

ALFI RESPONSE

IOSCO CONSULTATION REPORT
Valuing Collective Investment Schemes (CIS)

Luxembourg, 2 February 2026

We thank IOSCO for the opportunity to participate in this consultation.

Important considerations

In view of the broad universe of assets available for investment and their diverse characteristics we suggest a risk-based approach. This would apply to methodology selection, model reviews, controls, and back-testing, based on the inherent valuation risk, which would depend on the asset characteristics, the investor expectations of safe guards, and the operational model of the valuation process.

Additionally, we note several important considerations not fully addressed in this Recommendation. These include the appropriate level of board involvement in valuation oversight, particularly distinguishing between governance and operational responsibilities; the circumstances and asset types for which third-party valuation service providers should be engaged, including the due diligence required (addressed further in Recommendation 7); and where individual asset stress renders fair valuation unreliable, the use of asset-level Liquidity Management Tools such as side-pocketing, rather than escalating to fund-level governance arrangements.

Valuation principles are universal—they apply consistently across fund types and asset classes, with implementation calibrated to the specific risk profile and characteristics of the assets being valued.

About ALFI

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,400 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 80 countries around the world.

Response to consultation

1. Introduction

Question 1 Do you agree that the 2013 CIS Principles and the 2007 Hedge Fund Principles should be merged into a combined set of Recommendations?

Our Position: Yes, we support the merger.

We welcome IOSCO's initiative to consolidate the 2013 CIS Valuation Principles and 2007 Hedge Fund Principles into a single, unified set of Recommendations. This approach reflects sound regulatory practice: reducing duplicative documentation, streamlining compliance obligations, and providing market practitioners with a single authoritative reference point.

The asset management industry has transformed significantly since 2007. The growth in private assets and alternative strategies has created inconsistency across jurisdictions, investors and the assurance industry. Different practitioners interpreting undefined valuation terms differently has led to fragmentation in valuation practices – leading to higher costs and less efficiency for investors. A consolidated framework with standardised definitions can address this directly.

Third, we encourage IOSCO to embed risk-based language explicitly - recognising that procedural requirements should reflect the unique characteristics of the asset being valued.

This is a critical message from our industry: valuation professionals should focus on the assets they are valuing, not checklist-based compliance regardless of relevance. Over-engineering dilutes effectiveness; the time spent on immaterial checks is time not spent on genuine valuation.

Summary

We support the merger of the 2013 and 2007 Principles. A single, consolidated framework will benefit investors, reduce compliance fragmentation, and improve consistency across the global asset management industry. We encourage IOSCO to take this opportunity to structure requirements around asset characteristics and apply principles globally.

Question 2 Do you agree with the scope of the Recommendations to focus on registered / authorized / public OEFs and is it sufficiently clear?

Our Position: Yes

Question 3 Do you agree with the proposed scope of registered / authorized / public OEFs? Similarly, should there be any changes to the scope of Other Funds?

Our Position: Partial.

While we support IOSCO's goal of extending guidance to 'Other Funds,' the vast range of asset types and diverse characteristics within this category make a simple transfer of OEF Recommendations problematic. Treating these as mere 'good practices' fails to account for specific nuances and risks inconsistent cross-border interpretation. This regulatory divergence could create an unlevel playing field, as some jurisdictions may treat the guidelines as mandatory for Other Funds while others do not. Given that closed-ended funds may differ fundamentally in nature, structure and investor base, any guidance for Other Funds should be developed as a standalone risk-based and proportionate guideline approach.

Question 4 In order to facilitate flexible implementation, do you agree that the Recommendations should only serve as good practices (please refer to footnote 14 above) to Other Funds?

Our Position: Partial.

See our response to question 3. We are concerned that non-binding recommendations will be interpreted differently across jurisdictions, creating an uneven playing field and they will not be applied on proportionate and risk-based approach and they could apply without industry consultation.

Question 5 Do you agree that MMFs should be out of scope?

Our position: Partial

Some members agreed that MMF's should remain out of scope – but we understand it was driven for practical reasons wishing to avoid regulatory amendments.

Question 6 Should ETFs be in or out of scope? Should only certain types of ETFs be included, such as ETFs that transact primarily on a cash basis but not in-kind ETFs? Are there any specific Recommendations that are not applicable to ETFs? Should the Recommendations only apply as good practices to ETFs, to allow sufficient flexibility given the distinct characteristics of ETFs?

Our position: ETFs should be in scope.

ETF are generally just OEF which are publicly listed, which does not have any direct consequences with regard to the investment strategy and valuation P&P. ETFs hold assets that require valuation; the same principles should apply. We note that within the European framework, the majority of ETFs are structured as UCITS and would therefore already be subject to the valuation requirements applicable to those funds. From this perspective, including ETFs within the scope of the Recommendations would be consistent with the existing regulatory treatment in the EU.

Question 7

Have the key elements of documented policies and procedures been captured?

Our position: Yes, we agree that the key elements are broadly captured. However, we wish to raise three concerns regarding implementation and drafting clarity.

Firstly, we believe a risk-based approach to applying P&P elements is critical and that it will be important to take into consideration the assets types and the operational set-up of the responsible entity (e.g. delegation model, price vendors, use of third-parties, complexity of the models used to value the assets). We agree that the elements mentioned in paragraph 34 will be meaningful for many policies and procedures, however our members raise concerns around the absence of explicit language on applying a risk-based approach when implementing these elements.

For example, consistent with our response to question 21 and referring to points 34(a) and (l) regarding third-party valuation services: where high-quality external valuers are engaged to independently value assets, responsible entities are not afforded sufficient allowance to place reliance on the independence, quality and robustness of valuations produced. In practice, firms find themselves challenged to re-perform aspects of the third party's work (paragraph 73), reducing scalability and creating additional cost for no demonstrable added value to investors.

A risk-based approach would allow responsible entities to consider their oversight intensity based on factors such as asset complexity, materiality and credentials of the valuation service provider.

The second issue is regarding undefined terminology and different legitimate interpretations of the same word. Several terms used throughout the consultation lack clear definitions, including "Model," "Back-testing," "Stressed Market Conditions" and "Calibration." These seemingly straightforward terms can be interpreted from the approach of a regulatory, common language or valuation body approach. This has led to the expanding scope of control requirements. Industry agreed examples would enable valuation professionals to focus their efforts on the material inputs that genuinely impact fair value determinations.

The third concern is with paragraph 40, which states that "the oversight arrangement may be carried out by the responsible entity itself, for example the fund manager or fund's board."

This drafting conflates two distinct functions:

- Operational responsibility for performing valuations requires dedicated personnel, systems, and day-to-day expertise
- Governance oversight involves supervising and challenging the valuation function, which is the appropriate role for a fund board

Fund boards are oversight bodies that meet periodically and do not possess the operational resources, dedicated staff, or technical systems required to "carry out" valuation functions. Suggesting otherwise sends a confusing message to investors and the market regarding appropriate governance structures.

Therefore, we support the key elements captured in paragraph 34, subject to the following refinements:

- Explicit acknowledgment that P&P requirements should be applied proportionately based on valuation risk and based on materiality principles;
- Provide examples for technical terms such as "Model," "Back-testing," "Stressed Market Conditions" and "Calibration"; and
- Clarification that boards exercise governance oversight, distinct from operational responsibility for reviewing valuations.

Question 8

Do you agree that a valuation committee or equivalent arrangements may be helpful?

Position: Yes, we agree that valuation committees or equivalent arrangements can be helpful, provided the framework maintains sufficient flexibility to accommodate different organisational structures and terms of reference. The critical consideration is that valuation is performed well, not the particular governance structure through which this is achieved. It should be made clear that there is no requirement for a valuation committee and that valuations do not need to be approved by a valuation committee.

A dedicated valuation committee can provide an efficient and structured approach to valuation governance, offering formalised meeting cadence, clear escalation pathways for material issues, and documented decision-making through minutes and records that evidences compliance with valuation policies and procedures. Such committees also provide a visible anchor of accountability within the firm and send an important internal message that valuation is taken seriously at a senior level.

We strongly support the inclusion of "equivalent arrangements" and the flexibility this suggests in the recommendation. For smaller managers, a dedicated committee can be a cost-efficient way to bring the control and review into one group. For larger, globally operating managers, valuation governance may involve regional or asset-class-specific structures that do not fit a single committee model.

Strong valuation processes should exist independent of committee structures. Some firms have developed robust valuation control frameworks that operate effectively without a formal committee meeting to approve each valuation. A responsible entity may implement systematic exception reporting, independent price verification, and documented escalation protocols embedded within daily operations and existing valuation governance. The absence of a dedicated committee does not indicate weaker governance where valuation oversight is appropriately integrated into the firm's broader control architecture.

The key principle is that the focus should remain on outcomes - robust, independent, and accurate valuations - rather than prescribing a particular organisational form.

Question 9

Have the key features for the structure and responsibilities of a valuation committee or equivalent been accurately described? If not, what changes or additions should be included? Are there any other good practice examples for a valuation committee that would be useful to include?

Position: Partial, we would also emphasize the importance of global controls, the difference and scalability between a committee and a fund board, the impact of size and maturity of a business in addition to the responsibility of the key stakeholders for approving material inputs in the business.

We would emphasize that from a practical and governance perspective, a centralised valuation committee is more efficient and scalable than attempting to embed valuation oversight across multiple fund boards (e.g. Paragraph 40) who would have with varying composition, expertise, and meeting frequency. The committee model allows for consistent methodology, centralised expertise, and coherent escalation.

Our members would add that valuation committee structures evolve as businesses grow and processes mature. In earlier stages, committees may be closely involved in individual valuation decisions. As frameworks become more established and controls more embedded, the committee role can typically evolve toward strategic oversight - methodology approval, policy review, and exception-based escalation - rather than routine sign-off. This evolution reflects appropriate delegation within a mature control environment and should be recognised as good practice rather than a dilution of governance.

However, we encourage IOSCO to consider the position of global asset managers operating integrated group-level valuation frameworks. Where such frameworks are demonstrably robust (e.g. with appropriate independence, consistent policies, and auditable controls). Requiring additional local committees may create duplication without enhancing investor protection. The guidance should acknowledge that reliance on group-level arrangements may be appropriate where adequate documentation and regulatory access can be demonstrated.

Finally, we caution against conflating an independent oversight function with absolving material stakeholders of their responsibilities. Investment businesses or portfolio management teams possess unique knowledge of the assets they manage and the inputs that inform valuations. Independence should not mean that these stakeholders are excluded from accountability. Well-governed organisations maintain clear responsibility at each level: investment teams accountable for the inputs they provide, formally documented and signed off; the valuation function responsible for methodology and challenge; and the committee or equivalent providing strategic oversight and escalation. This layered accountability-not structural independence alone-is what delivers robust valuation governance.

Question 10 Do you agree with the proposed approach to stressed market conditions and exceptional circumstances?

We agree that stressed market conditions can impact the quality and reliability of valuations.

However, we note that the recommendations co-mingle idiosyncratic stress and market stress, but these are two fundamentally different concepts.

Idiosyncratic asset stress (paragraph 46) differs fundamentally from stressed market conditions. Individual asset distress - fraud, litigation, business deterioration - represents a foreseeable type of event already addressed through normal valuation procedures. Conflating these with systemic market stress risks triggering disproportionate governance responses.

Therefore, we recommend that idiosyncratic stress be removed from scope; this discussion should focus solely on market-wide stress.

Turning to market-wide stress, we agree that such conditions can impact the availability, quality, and reliability of observable inputs. However, rather than requiring responsible entities to develop valuation policies for every conceivable stress scenario, we believe the focus should be on recognising practical limits.

Where market conditions deteriorate to the point that the responsible entity cannot, with sufficient confidence, determine fair value for portfolio assets, there is no realistic alternative approach available. The appropriate response could be to consider proactively utilising Liquidity Management Tools. This protects investors from unfair treatment - for example, by side pocketing such assets until reliable price discovery resumes.

Question 11 Are there any other good practices or examples of governance practices under stressed market conditions that would be useful to include?

There would be merit to provide examples of stressed market conditions and link those examples with financial indicators or KPIs that could be monitored.

Question 12 Do you agree with the overall framework that conflicts of interest should be identified and documented, and conflicts of interest that cannot be avoided are to be mitigated, managed and monitored, and disclosed?

Position: Yes

We agree with the recommendation and have no further points to add.

Question 13 Do you agree with the list of conflicts and mitigations?

Position: Yes

We agree with the recommendation and have no further points to add.

Question 14 Do you agree with the guidance set out in relation to fair value, methodology selection and use of amortised cost?

Position: Yes. We agree with the principle and focus on fair value.

This principle is well understood across the industry, and responsible entities are continuously alert to updated inputs that impact fair value determinations. The EU framework, including AIFMD Delegated Regulation 231/2013 (Arts. 67-71) and IFRS 13, provides comprehensive guidance that the industry applies consistently.

However, we would offer three observations:

Paragraph 61 exemplifies why we advocate for deeper consultative engagement with industry practitioners. Interest rate swaps - cited as difficult to value - are routinely marked

with precision using standardised models and observable Level 2 inputs. This suggests the guidance may benefit from practitioner input to ensure examples and principles accurately reflect market realities across asset classes, not solely exchange-traded securities.

Secondly, we would challenge the broader narrative that reduced liquidity automatically equates to valuation difficulty. Reduced or no liquidity within the meaning of frequency of transactions only implies that prices are not or less often directly observable in the markets. But certainly, there are proven alternative valuation approaches which could be used instead without causing material difficulties. For example, a promissory note issued by a AAA public issuer to an insurance company is not publicly traded and hence to be qualified as illiquid. However, it is very easy to value by discounting the contracted cash flows using a risk-adjusted yield curve.

Lastly, we would clarify that on one hand the amortized cost accounting is not compatible with fair value accounting, which is also the clear view of the IPEV valuation guidelines. But on the other hand, for certain asset types, e.g. debt instruments, the amortized cost method can well be used to arrive at the fair value. In other words, CIS using the amortized cost accounting do not reflect any changes in market or idiosyncratic information (except for impairments) and are therefore systematically using stale valuations, while CIS applying the fair value accounting can well use the amortized cost method as long as this achieves good estimates of the fair value.

Question 15 Do you agree that back testing and calibration can be important tools to test the appropriateness and accuracy of fair value methods and processes?

Position: Yes, we agree that back-testing and calibration can be important tools to test the appropriateness and accuracy of fair value methodologies.

However, following on from our question 7, we note that paragraph 76 proposes multiple interpretations of the term "back-testing." In practice, this term is not defined consistently across the industry. For some firms, back-testing refers to comparing realised exit values against the last fair value determination. Others interpret it as a historical validation of inputs, while some use it as a broader reasonableness check on valuations. Without specific and consistent terminology and language on materiality, back-testing risks becoming an open-ended exercise lacking reasonable limits on scope or materiality.

We would therefore encourage IOSCO to adopt precise examples and clearly delineate the scope of any back-testing expectations, for example by specifying "exit value back-testing" where that is intended.

On calibration, we note this is already mandated by IFRS 13 for Level 3 measurements, and the EU framework addresses this through Article 71 review requirements. We support the focus on material inputs, but challenge regulatory drift towards spurious calibration exercises against calculations engines. Any IOSCO recommendation should complement rather than duplicate existing accounting standards.

Question 16 What other tools should be highlighted in this report that responsible entities could use to review their valuation methodologies?

Alternatively, to the controls described already in the recommendations, these examples could be used instead:

- Cross-referencing outcome of relevant methodology with a secondary one (e.g. primary methodology being a DCF, cross referenced by a multiple approach).
- Sensitivity analysis of outcome to models with respects to key valuation assumptions and inputs. We recommend incorporating this in valuation assessment and analysis.

Our members would highlight that valuation controls, similar to the valuation as such, also requires professional judgement.

Question 17 Are there any other good practice examples, including in applying fair value adjustments that would be useful to include here?

We recommend IOSCO defer to established international valuation standards bodies (IPEV, IVSC, RICS, IFRS Foundation) rather than it, or other bodies developing proprietary terminology or guidance. These valuation bodies possess deep sectoral expertise, maintain frameworks through continuous consultation, and enjoy global recognition.

Question 18 Are there any other considerations for pricing overrides?

Position: No.

We agree with the recommendation and have no further points to add.

Question 19 Are there any other considerations for consistent application of valuation policies and procedures?

Position: Yes

In view of the broad universe of assets available for investment and their diverse characteristics we suggest a risk-based approach. This would apply to methodology selection, model reviews, controls, and back-testing, based on the inherent valuation risk, which would depend on the asset characteristics and the operational model of the valuation process.

Question 20 Are there any other key considerations for periodic review of valuation policies and procedures that should be addressed?

Position: No.

Examples we see in practice are that new regulations need to be incorporated into the P&P, or that new systems and tools are introduced and therefore require updating the P&P. Here the IOSCO report would do well to develop concrete examples of these events documenting the changes, on an asset level, so as to avoid broad statements applying to all assets.

Question 21 Do you agree with the overall framework for the use of third-party valuation service providers, including specifying the use of third-party valuation service providers in the

valuation policies and procedures, undertaking due diligence and exercising appropriate oversight?

Position: Yes, with observations.

We broadly agree with the framework, which reflects established EU requirements under AIFMD Article 19 and Delegated Regulation 231/2013 (Articles 67-73). The principles of documented policies, due diligence, and retained responsibility are sound and already well-implemented in European practice.

However, we believe the recommendation would benefit from explicitly recognising the value that qualified external valuers bring, rather than framing their appointment primarily as a risk requiring compliance controls.

Independent appraisers are appointed because of their expertise and specialism in terms of the specific investment strategy of the CIS, and also can enhance governance by providing structural separation from portfolio management, specialist expertise for complex assets, and direct liability under AIFMD Article 19(10). Where valuers operate under recognised professional standards, such as RICS membership, IVS compliance, or IPEV guidelines. These frameworks assure competence through professional body oversight and hence significantly reduce valuation risk.

To that effect, responsible entities should be permitted to place appropriate reliance on factors such as the valuer's size and market standing, regulatory status, quality of personnel, robustness of internal control environment, and whether their processes are subject to independent audit (e.g., ISAE 3402 reports). Therefore, we would challenge the content of paragraph 73

"...This may include a review of the entire valuation report to determine whether the valuation derived from it is appropriate. Among other things, the responsible entity may wish to consider the methodology and parameters used..."

Per our response to question 19, there must be consideration for a risk-based approach.

We would encourage IOSCO to reconsider language in paragraph 95, that equates illiquidity to valuation difficulty—this conflates two distinct concepts and may inadvertently discourage investment in asset classes that are, in practice, valued reliably every day across the industry.

Finally, we note that paragraph 97(f) addresses the roles and responsibilities regarding inputs and assumptions, yet this is perhaps the most critical element of any valuation - whether performed internally or by third parties - and it is currently underemphasised in the document (acknowledging paragraph 53 (a)). The strength, control environment, reasonableness, and ability to validate inputs drives the entire valuation outcome. We would recommend that IOSCO elevate the prominence of input controls within the broader framework, recognising that this is where valuation risk is most effectively managed.

Question 22 Do you agree with the incorporation of a defined process for addressing stale valuations into the policies and procedures?

Position: Partially. We agree the importance of addressing stale valuations.

However, we would offer the following observations:

First, the consultation should distinguish between genuinely stale valuations and the normal valuation frequency of certain asset classes. Many assets, whether by their nature or size of holding, will not be actively traded and may provide updated financial reports only periodically. This is an inherent feature of the investment profile, not an indication of staleness. We caution against applying stale valuation controls and checks to situations that are simply part of the expected behaviour of that asset class.

Second, we challenge whether paragraph 109 is stretching the definition of stale valuations too far. CIS investing in private assets typically have a defined valuation frequency, for instance quarterly. New information available in between any two valuation dates does not lead to a stale valuation. There is just no updated valuation available at that point in time when the new information was published. Given that subscriptions and redemptions should only be eligible on valuation dates and on a forward-pricing basis, there is also no issue with no updated NAV being available in between valuation dates. Third, paragraph 110 addressing post-valuation events for publicly traded securities should align with existing accounting standards for subsequent events under applicable GAAP frameworks. There should be no extension or development of further requirements. We also challenge the practicality of daily OEF, which utilises a hard cut-off during the day, being able to incorporate later price movements after the close of business, to calculate the NAV. This would be very challenging operationally.

Question 23 Are there other aspects of timely valuation that this Recommendation should address?

No.

Question 24 Are there other aspects of valuation-related disclosure that should be addressed in this Recommendation?

Position: No.

We agree with the recommendation and have no further points to add.

Question 25 Are there other aspects of pricing errors that should be addressed in this Recommendation?

Position: No.

We agree with the recommendation and have no further points to add.

Question 26 Do you agree with the creation of a new Recommendation on record keeping?

Position: Yes

We agree with the creation of this Recommendation. Requirements around record-keeping were already well recognised under the EU legislation in a similar fashion. In particular, we believe that the proportionate approach chosen is appropriate. The exact record-keeping practices should take into account the circumstances of a particular fund, its structure, strategy, asset types, investor profile, and valuation complexity.

Question 27 Are there other aspects of recordkeeping that this Recommendation should address?

We refer to our response in question 26.