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'NAV Squeezing' Reconsidered: Fair Value in an Evolving Secondary Market

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The Setup: A Growing Tension

Secondary transactions in private markets are increasingly occurring at prices that differ from reported net asset value (NAV).

In many cases, those same positions are subsequently carried at or near NAV by the acquiring investor. This dynamic, commonly referred to as "NAV squeezing," has drawn growing attention from investors, regulators, and market participants, raising questions about whether reported values appropriately reflect fair value as defined under applicable accounting standards.

This paper does not suggest that reporting entities applying the NAV practical expedient are failing to measure fair value, nor does it propose a change to existing valuation frameworks under U.S. GAAP. Rather, it examines how evolving market evidence, particularly observable secondary transactions, may be considered in assessing whether reported NAV continues to approximate fair value from a market participant perspective.

The debate is often framed as a contradiction between observed transaction prices and reported fair values. In practice, it reflects a deeper tension between market-based pricing signals and valuation frameworks grounded in asset-level estimates. A critical distinction in this discussion is that secondary transactions and reported NAV are derived through fundamentally different processes.

Reported NAV, when used as a practical expedient, reflects the aggregated fair value of the underlying portfolio investments, determined by the general partner using available information and valuation methodologies applied at the asset level. By contrast, secondary transaction pricing reflects the value of the limited partner (LP) interest itself, incorporating not only the underlying portfolio value, but also assumptions regarding liquidity, timing of distributions, fees and carried interest, and buyer-required rates of return.

As a result, differences between transaction prices and reported NAV should not be interpreted as a simple "discount" to a common reference point, but rather as the outcome of two distinct valuation perspectives that incorporate different assumptions, incentives, and objectives. Understanding this distinction is essential in evaluating whether observed transaction pricing provides relevant evidence of exit price under ASC 820.⁽¹⁾

At the same time, differences between LP interest transaction prices and reported NAV do not, in and of themselves, imply that reported NAV is incorrect. Secondary transaction prices may reflect a range of factors, including liquidity preferences, portfolio construction decisions, fund fees and expenses, the timing and amount of underlying asset monetizations, buyer-required rates of return, and the structural characteristics of the underlying investment. As a result, the appropriate interpretation of such transactions requires careful judgment, not mechanical adjustment.



The question, therefore, is not whether secondary transactions are relevant, but how they should be evaluated in determining whether reported NAV remains representative of fair value.

⁽¹⁾ The principles discussed are broadly consistent with IFRS 13, which similarly defines fair value as an exit price in an orderly transaction.



Common Misinterpretations in Practice

Much of the current narrative surrounding NAV squeezing reflects an oversimplified interpretation of the applicable valuation framework. In particular, it is sometimes assumed that the use of the practical expedient permits reliance on reported NAV without further evaluation.

Under ASC 820, however, the practical expedient is a measurement election, not a presumption that reported NAV is appropriate in all circumstances. The standard contemplates that its application requires judgment, particularly where observable evidence may warrant further consideration of whether reported NAV remains consistent with fair value principles.

It is also important to distinguish the analysis performed by a secondary market buyer when underwriting an acquisition of an LP interest from the measurement performed by an investor applying the NAV practical expedient under ASC 820-10-35-59 for financial reporting purposes.⁽²⁾ The former is a price-discovery exercise that reflects buyer-specific return targets, financing assumptions, and portfolio-level risk preferences. The latter is a fair value measurement election available to qualifying holders of investments in entities that calculate NAV in accordance with ASC 946.⁽³⁾ The exercises serve different objectives and should not be conflated.



Observable secondary transactions may provide relevant evidence to consider in a fair value analysis.

At the same time, the existence of such transactions does not, on its own, preclude a reporting entity from applying the practical expedient, provided the criteria in ASC 820-10-35-59 through 35-62 continue to be met.

⁽²⁾ Source: TASC 820 permits qualifying investors to elect, as a practical expedient, to estimate fair value using the investee's reported NAV (or its equivalent) without separately measuring the fair value of the underlying assets and liabilities. See ASC 820-10-35-59 through 35-62. The analysis performed by secondary market participants when pricing an LP interest may incorporate factors beyond those considered in applying the NAV practical expedient for financial reporting purposes, including return objectives, financing considerations, portfolio construction, and transaction-specific factors.

⁽³⁾ Source: See ASC 820-10-35-59 through 35-62. The distinction between secondary market transaction pricing and financial reporting fair value measurement reflects the authors' interpretation of the differing objectivities of market participants and financial reporting under ASC 820.

What Has Actually Changed

Historically, secondary transactions in private markets were relatively infrequent, often opaque, and frequently driven by idiosyncratic or liquidity-constrained sellers.

As a result, such transactions were often viewed as having limited relevance to fair value, particularly when compared with the information embedded in reported NAV. In that context, a greater reliance on NAV as a practical expedient was often appropriate.

That dynamic has changed meaningfully. The secondary market has expanded in both scale and sophistication, with transactions now occurring more frequently, involving a broader range of participants, and increasingly serving as an active portfolio management and liquidity tool rather than an isolated exit mechanism. The scale of this evolution is significant, with global secondary transaction volume reaching approximately \$240 billion in 2025, representing a substantial increase over prior periods.⁽⁴⁾ This includes both LP portfolio transactions and GP-led transactions, which may differ in structure and evidentiary weight.

As a result, observable transaction data may, in certain circumstances, provide relevant and timely insights



into market participant assumptions, even if such data remains imperfect. The growth of GP-led transactions, including continuation vehicles, has further increased the availability of observable data while also introducing additional complexity. In particular, where the general partner acts as both the sponsor of the continuation vehicle and the manager of the legacy fund, the potential for conflicts of interest may complicate the assessment of whether such transactions reflect orderly, arm's-length pricing.

These developments have increased the importance of interpreting secondary-market signals in context. While fair value remains grounded in the concept of an exit price, observable market data should be evaluated in the context of private market structure, including incentive structures and capital formation dynamics. This increased focus is reflected in ongoing regulatory and industry attention, including the SEC Division of Examinations' continued emphasis on the fair value of illiquid assets.

In addition to secondary-market activity, realized exit outcomes have, in certain cases, diverged from prior-reported valuations. While not uniform across all strategies, this dynamic has contributed to increased investor scrutiny and reinforces the importance of incorporating observable market evidence into the fair value framework.

⁽⁴⁾ Source: Jefferies, *Global Secondary Market Review*, January 2026.

Interpreting Secondary Discounts: Liquidity vs. Market Signal

The increasing visibility of secondary transactions has shifted the focus from whether such transactions are relevant to how they should be interpreted.

Not all transaction pricing relative to NAV conveys the same information, and treating such observations uniformly risks oversimplifying a more nuanced valuation question.

In some cases, observed transaction pricing relative to NAV may primarily reflect liquidity considerations. Secondary transactions often involve sellers seeking immediacy, portfolio rebalancing, or risk reduction, while buyers require compensation for providing that liquidity. In these situations, pricing below reported NAV may be consistent with fair value at the level of the LP interest, without necessarily implying that the underlying portfolio investments are misvalued.

In other cases, however, persistent pricing differences relative to NAV across multiple competitive transactions involving sophisticated participants are more difficult to attribute to liquidity alone; they may reflect skepticism about timing, risk, or underlying performance. In practice, these factors are not mutually exclusive and are often difficult to disentangle, reinforcing the need for disciplined judgment rather than mechanical adjustment. Observed pricing differences should therefore be interpreted as signals requiring analysis, rather than inputs to be applied directly. While academic research has begun to examine the drivers of secondary market pricing, no widely accepted methodology exists for decomposing these differences into their constituent components.

To the extent that practitioners employ valuation techniques beyond the practical expedient, observable transactions may provide relevant context for evaluating existing valuation assumptions. In the context of LP interests, secondary transactions can, in certain circumstances, serve as market-based evidence that may inform, corroborate, or challenge prior measurements. While such transactions may not be determinative, they represent observable data points to consider in assessing whether reported NAV continues to reflect fair value.



Limitations of Simplified Valuation Approaches

In practice, the current debate reflects two simplified approaches that may not fully capture the complexity of fair value measurement under ASC 820. One approach is to rely on reported NAV without evaluating observable secondary transactions.

By contrast, repeated transactions at similar or wider pricing differences relative to NAV across multiple competitive processes and over time may represent a more consistent signal of how market participants are pricing the exposure. The distinction between these scenarios is critical and cannot be resolved through the mechanical application of a single adjustment.

Where pricing differences are both sustained and significant, they may raise questions as to whether reported NAV remains representative of fair value. While individual transactions may not be determinative, consistent and material deviations between transaction pricing and reported values may warrant closer examination of the assumptions underlying those values.

Accordingly, pricing differences relative to NAV should be evaluated in the context of the underlying transaction dynamics and observable market evidence. While such evidence does not determine their value, they may help inform the range of outcomes supportable under an exit price framework.

For example, a one-off transaction pricing at

10% to 15%

below reported NAV in a thin or relationship-driven process may provide limited evidence of fair value.

Another involves applying an adjustment to reported NAV based primarily on observed transaction pricing, implicitly treating such transactions as determinative.

Similarly, approaches that seek to smooth differences between transaction pricing and reported NAV over time, including certain amortization-based methodologies, may conflict with ASC 820's point-in-time exit price framework.⁽⁵⁾ Fair value is intended to reflect the price at which an orderly transaction would occur at the measurement date, rather than a gradual convergence toward a presumed value over time.

These considerations do not necessarily invalidate the use of such approaches in all circumstances, but they highlight the importance of evaluating observable market evidence through the lens of market participant assumptions, orderliness, and the specific facts and circumstances of each situation.

Ultimately, the application of professional judgment, grounded in observable evidence and supported by clear documentation, remains central to a disciplined fair value analysis.

(5) Source: ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See ASC 820-10-20 and ASC 820-10-35-2. As a result, fair value measurements are generally based on conditions and assumptions existing as of the measurement date rather than predetermined changes in value recognized over time.



A Liquidity-Aware Framework

A more effective approach is not to replace existing valuation frameworks, but to apply them with greater rigor in light of evolving market conditions. This requires a deliberate evaluation of observable secondary transactions in the context of fair value as an exit price.

In practice, this begins with assessing the relevance of secondary transactions. Key considerations include whether transactions are orderly, the extent to which they reflect prevailing market conditions, and the consistency and frequency with which similar pricing is observed across participants and over time. Transactions that are isolated, relationship-driven, or influenced by unique circumstances may carry limited evidentiary weight, while those that are repeated, competitive, and broadly observable may warrant greater consideration.

This assessment is inherently comparative, requiring practitioners to evaluate observed transactions in context rather than in isolation. The relevance of such transactions may also be influenced by their proximity to the measurement date, as well as the timing of negotiation relative to closing, particularly where market conditions have evolved between those points. Observable transaction data may also be limited or inconsistent in practice.

This approach places a greater burden on preparers and valuation specialists, requiring more robust analysis, documentation, and support for conclusions reached. It also requires a willingness to engage with observable market data, even where that data is imperfect. Auditors, in turn, may consider whether management's decision to use or depart from the practical expedient is adequately supported when such evidence exists, and whether reported fair values are consistent with available market data.

The objective of this analysis is not to determine a precise adjustment to reported NAV, but to evaluate whether reported NAV falls within the range of outcomes that a market participant would consider supportable given observable evidence. This framework deliberately leaves the ultimate judgment to preparers and their advisors, recognizing that the appropriate weight assigned to secondary market evidence will vary based on the specific facts and circumstances. In a market where secondary transactions are increasingly visible and economically meaningful, ignoring them may, in certain circumstances, be difficult to support as a default.

Evaluating LP Interests: An Exit Price Framework

While NAV, when used as a practical expedient, is not a direct observation of exit price, it is intended to approximate fair value under ASC 820 based on the underlying portfolio valuations.

Although accounting standards do not explicitly require consideration of secondary market transactions when applying the practical expedient, observable and orderly transactions may provide relevant evidence in assessing the fair value of an LP interest as part of a rigorous fair value analysis.

This section focuses on the valuation of the LP interest as the unit of account, rather than the underlying portfolio investments, consistent with the distinction outlined earlier in this paper. This approach is also broadly consistent with the AICPA Accounting and Valuation Guide: *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds*, which emphasizes calibration and the use of market-based inputs in valuation, even where applied in different contexts.

In evaluating secondary transaction pricing relative to reported NAV, it is important to consider the treatment of fees, carried interest, and other structural features embedded within the LP interest. Reported NAV may reflect accrued liabilities such as carried interest, while transaction pricing may implicitly incorporate market participant expectations regarding the realization and timing of such obligations. As a result, differences

between transaction pricing and reported NAV may, in part, reflect differences in how these elements are treated, rather than a direct divergence in underlying portfolio value.

In practice, observable secondary transactions are evaluated in the context of their relevance, quality, and orderliness, alongside other factors that inform exit price, including portfolio characteristics, fund lifecycle, structural features, and sponsor track record. Relevant entry and exit pricing information, where available, may also provide additional context.

Where transaction pricing differs materially from reported NAV, such observations should be evaluated in light of the underlying assumptions and whether they reflect conditions that would be reflected in an exit price. Any conclusions reached should be supported by fact-specific analysis and professional judgment.



These considerations are intended to illustrate how relevant evidence may be evaluated and should not be interpreted as a prescriptive methodology or substitute for professional judgment.



Conclusion

The question is not whether reported NAV is right or wrong. The question is whether, in today's market, it can be relied on independently as a fair value estimate for secondary fund interests without a more rigorous evaluation of observable market evidence. As secondary markets evolve, so too should the application of fair value.

In a market where transaction-based signals are increasingly visible, relevant, and economically meaningful, the responsibility is not to react mechanically, but to interpret them with discipline. Secondary transactions do not define fair value, but they increasingly help define the range of outcomes that can be supported under an exit price framework.

A valuation approach that incorporates that discipline is more consistent with the exit price objective of ASC 820 and better aligned with how market participants assess value in practice. While existing fair value frameworks provide the foundation, their application will continue to evolve as market practices and observable data develop.

Our multi-disciplinary team of valuation specialists and secondary transaction experts allows us to bring both corporate finance and procedural expertise to all situations.



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