund's underlying investments are overvalued, and only the last bears on whether the NAV reflects fair value under ASC 946. If the NAV is not as of the measurement date, then ASC 820 requires the registrant to consider whether an adjustment is needed. As we argued in *'NAV Squeezing' Reconsidered (June 2026)*, secondary pricing that differs from NAV is a signal to interpret in context, neither dismissed nor applied mechanically.<sup>(9)</sup>

## Governance: Where the Statement Will Be Tested

For registered funds and BDCs, the Investment Company Act of 1940 requires investments without readily available market quotations to be fair valued in good faith by the board, under the process described in Rule 2a-5.<sup>(10)</sup> Boards may designate a valuation designee to perform fair value determinations, but remain responsible for overseeing that work, and auditors are reminded to weigh evidence that contradicts management's assumptions.<sup>(11)</sup> An independent valuation provider cannot assume management's or the board's responsibilities, but it can contribute external market evidence and a documented, independent challenge of key assumptions.

(8) Houlihan Lokey Private Credit DataBank, Q2 2026 (feature and election shares by loan count and by size; PIK interest and Amended PIK as shares of total interest dollars).

(9) Statement, *supra* note 1; FASB ASC 820-10-35-59 through 35-62; FASB ASC 946; Houlihan Lokey, *'NAV Squeezing' Reconsidered: Fair Value in an Evolving Secondary Market* (June 2026).

(10) Investment Company Act of 1940 § 2(a)(41), 15 U.S.C. § 80a-2(a)(41); 17 C.F.R. §§ 270.2a-5 and 270.31a-4; Release No. IC-34128 (December 3, 2020).

(11) PCAOB AS 2501 and AS 1105, as discussed in the Statement, *supra* note 1.

# Questions for Managers, Boards, and Valuation Designees

| Ask                                                                                                                                                                                                                      | Evidence That Answers It                                                                                                                                                   | Worth a Closer Look If                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Calibration:</b> Which positions are still marked at or near entry, and what current market evidence supports such marks?                                                                                             | For each such position: the yield calibrated at entry, the current market yields or index moves used as a cross-check, and when the calibrated inputs were last reassessed | Many positions remain at or near cost, even though comparable spreads have moved, or support rests mainly on the borrower's payment history                |
| <b>Market participant view:</b> Where a mark relies on information not available to market participants, how was it reconciled to what a buyer would assume?                                                             | A documented adjustment or reconciliation to market spreads and required returns; other holders' marks on the same loan can be a useful reference                          | Internal views have not been reconciled to market evidence, or marks differ noticeably from other holders' public marks on the same loan                   |
| <b>Information gaps:</b> Which positions lacked recent borrower financials, how old was the latest information, and what market data filled the gap?                                                                     | A data-aging report by position, showing the market inputs used                                                                                                            | Older financials without a market overlay, or reporting terms not yet considered for valuation needs at origination                                        |
| <b>Disclosure:</b> How much of the Level 3 disclosure (the table of significant unobservable inputs and the narrative on measurement uncertainty) is specific to the portfolio, rather than language any peer could use? | Inputs by class, ranges with weighted averages, and a narrative naming the inputs that moved this period                                                                   | A single debt line, ranges wide enough to obscure where the portfolio sits, or a narrative not refreshed recently                                          |
| <b>Income quality:</b> What share of this quarter's income was PIK, and how much of that PIK was added after origination?                                                                                                | PIK at origination versus Amended PIK, and trends in each; non-accrual criteria, including accrued but uncollected interest                                                | A rising Amended PIK share, or loans marked well below par that remain on accrual without a documented rationale                                           |
| <b>NAV expedient:</b> For each fund interest held at NAV, what is the NAV date, are there any adjustments, is there available secondary pricing, and has a probable-sale assessment been done?                           | An investment-by-investment memo                                                                                                                                           | A secondary sales program without a documented position-level probable-sale assessment (ASC 820-10-35-62)                                                  |
| <b>Audit readiness:</b> Which key assumptions were carried forward through recent market stress, and why do they still reflect market participant views?                                                                 | A documented reassessment as of the reporting date                                                                                                                         | The rationale rests mainly on unchanged credit; the SEC Staff reminded auditors to revisit prior assumptions in disrupted markets (PCAOB AS 2110, AS 2501) |
| <b>Board oversight:</b> Boards may find exception reporting from the valuation designee (unchanged marks, model overrides, stale inputs) a helpful complement to summary outputs.                                        |                                                                                                                                                                            |                                                                                                                                                            |

# Looking Ahead

The Statement does not change the rules; it highlights the value of being able to show the underlying work for each valuation. As private credit reaches a broader investor base, valuations will be judged not only on outcomes but also on the evidence, judgment, and documentation that support them. The Statement points to several areas of focus, including: how market-based information is brought to bear, how calibrated inputs are revisited, and how clearly the results are explained to boards and investors.

## About Houlihan Lokey Portfolio Valuation and Fund Advisory Services

Houlihan Lokey's Portfolio Valuation and Fund Advisory Services practice is a leading advisor to many of the world's largest asset managers. We value illiquid assets on behalf of hundreds of hedge funds, private equity firms, financial institutions, corporations, and investors.

Houlihan Lokey's Private Credit DataBank draws on more than 60,000 loan valuations since 2017, and its quarterly BDC Monitor tracks more than 170 BDCs.

To discuss how these themes apply to your portfolio or valuation policy, please contact the authors.



## Contacts



**Rittik Chakrabarti**

Managing Director  
Co-Head of U.S. Portfolio  
Valuation and Fund  
Advisory Services  
+1 212.497.4175

[RChakrabarti@HL.com](mailto:RChakrabarti@HL.com)



**Guillaume Laffitte-Smith**

Director  
Financial and  
Valuation Advisory  
+1 703.714.1738

[GLSmith@HL.com](mailto:GLSmith@HL.com)



# Houlihan Lokey

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