

**SBAI Private Market
Valuation Standards
Update**

FAQ and Explainer Guide

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1. About the SBAI and How It Operates

The **Standards Board for Alternative Investments (SBAI)** is the global standard-setting body for the alternative investment industry. It promotes responsible practices, transparency, and integrity among managers and investors through its industry-wide *Alternative Investment Standards*¹ and collaborative initiatives.

Established in 2008 (originally as the Hedge Fund Standards Board), the SBAI now represents a diverse community of leading institutional investors and asset managers globally. It serves as a neutral platform for dialogue, knowledge sharing, and the development of practical solutions to emerging industry challenges.

All SBAI resources are open-source and publicly available on the SBAI website², reflecting its mission to advance education and improve standards across the entire industry.

1.1 What the SBAI does

- Maintains and evolves the *Alternative Investment Standards* as they pertain to key areas of industry practice including Disclosure, Valuation, Risk Management, Fund Governance, and Shareholder Conduct
- Convenes Working Groups to identify solutions to common industry challenges and facilitate member Communities for peer-to-peer learning
- Hosts global events, workshops and roundtables to educate membership and encourage open dialogue between investors and managers
- Engages with regulators and policymakers globally to share industry perspectives, cross-regional insights, and industry good practices to support effective regulation, without acting as a lobbying body

1.2 How the Standards are Created and Updated

The Standards were created through collaboration between asset managers and institutional investors and are updated via public consultation. The valuation updates described in this guide form part of the SBAI's multi-stage Standards review program (with valuations addressed first, followed by other sections).

1.3 Membership, Signatory Status, and the Comply-or-explain Model

Asset manager signatories commit to the Standards on a comply-or-explain basis and provide a *Disclosure Statement* to investors upon request. The Disclosure Statement describes whether the manager conforms to each Standard or explains why a Standard is not followed (for example, if it does not relate to their investment strategy). The SBAI does not publicly disclose managers' Disclosure Statements.

Investor Chapter members promote adoption of the Standards through their engagement with asset managers (e.g., due diligence and ongoing monitoring conversations).

1.4 How Investors Typically use SBAI Signatory Status

In practice, investors use signatory status and a manager's Disclosure Statement as inputs into operational due diligence, investment committee decisions, and periodic monitoring. Typical questions include whether

¹ The *Alternative Investment Standards*, access: <https://www.sbai.org/standards.html>

² <https://www.sbai.org/>

signatory status is maintained over time, and whether the manager can provide evidence of implementation (not just policy language).

1.5 The Difference between Standards and Guidance

Guidance-setting bodies typically publish recommended principles, best practices, or illustrative approaches that organisations may choose to adopt, adapt, or reference, but they generally do not create an ongoing public obligation to comply. In other words, guidance is usually voluntary and non-binding: it is intended to inform judgement rather than to establish an accountable baseline that market participants can consistently measure themselves against. By contrast, the SBAI operates as a standards-setting body through a signatory model that is built around public commitment and ongoing accountability. SBAI signatories are expected to operate in line with the standards or provide a clear explanation where they do not (a “comply-or-explain” approach).

1.6 How the SBAI’s Work on Valuation Standards is Differentiated from Other Industry Bodies

The SBAI’s role is distinct from several other types of organisations active in alternative investments:

- **Trade Associations:** The SBAI’s core objective is the creation and adoption of Standards rather than policy advocacy. Other industry bodies and associations may create and provide guidance, but Standards create higher expectations upon signatories who make public commitments to operate within the framework. The SBAI Standards are cross-strategy and designed to be applicable across hedge funds and private market structures and not singular asset classes or segments of the industry.
- **Technical Valuation Standard-setters (e.g., IVS/IVSC, RICS, IPEV):** These bodies provide technical valuation rules and engagement guidance; the SBAI focuses on governance, conflicts management, and investor-facing transparency across alternative investment strategies.
- **Accounting Standard-setters (e.g., IFRS/IASB, US GAAP/FASB):** Accounting standards are mandatory frameworks for financial statements; the SBAI Standards are voluntary and address relationship and governance expectations that sit around financial reporting requirements.

2. What Changed: Private Market Valuation Updates at a Glance

The SBAI broadened and strengthened the Valuation section of the *Alternative Investment Standards* to better reflect the specific issues that arise in private market valuations. The updates focus on governance, transparency, and disclosure, in recognition of investor concerns about conflicts of interest, subjectivity, inconsistency, and limited transparency in private market marks.

2.1 Key Areas Addressed by the Updates

Key enhancements include 20 new sub-standards within the existing Valuation Standards framework that address the governance and disclosure of:

- Engagement with **external valuation service providers** (selection, scope of service, adoption of independent marks, and conflicts of interest)
- Selection, appointment, and engagement with **auditors** (competence, role clarity, and timely disclosure of valuation-related concerns)
- **Manager-led secondaries, crossed-investments, and related-party transactions** (including expectations for independent valuation or fairness opinions)

- **Valuation methodology transparency** (expected methodologies, changes, aggregation/weighting, key inputs and sensitivity analysis)
- Financial statement and **accounting framework disclosures** (including alignment with globally recognized standards, where applicable)
- Ongoing **valuation process evaluation** (stress testing, valuation frequency, and back testing)
- **Liquidity considerations** (including discussion of marketability discounts such as DLOM)

2.2 Implementation Timing

To provide sufficient time for Signatories to review and implement the latest amendments, the deadline for implementation will be the later of:

- 6-months following the signatory's next renewal date, or
- 12-months from the date of publication of the new Standards.

During the transition period, signatories continue to follow the Standards in effect at their most recent renewal and update their Disclosure Statements at renewal (or as otherwise required).

3. How the Valuation Standards Fit with Accounting and Valuation Frameworks

The SBAI valuation Standards are a governance-focused framework designed to sit alongside (not override) technical accounting and valuation requirements. Accounting standards such as US GAAP (ASC 820) and IFRS (IFRS 13) drive how fair value is measured and disclosed in financial statements. Technical valuation frameworks (e.g., IVS, IPEV Guidelines, RICS Red Book) influence how valuation engagements are performed, documented and reported. The SBAI Standards complement these by setting expectations for: (i) governance and segregation of duties, (ii) investor-facing transparency and disclosure, and (iii) robustness and consistency for hard-to-value assets.

3.1 How to use this Guide Alongside IFRS 13 / ASC 820 / IVS / IPEV

- Treat IFRS 13 / ASC 820 as the technical baseline for fair value measurement and financial statement disclosures.
- Use IVS / IPEV / RICS and other specialist guidance as the technical playbook for valuation engagements and asset-class specific practices.
- Use the SBAI Standards as the governance and investor-transparency wrapper: who does what, what is documented, what is disclosed, and how conflicts are mitigated.

4. How the Valuation Standards Fit with Regulatory Frameworks

Although the SBAI is not a regulator and adoption of the Alternative Investment Standards are voluntary, the private market valuation updates are intentionally aligned with the core concerns that regulators and supervisors have repeatedly highlighted in the context of alternative assets, including: robust governance, clear

accountability, effective conflict management, and decision-useful transparency for investors. Where relevant regulatory guidance exists, the SBAI has sought to incorporate it into these Standards where it is practical and proportionate to do so. In practice, many signatories will find that implementing the updated Standards strengthens their ability to demonstrate well-controlled valuation processes to investors, auditors, and (where relevant) supervisory reviews, without the Standards themselves constituting legal or regulatory advice.

4.1 Engagement with Global Regulators

Throughout the development of the private market valuation updates, the SBAI has closely observed the concerns being raised by regulators globally. Consistent with the SBAI's broader regulatory engagement, the SBAI engages with supervisory authorities across multiple jurisdictions through meetings and consultation dialogue and, through its IOSCO Affiliate Membership and participation in IOSCO's Affiliate Members Consultative Committee (AMCC), shares its work with IOSCO (the global body of securities regulators) and the wider regulatory community. Many interactions have been undertaken as part of this review and the SBAI has presented to IOSCO on its findings, which has contributed to IOSCO's Consultation Report on Valuing Collective Investment Schemes (CR/05/2025, November 2025) addressing many of the same themes (including oversight arrangements, conflicts of interest, third-party valuation service providers, back-testing, stale valuations and record-keeping).

5. Explainer: Summary of the Valuation Standards (Standards 5-8)

This section summarises the Valuation Standards as they relate to private market assets. The Standards are written to support judgement and flexibility – they do not prescribe specific valuation methodologies or inputs, but they do set expectations for transparency, independence, and governance.

Governance, Independence, and Oversight (Standards 5.1-5.9)

Standard	What it Requires (plain English)
5.1	Put arrangements in place to mitigate conflicts of interest in asset valuation.
5.2	If the manager determines values (in-house or by providing final prices), segregate valuation from portfolio management and explain the approach to investors.
5.3	Be able to provide evidence due diligence and independent vendor selection when appointing an external valuation service provider.
5.4	Disclose what the external valuation provider will deliver and any limitations (e.g., full portfolio vs sample; range vs point value; process review vs value review).
5.5	Disclose whether there is a legal/contractual requirement to accept independent marks and disclose where independent valuations are altered or ignored.
5.6	Ensure valuation processes are free from actual or perceived conflicts and disclose how conflicts are identified, disclosed and managed.
5.7	Select auditors with relevant competence and experience auditing funds with illiquid or non-listed assets.
5.8	Explain the role and limitations of external auditors in the valuation process (including whether they independently gather data or underwrite asset valuations).

Standard	What it Requires (plain English)
5.9	Disclose any auditor qualifications, comments, or concerns regarding valuations in a timely manner.

Valuation Policy, Methodology, and Accounting Framework Disclosures (Standards 6.1-6.11)

Standard	What it requires (plain English)
6.1	Maintain a Valuation Policy Document covering material valuation processes, procedures and controls; review it regularly with the fund governing body; provide it to investors on request (confidentially).
6.2	Disclose any material involvement of portfolio management in valuation (actual or expected) and notify investors of material changes.
6.3	For manager-led secondaries, cross-investments, or related-party transactions, follow fiduciary obligations and commission an independent valuation or fairness opinion before deal close.
6.4	In the valuation policy, disclose the methodologies reasonably expected to be used during the life of the fund; avoid vague catch-all wording.
6.5	Notify investors if the manager departs from the methodologies described in the valuation policy.
6.6	Be prepared to explain cases where valuations use multiple methodologies or components and how weightings are calculated and applied.
6.7	Be prepared to provide details of significant valuation inputs, adjustments and assumptions with material impact (e.g., discount rates, growth rates, EBITDA adjustments).
6.8	Be prepared to disclose results of sensitivity analyses for significant inputs, adjustments or assumptions.
6.9	Disclose at fund inception which accounting standards will be followed.
6.10	Be prepared to justify not valuing assets in line with an industry-recognised accounting standard.
6.11	If operating in a jurisdiction without globally recognised accounting standards, adopt alternative standards such as IVS.

Hard-to-Value Assets, Ongoing Evaluation, and Liquidity Considerations (Standards 7.1-8.8)

Standard	What it requires (plain English)
7.1	Adopt procedures to ensure a consistent fair value approach for hard-to-value assets when valuations are performed in-house or when the manager provides final prices; include these in the valuation policy.
7.2	When using side pockets, consult the fund governing body and obtain consent; document and disclose the process and fee treatment.
8.1	Disclose periodically the percentage of the portfolio in Level 1/2/3 (or equivalent) and, where meaningful, the use of internal models/assumptions; use tools such as Administrator Transparency Reports (ATR).
8.2	Disclose material increases in hard-to-value assets in a timely manner.

Standard	What it requires (plain English)
8.3	Report side pocket values in audited annual accounts in line with applicable accounting standards.
8.4	Discuss and disclose material issues with in-house valuation of hard-to-value assets (e.g., limited price sources or out-of-tolerance broker quotes).
8.5	Conduct periodic stress testing and scenario analysis in relation to portfolio valuations.
8.6	Value private market fund assets at least quarterly; value more frequently if the fund offers liquidity or market conditions warrant to align with redemption rights.
8.7	Be prepared to compare prior valuation estimates with actual outcomes (e.g., sale prices) to assess accuracy over time.
8.8	Be prepared to discuss how liquidity affects valuation, including whether/how DLOM or similar adjustments are applied and the basis for the size of such discounts.

5.1 Interpreting the Standards: Outcomes over Prescription

The Valuation Standards aim to be balanced and specifically designed to encourage judgement and professional expertise and to remain adaptable to different strategies and changing market conditions. In particular, the SBAI does not prescribe managers on matters such as which valuation methodology they should adopt, nor the inputs, adjustments, or assumptions that they make. Instead, it expects any decisions made to have justifiable and commercial evidence to support the approach taken and be paired with adequate investor disclosure.

6. FAQ: Common Implementation and Due Diligence Questions

6.1 External Valuation Service Providers

What level of due diligence is expected before appointing an external valuation provider?

Managers should be able to evidence a thoughtful, independent selection process. Typical elements include assessing asset-class expertise, staffing and capacity, geographic coverage, independence, controls, technology, methodology approach, references, and service-level arrangements. Ongoing monitoring is also expected (e.g., periodic reviews, benchmarking, and reconfirmation of independence).

What should be disclosed about an external valuation provider's scope and limitations?

Investors should understand what the provider does (and does not do). For example: whether valuations are calculated independently or based on manager inputs; whether the provider covers the full portfolio or a subset; whether outputs are point values or ranges; and whether the provider is providing valuation services, process assurance, or both.

Can a manager override an independent valuation?

In some structures, the manager or governing body may have discretion to accept, challenge, or override third-party marks. The Standards focus on transparency: managers should disclose whether acceptance is required

and should disclose (and be able to evidence) cases where independent valuations are altered or not adopted, including the rationale and governance approvals.

How should conflicts of interest be handled when using valuation providers?

Managers should identify, disclose, and manage actual or perceived conflicts. Examples include economic dependence, contingent fee structures, prior relationships, or ownership links (including where a valuation provider is partly or wholly owned by private market investors). Conflict management measures can include fixed-fee arrangements, independence attestations, provider rotation, governance review, and documented challenge processes.

6.2 Auditors and Audit-Related Disclosures

Do the Standards require auditors to perform valuations?

No. The Standards expect managers to explain the auditor's role and limitations in the valuation process. Investors should understand whether auditors independently gather underlying data and underwrite valuations, or whether audit assurance is limited to review and testing of the manager's valuation process and financial statement disclosures.

What does 'timely disclosure of auditor concerns' look like?

Where auditors raise qualifications, comments or concerns regarding valuations, managers should have an escalation process (to senior management and the governing body) and a plan to communicate material matters to investors without undue delay, consistent with confidentiality and legal obligations.

6.3 Manager-Led Secondaries, Cross-Investments and Related-Party Transactions

What transactions are in scope?

The Standard refers to transactions where assets are bought and sold between vehicles managed by the same manager, or between related-party entities, including manager-led secondary transactions and crossed trades in private market contexts.

What is required before deal-closing?

Managers should commission an independent valuation or fairness opinion before closing the transaction, and ensure the transaction is executed in accordance with fiduciary obligations, required disclosures, and internal compliance policies.

What should investors expect in terms of disclosure?

Investors typically expect clear disclosure of the conflict, governance approvals, the independent valuation or fairness opinion provider, and the basis for pricing and allocation. Where confidentiality limits what can be shared, managers should still explain the governance process and provide as much transparency as practicable.

6.4 Valuation Methodologies, Inputs, and Sensitivity Analysis

Do the Standards dictate which valuation methodology to use?

No. The SBAI is explicit that it does not prescribe specific methodologies or inputs. Instead, it expects managers to be transparent about the methodologies they reasonably expect to use, and to operate a robust governance process around methodology selection and changes.

How should managers handle situations where different methodologies produce different answers?

SBAI guidance encourages managers to avoid mechanically averaging or applying weightings without understanding why approaches diverge. Managers should analyse the drivers of divergence and select, or appropriately combine, the most reliable and supportable valuation approaches based on their reliability and relevance, consistent with fair value principles and with the rationale documented through the governance process.

What counts as 'significant inputs, adjustments, and assumptions'?

Examples include discount rates, growth rates, EBITDA normalisations, forecast cash flows, default and recovery assumptions, market comparables selection, and liquidity or marketability adjustments. The key is materiality: inputs that could materially change the valuation outcome should be documented and explainable.

What is expected on sensitivity analysis?

Managers should be prepared to share results of sensitivity analyses performed on significant inputs or assumptions. Sensitivity outputs can be shared as ranges, scenario impacts or key drivers, while respecting confidentiality of proprietary models and data.

6.5 Accounting Standards and Technical Valuation Frameworks

What does the Standard mean by 'accounting standards to be followed'?

At the point of fund establishment, managers should disclose which accounting framework applies (e.g., IFRS, US GAAP, or local GAAP) and be able to explain why that framework is appropriate given the fund's jurisdiction, structure, and investor base.

What if local rules do not require IFRS or US GAAP?

Where a jurisdiction does not recognise or require globally recognised accounting standards, the Standards point to adopting alternative frameworks such as the International Valuation Standards (IVS). The practical objective is a credible, globally understandable valuation framework with consistent application and documentation.

How do the SBAI Standards align with IVS and IPEV Guidelines?

IVS and IPEV are technical frameworks: they guide how valuation assignments are performed, what bases of value apply, how approaches and methods are chosen, and how reporting is prepared. The SBAI Standards are governance and transparency standards: they focus on conflicts, oversight, disclosure of methodology choices, and investor information rights. Many managers will use IVS/IPEV-aligned processes to help demonstrate that SBAI governance expectations are supported by robust technical valuation practice.

6.6 Ongoing valuation process evaluation, frequency, and liquidity considerations

What is meant by stress testing and scenario analysis 'in relation to portfolio valuations'?

This refers to periodically assessing how valuations could respond under different market or asset-specific scenarios. The purpose is to identify vulnerabilities, challenge assumptions, and improve valuation robustness. Such exercises should be documented and reviewed by relevant governance bodies (e.g., valuation or risk committees).

How often should private market assets be valued?

At least quarterly. If the fund structure offers investor liquidity, or if market conditions warrant, valuations should be performed more frequently to align asset values with redemption rights and the liquidity profile of the fund. Good practice includes documenting 'valuation triggers' that prompt out-of-cycle valuations.

What is back testing in this context?

Back testing means comparing previous valuation estimates with realised outcomes, such as subsequent sale prices, to evaluate methodology accuracy and potential bias over time. The Standards expect managers to be prepared to provide such comparisons and to use them as part of continuous improvement.

What is expected on liquidity and DLOM?

Managers should be prepared to discuss how liquidity (or lack of liquidity) affects valuations, including whether marketability discounts (such as Discount for Lack of Marketability, DLOM) are applied and the basis for determining their size.

7. Practical Toolkits

7.1 Toolkit for Managers: Implementing the Valuation Updates

The steps below are designed to help signatories translate the valuation Standards into concrete policies, controls and disclosures. They can be tailored to strategy and fund structure.

Implementation Checklist

- **Map Applicability:** Identify which funds/vehicles hold private market or other hard-to-value assets and map Standards 5-8 to existing policies
- **Assign Owners:** Confirm accountable owners for valuation governance, external provider oversight, audit liaison, and investor disclosure
- **Refresh Valuation Governance:** Document segregation of duties; ensure valuation committee (or equivalent) has clear remit, minutes and escalation paths
- **Update the Valuation Policy Document:** Include methodology inventory, valuation frequency/triggers, model governance, provider roles, side pocketing, and investor notification processes
- **External Provider Oversight:** Create a due diligence and selection pack (RFP, independence checks, conflicts assessment, and ongoing monitoring plan)

- **Audit Readiness:** Confirm auditor competence in illiquid assets; document the auditor's role in valuation; establish escalation and investor communication for valuation-related audit findings
- **Transaction Governance:** Establish a playbook for manager-led secondaries/crossed/related-party transactions, including independent valuation/fairness opinion and disclosures
- **Enhance Transparency:** Build investor-friendly disclosures for significant inputs and sensitivity analysis; decide what can be shared routinely vs on request
- **Ongoing Evaluation:** Implement stress testing/scenario analysis and back testing; agree governance review cadence and outputs
- **Update the Disclosure Statement:** Reflect revised Standards at renewal; document explanations where not applicable or where governance rests with the fund governing body

7.2 Toolkit for Investors: Using the Standards in ODD and Monitoring

Suggested Process

- **Screen:** Ask for SBAI signatory status and date of last renewal; request the Disclosure Statement early in ODD
- **Assess:** Review the Valuation Policy Document and identify any areas marked 'explain' (and whether explanations are credible and strategy-appropriate)
- **Evidence:** Request examples of valuation committee minutes (redacted), provider due diligence summaries, and a sample of valuation memos for key private assets
- **Monitor:** Set a cadence to revisit valuation governance (e.g., annually) and trigger-based discussions during market dislocation or when material valuations move
- **Escalate:** Ask how the manager handles auditor concerns, valuation disagreements, and material increases in hard-to-value exposure

7.3 Sample Investor Due Diligence Questions

The SBAI encourages investors to use the Standards as a structured way to discuss governance and transparency with managers. Example questions (including suggested DDQ wording) include:

- Are you a SBAI signatory? If not, why not and do you intend to become one?
- Please provide your SBAI Disclosure Statement and indicate the date of your last renewal.
- Please provide (confidentially) the Valuation Policy Document and highlight any changes in the last 12 months.
- Describe the involvement of the portfolio team in valuation (information input, challenge process, final decision rights).
- Who are your external valuation service providers and auditors for each strategy? Provide a summary of scope, limitations, and how conflicts are managed.
- How do you govern manager-led secondaries / crossed transactions / related-party transfers? Do you commission independent valuations or fairness opinions pre-close?
- How do you manage divergences between valuation approaches and what triggers a methodology change or an out-of-cycle valuation?

8. Next Steps: For Existing and Prospective Signatories

Managers who are not yet signatories to the SBAI *Alternative Investment Standards* are strongly encouraged to engage with us to better understand the benefits and practical steps involved in adoption. Becoming a signatory demonstrates a clear commitment to robust, transparent, and consistent valuation practice – an increasingly important expectation from investors and other stakeholders. Our team is available to guide you through the onboarding process, answer any initial questions, and provide resources to support a smooth and efficient transition.

For existing signatories, we recognise that updates to the standards may raise questions around interpretation, implementation, or ongoing compliance. We encourage you to reach out to us directly for clarification or support. Whether you are reviewing internal policies, refining procedures, or addressing specific valuation scenarios, we are here to help ensure that you remain aligned with the latest standards and continue to uphold best practices.

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