Commission de Surveillance du Secteur Financier

ESMA COMMON SUPERVISORY ACTION ON VALUATION

CSSF FEEDBACK REPORT

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ESMA COMMON SUPERVISORY ACTION ON VALUATION

1. Context

In January 2022, the European Securities and Markets Authority ("ESMA") launched a Common Supervisory Action ("CSA") with national competent authorities ("NCAs") on valuation of Undertakings for Collective Investment in Transferable Securities ("UCITS") and open-ended alternative investment funds ("AIFs")[1,2].

The aim of the CSA on valuation for UCITS and open-ended AIFs ("CSA on Valuation") was to investigate whether authorised managers of UCITS and open-ended AIFs (hereafter, "IFM") comply with the organisational requirements set out in the Alternative Investment Funds Managers Directive ("AIFM Level 1 Directive") and UCITS frameworks and whether they adhere to valuation principles and methodologies ensuring a true and fair valuation of the assets they manage both under normal and stressed market conditions. This CSA on Valuation focused on IFMs investing in "Less Liquid Assets" (i.e. unlisted equities, unrated bonds, Corporate Debt (CD), Real Estate (RE), High Yield (HY) bonds, Emerging Markets (EM) equities or bonds, listed equities not actively traded and bank loans), as these categories of assets are more impacted by valuation issues, especially during stressed market conditions.

In addition, the CSA on Valuation aimed at achieving greater supervisory convergence in the area of asset valuation among European Union/European Economic Area ("EU/EEA") NCAs with respect to risks stemming from inadequate valuation policies and procedures, inaccurate pricing or mark-to-model valuations, weaknesses of internal valuation models, improper or imprecise valuation approaches on less liquid assets and inaccurate external party valuation.

Within this framework, NCAs agreed at the level of ESMA to launch the CSA on Valuation with a view to assess whether market participants in their respective Member States adhere to applicable rules and standards in practice. This exercise was done on the basis of a common methodology developed at the level of ESMA.

[1] https://www.esma.europa.eu/press-news/esma-news/esma-launches-common-supervisory-action-ncas-valuation-ucits-and-open-ended

[2] https://www.cssf.lu/en/2022/01/launch-of-the-esma-common-supervisory-action-on-valuation-of-ucits-and-open-ended-aifs/

The CSSF started the CSA on Valuation in March 2022 by asking 30 Luxembourg-domiciled IFMs managing Luxembourg- and foreign-domiciled UCITS/open-ended AIFs to complete a dedicated questionnaire via the eDesk Portal. The 30 IFMs reported that 412 Umbrella UCITS/Open-ended AIFs, among which 38 were foreign funds, invested in Less Liquid Assets.

The CSSF then analysed the information collected and sent its final report to ESMA in December 2022.

In addition, in the context of the Russia-Ukraine crisis the CSSF conducted a separate but related supervisory exercise targeting specifically the valuation practices adopted by IFMs during that episode which caused affected assets to become illiquid/non-tradeable as a result of the crisis as well as due to the restrictive measures taken by the EU and other countries. This exercise was performed in late July 2022 by means of a dedicated CSSF questionnaire addressed to 23 IFMs, including notably questions on governance, decision-making processes and valuation processes applied.

On 24 May 2023, ESMA published the results of the CSA on Valuation at European Union level in a final report on the 2022 CSA on valuation (hereafter "ESMA report on the CSA on Valuation"). This report sets out ESMA's analysis and conclusions on the CSA on Valuation exercise and presents ESMA's views on the findings, notably the appropriateness of valuation policies and procedures, the valuation under stressed market conditions, the independence of the valuation function and use of third-party valuers, the early detection mechanisms for valuation errors and transparency to investors and the focus on Private Equity (PE) and Real Estate (RE) assets as well as the follow-up actions envisaged by the NCAs.

ESMA reported that most NCAs considered that there is an overall satisfactory level of compliance of the sample of IFMs with the applicable regulatory requirements. However, the CSA on Valuation also showed shortcomings and vulnerabilities.

The CSSF is currently engaging on a bilateral basis with most of the IFM of the sample in relation to observations made in the context of the CSA on Valuation, thereby asking these IFMs to implement the necessary corrective measures for the observed shortcoming/vulnerabilities.

The CSSF hereby asks all IFMs managing UCITS and/or AIFs to conduct a comprehensive assessment of their valuation framework in relation to the observations of the ESMA and the CSSF presented in the ESMA report on the CSA on Valuation as well as in the present report and to take, if appropriate, the necessary corrective measures by 31 December 2023.

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2. Observations

While the general valuation requirements stated in the AIFM Level 1 Directive and in the Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities ("UCITS Level 1 Directive") frameworks are similar, they are more granular in the additional Level 2 rules ("AIFM Level 2 Regulation[1]") for Alternative Investment Fund Managers ("AIFMs") compared to the UCITS Level 2 rules.

Nevertheless, as mentioned by point 526 in Circular CSSF 18/698, the CSSF recommends that UCITS Managers comply with the provisions of the sub-chapter 6.6 of this circular which provides specific rules concerning the organisation of the valuation function for AIFMs.

2.1 Appropriateness of valuation policies and procedures

2.1.1 <u>Content and review of the valuation policies/procedures</u>

Article 9.2 of CSSF Regulation No 10-04 transposing Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company "as amended by CSSF Regulation No 22-05 of 27 July 2022 amending CSSF Regulation No 10-04 of 20 December 2010 (Mém. A 2022, No 405)" (hereafter "CSSF Regulation 10-04") mentions that the UCITS Managers *"shall have accounting policies and procedures established, implemented and maintained, in accordance with the accounting rules of the UCITS' home Member States, so as to ensure that the calculation of the net asset value of each UCITS is accurately effected, on the basis of its accounts, and that subscription and redemption orders can be properly executed at that net asset value."*

[1] COMMISSION DELEGATED REGULATION (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

On the basis of Article 67.2 of the AIFM Level 2 Regulation, the valuation policies shall set out the obligations, roles and responsibilities of all parties involved in valuation process, including the senior management of the AIFM and the procedures shall reflect the organisational structure as set out in the valuation policies.

In accordance with Articles 70.1 and 70.2 of the AIFM Level 2 Regulation, the valuation policies/procedures have to be reviewed periodically, shall outline the circumstances which lead to a change and have to be reviewed and approved by the senior management of the AIFMs.

In this context, the CSSF has noticed that valuation policies/procedures have been established and implemented by the entire sample of IFMs. Nevertheless, the valuation policies/procedures for most of the IFMs **were not sufficiently comprehensive and detailed** concerning the description of the organisation pertaining to the valuation process, including the **allocation of the tasks** and responsibilities for each party involved in the valuation process.

In addition, the CSSF noted that a number of IFMs rely on policies/procedures from other group entities which are **not adapted to the specific circumstances of the Luxembourg IFM**. This observation mainly takes two forms:

- Unnecessary information in the policies and the procedures: descriptions of processes neither directly relevant nor required in the context of the valuation framework of the IFM itself; with yet a strong reliance on group policies;
- Sheer existence of multiple documents: one central valuation policy for the IFM is missing in several instances. Instead, various documents exist describing various processes, terms of references of multiple committees, roles and responsibilities of different persons taking part in the valuation process etc.

In addition, for a small number of IFMs, the CSSF observed that the review of the valuation policies/procedures **was not done at least on a yearly basis**. Finally, most of the IFMs did not outline in their valuation policies/procedures how a change to the valuation policy may be necessary and in **what circumstances** this would be appropriate.

On that basis, the CSSF expects all IFMs, in accordance with the applicable regulation and in line with the ESMA report on the CSA on Valuation, to have in place valuation policies and procedures that:

- Are concise, centralised, well-established and covering **all the types of assets managed** and clearly **allocating operational tasks and responsibilities** for asset valuation;
- **are regularly (at least on a yearly basis) reviewed** and for which the **senior management of the IFM has to approve** any changes;
- **outline how/when a change** to the valuation policy, including a methodology, may be effected and in what circumstances this would be appropriate;

- provide **for reporting to the senior management of the IFM** to ensure timely remediation of shortcomings.

2.1.2 Use of valuation models

Article 68.1 of the AIFM Level 2 Regulation requires that "*if a model is used to value the assets of an AIF, the model and its main features shall be explained and justified in the valuation policies and procedures. The reason for the choice of the model, the underlying data, the assumptions used in the model and the rationale for using them, and the limitations of the model-based valuation shall be appropriately documented.*" In addition, in reference to Article 68.2 of the AIFM Level 2 Regulation, the valuation policies and procedures shall ensure that before being used a model is validated by a person with sufficient expertise who has not been involved in the process of building that model. Furthermore, in accordance with Article 70.1 of the AIFM Level 2 Regulation, the valuation policies/procedures have to be reviewed periodically.

As part of the CSA on Valuation, the CSSF observed that a few sampled IFMs had inadequate documentation pertaining to model validation. For example, the periodicity of the model review and/or the materialisation of the model review were not appropriate and the valuation policies in relation to the model review were not adequate and/or complete.

As a result, the CSSF reminds all IFMs that:

- the valuation models (notably the data inputs, pricing/market data sources, assumptions, limitations, rationale for its use, etc.) **have to be regularly reviewed, at least on yearly basis and when required (i.e. more often than yearly) such as under stressed market conditions and shall be validated** by persons that have appropriate knowledge and experience and who have not been involved in the process of building that model;
- the review and validation of the models have to be **properly documented.**

2.2 Valuation under stressed market conditions

2.2.1 Interaction between Liquidity Stress Testing and valuation

As per Article 15(1) of the Law of 12 July 2013 on alternative investment fund managers ("AIFM Law"), the AIFMs must regularly conduct stress tests, under normal and exceptional liquidity conditions, which enable them to assess the liquidity risk of the AIFs and monitor the liquidity risk of the AIFs accordingly.

Recital 59 of the AIFM Level 2 Regulation mentions that the liquidity management systems and procedures can allow AIFMs to apply the tools and arrangements necessary to cope with illiquid assets and related valuation problems in order to respond to redemption requests.

In accordance with the Article 45.3 of the CSSF Regulation 10-04, the UCITS Managers shall conduct stress tests which enable assessment of the liquidity risk of the UCITS under exceptional circumstances.

In addition, the ESMA Guidelines on liquidity stress testing in UCITS and AIFs (ESMA34-39-897 EN) give more indication on Liquidity Stress Testings ("LSTs").

As part of the CSA on Valuation, the CSSF noted that the valuation function of the IFMs monitors the liquidity factors that may affect the valuation of assets (e.g. high bid-ask spreads, low trading volumes). However, most IFMs do not specifically consider the outcomes of the LSTs in the context of valuation of assets under stressed market conditions.

In this context, the ESMA report on the CSA on Valuation clearly stresses **the importance of considering the results of the LSTs to be prepared for a stressed market event** and specifies that the results of the **LSTs shall always be *"taken into account when considering the liquidation cost and valuation of less-liquid assets"*.** In addition, the LSTs program **should be re-assessed** based on the recent market events. Finally, the ESMA report on the CSA on Valuation reminds that the "*funds' portfolios should be **regularly stress tested** against all extreme but plausible market conditions*".

2.2.2 Stressed market conditions in the valuation policies/procedures

Article 25.3 of CSSF Regulation 10-04 stipulates that "*Without prejudice to any other provisions of Luxembourg law, management companies shall ensure that fair, correct and transparent pricing models and valuation systems are used for the UCITS they manage, in order to comply with the duty to act in the best interests of the unitholders. Management companies must be able to demonstrate that the UCITS' portfolios have been accurately valued.*"

As per the Article 71.1 of the AIFM Level 2 Regulation, the AIFM shall ensure that all assets held by the AIF are fairly and appropriately valued.

The CSSF noted that the valuation policies and procedures describe the methodologies used to value the different types of assets. However, they do not generally make an explicit distinction between normal and stressed market conditions. Instead, these valuation policies and procedures generally describe measures, controls or arrangements that are relevant for the situations where assets may become less liquid, and this is particularly the case under stressed market conditions or more generally where there is a lack of market depth (e.g. short term illiquidity, ratings downgrade).

As mentioned in the ESMA report on the CSA on Valuation, the valuation policies and procedures must clearly:

- define the **valuation method/methodology to be applied especially under stressed market conditions**;

- establish **the monitoring systems** in place to determine the potential liquidity/valuation issues;
- set **the conditions that would trigger the use of a different valuation model**;
- map the cases where **valuation uncertainty may trigger the use of Liquidity Management Tools**.

The supervisory exercise led by the CSSF with regard to the valuation practices adopted by IFMs in the context of the Russia-Ukraine crisis showed that different fair valuation approaches (e.g. proxy pricing, application of valuation discounts/haircuts) were applied by IFMs/Funds, thereby taking into account the specific situation (including sanctions) and characteristics of the affected securities (notably equities and fixed income securities with their respective currency and other features).

This exercise confirmed the above-mentioned observations and areas of improvement, as the CSSF observed for the majority of IFMs included in the sample that there was an absence of detailed coverage of stressed market conditions in the valuation policies/procedures in place, including notably also concrete provisions and guidance in relation to the application of the fair valuation method and related fair value adjustments in these circumstances.

In addition to the ESMA report on the CSA Valuation, the exercise also showed for some firms the following areas for improvement in relation to valuation policies/procedures in the context of stressed market conditions:

- valuation policies / procedures should be enhanced in order to set out provisions and guidance providing for timely decisions on the valuation of affected assets;
- the rules governing the functioning and related allocation of responsibilities of valuation committee(s) should be clearer and more precise;
- the valuation decisions taken by the governing body/senior management, together with the related underlying rationale, concerning the application of valuation methods and the pricing of securities should be better documented.

Finally, this exercise also confirmed the observation set out under section 2.1.1. above pointing to the necessity of enhancing the periodic review process for the valuation policies / procedures, including a better formalisation of such review by the senior management.

2.3 Independence of the valuation function and use of third parties

2.3.1 Independence of the valuation function

In accordance with Article 17(4) of the AIFM Law, the valuation function is either performed by an independent external valuer or by the AIFM itself, provided that the valuation task is functionally independent from the portfolio management function

"(…) *and the remuneration policy and other measures ensure that conflicts of interest are mitigated and that undue influence upon the employees is prevented*". Article 67.4 of the AIFM Level 2 Regulation adds that, where the valuation is performed by the AIFM itself, the safeguards for the functionally independent performance of the valuation task disclosed in the valuation policies shall include measures to prevent or restrain any person from exercising inappropriate influence over the way in which a person carries out valuation activities. Regarding the external valuers, Article 17(5) of the AIFM Law specifies the verifications that the AIFMs must perform on external valuers.

As disclosed in the ESMA report on the CSA on Valuation, the CSSF noted different approaches for the set-up of the valuation function: i) valuation function separated both from the portfolio management and the risk management function; ii) valuation function within the risk management function; iii) valuation function delegated to an external party; and iv) combination of different approaches depending on the type of asset/asset classes. Among these four types of organisation, the CSSF observed that only few IFMs have recourse to an external party performing the valuation function. Among these IFMs, we assessed in one case that the due diligence on the external valuer was not sufficiently precise to clearly document the mandatory professional registration of the external valuer as per Article 17.5 of the AIFM Law.

When the valuation function is performed internally, the CSSF observed that in some cases, the valuation policies/procedures did not clearly demonstrate the independence of the valuation function from the portfolio management function and did not sufficiently disclose the safeguards for the functionally independent performance of the valuation task. We also noted that the remuneration policies and/or the valuation policies/procedures were not specific enough about the conflicts of interest measures/safeguards to prevent undue influence on the valuation staff (e.g. remuneration of the valuation function and of the employees involved in the valuation of assets not based on the performance of the managed funds).

In this context, the CSSF expects all IFMs to:

- **verify and formalise** in the valuation policies/procedures **the independence of the valuation function,** particularly from the portfolio management function;
- ensure that remuneration policies and/or valuation policies/procedures present **the safeguards in terms of remuneration of the valuation staff** to mitigate the conflicting situations.

As outlined in the ESMA report on the CSA on Valuation, the **conflict-of-interest situations also have to be managed where valuation-related functions are performed by third parties** (including other group entities), especially if they perform multiple potentially conflicting functions on a delegation basis with fee structures linked to the Net Asset Value ("NAV").

2.3.2 Use of external valuers/data providers

Article 71.3 of the AIFM Level 2 Regulation mentioned that "*the valuation policies and procedures shall describe the review process including sufficient and appropriate checks and controls on the reasonableness of individual values*". Furthermore, in accordance with Article 71.2(b) of the AIFM Level 2 Regulation, the valuation policies and procedures shall set out a review process for the individual values of assets, where a material risk of an inappropriate valuation exists, notably when the valuation is based on illiquid exchange prices.

As part of the CSA on Valuation, the CSSF observed that the valuation of less liquid assets (i.e. CD, HY bonds, unrated bonds, listed equities not actively traded, EM equities or bonds, bank loans) are mainly based on quotations provided by independent third-party pricing vendors via the funds' third-party administrators and following a vendor pricing hierarchy. For direct RE and unlisted equities, the IFMs mostly apply mark-to-model valuation (either based on a model developed internally or based on the model-based valuation provided by external appraisers/valuers).

In this context, we noted that a few IFMs in the sample did not have sufficient controls in place to ensure the quality of data and models used and/or the reasonableness of individual values, especially for the mark-to-model prices. More generally, we nevertheless observed that most IFMs did not sufficiently or clearly document in their valuation policies and procedures the controls performed on the prices provided by third parties, notably for the valuations coming from the funds' third-party administrators collecting the prices from independent data vendors.

On that basis, the CSSF expects that all IFMs, in accordance with the applicable regulation and in line with the ESMA report on the CSA on Valuation, have in place valuation policies and procedures that:

- justify **the criteria behind the selection of pricing sources**;
- describe **the controls performed on the prices of the assets** in the portfolio, especially on less-liquid assets. As reminder, the ESMA report on the CSA on Valuation notably emphasises that "*it should be avoided to over-rely on the assessment made by external data providers, whose pricing methodologies and outputs should be challenged and regularly back tested in order to ensure their accuracy and robustness under all market conditions*" and that "*internal valuation models could be used to challenge the prices provided by the external data providers […].*"

Finally, the ESMA report on the CSA on Valuation mentions that *"internal valuation models should be preferred to external pricing sources, particularly for big-sized managers managing funds invested in less-liquid assets"*.

2.4 Early detection mechanisms for valuation errors and transparency to investors

2.4.1 Early detection mechanisms for valuation error

With reference to Article 72.3 of the AIFM Level 2 Regulation, the AIFM shall ensure that remedial procedures are in place in the event of an incorrect calculation of the NAV.

Circular CSSF 02/77 sets out the minimum rules of conduct to be followed in case of NAV calculation error for UCITS and Part II UCIs. In addition, point 12 of the CSSF FAQ on Circular CSSF 02/77 details notably the content of the policy and procedures regarding the NAV calculation error and point 9 of this FAQ specifies that Circular CSSF 02/77 applies to specialised investment funds ("SIF"), except if they have set other specific internal rules applicable in the context of NAV calculation errors and active investment breaches and that they apply appropriate thresholds taking due account of the investment policy of the SIF.

During the CSA on Valuation exercise, we observed that all the IFMs have put in place early mechanisms in order to detect any NAV/valuation error(s) and have remedial procedures in place in the event of an incorrect calculation of the NAV, which are based on Circular CSSF 02/77. Nevertheless, for some IFMs, the remedial procedures were not sufficiently detailed (e.g. absence of the definition of the scope (UCITS, AIF,…), reference only to a specific point of the Circular CSSF 02/77 and not to the entire circular).

In this context, the CSSF reminds all the IFMs that **formal remedial procedures** have to be in place in the event of valuation errors and incorrect calculations of the NAV ensuring that full investor compensation is triggered if the valuation/NAV errors cause harm to investors of the funds. The effectiveness and the correct application of these remedial procedures must be monitored, in particular during stressed market conditions.

2.4.2 Transparency to investors

Article 17(3) of the AIFM Law requires that "*the investors shall be informed of the valuations and calculations as set out in the relevant AIF management regulations or instruments of incorporation.*"

As per Article 21(1)(g) of the AIFM law, the AIFM must make available to the investors of AIFs before they invest a description of the AIF's valuation procedure and of the pricing methodology for valuing the assets, including the methods used in valuing hard-to-value assets.

Points 1.16 and 1.17 of the schedule A of Annex I of the Law of 17 December 2010 relating to undertakings for collective investment ("UCITS Law") present the required prospectus content pertaining to the rules for the valuation of assets.

The CSSF noted that most IFMs participating in the CSA on Valuation exercise disclose adequate information regarding methods of valuation as well as governance arrangements to investors of managed funds. Nevertheless, in a few cases, we concluded that disclosures to investors could be improved notably in prospectuses or financial reports, especially in case of an involvement of the portfolio management function in the valuation process.

Consequently, the CSSF asks all the IFMs to ensure **appropriate disclosures** (i.e. clear, understandable, relevant, not technical, not general/boilerplate language) to the investors of the funds regarding the valuation policies and procedures, such as the governance arrangements, valuation methodologies and methods and their related changes and the valuation risks.

2.5 Focus on open-ended funds investing in private equity and real estate assets

As per Article 15(2) of the AIFM Law, the AIFMs must ensure that for each AIF they manage, the investment strategy, the liquidity profile and the redemption policy are consistent.

The CSA on Valuation focused on UCITS and open-ended AIFs which invest in less-liquid assets, including unlisted equities and direct RE. The illiquidity of unlisted equities and direct RE and the redemption policy of open-ended funds investing in this type of assets result in valuation and liquidity risks (e.g. not fair NAV for investors who redeem, issues for meeting redemptions, etc.).

As already mentioned in points 2.1.2 and 2.3.2 of the present report, the CSSF noted that the model review was not robust enough for a few IFMs, managing notably open-ended funds investing in unlisted equities and direct RE.

On that basis, the CSSF expects the IFMs in accordance with the applicable regulation and in line with the ESMA report on the CSA on Valuation to:

- select the relevant methodologies/methods to value the assets with an **appropriate level of justification and objectivity**;
- have robust valuation policies/procedures in order to assess **the reasonability and consistency of the models used** (e.g. review of assumptions/financial models/input data and quality of the data; backtesting) and **to be able to take into account economic and asset specificities'** changes in the models;
- ensure **the alignment between the funds' investment strategy, liquidity profile and redemption policy**.

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2.6 Involvement of depositaries in the verification of the valuation framework of IFMs

Article 19(9) of the AIFM Law describes some of the tasks of the depositary including the control of the value of the units or shares of the AIF. Article 94.1(a) of the AIFM Level 2 Regulation requires notably that the depositary shall verify on an ongoing basis that appropriate and consistent procedures are established and applied for the valuation of the assets of the AIF. Article 94.1(b) stipulates that the depositary shall ensure that the valuation policies and procedures are effectively implemented and periodically reviewed.

According to point 63 of the sub-chapter 2.2 of the part III of Circular CSSF 18/697, the depositary must develop written procedures or contracts with all the persons with which the depositary must work when performing its duties as AIF depositary, notably the duties described in the above-mentioned article of the AIFM Level 2 Regulation. The depositary applies these procedures at a frequency that is consistent with the frequency of the AIF's valuation policy.

In reference to Articles 83.1(j) and 83.1(k) of the AIFM Level 2 Regulation, the contract between the depositary and the AIFM and/or AIF shall include the necessary information that needs to be exchanged between the parties.

Articles 18 and 34 of the UCITS Law describe the functions of the depositary, including its role in the control of the value of units of the common fund/SICAV. Articles 17(5a) and 33(5) of the UCITS Law stipulate that the written contract with the depositary shall regulate the flow of information deemed to be necessary to allow the depositary to perform its functions for the common fund/SICAV for which it has been appointed as depositary. Point 33 of Circular CSSF 16/644 precises the information that must be provided in this context to the depositary of the managed UCITS.

In the context of the CSA on Valuation, we observed a general lack of involvement of depositaries in the verification of the valuation framework of IFMs. Furthermore, information and evidence collected via the questions asked to the IFMs suggests that the market practice and role of the depositary is not homogeneous.

In this context, the CSSF reminds depositaries that they shall control the valuation of the funds for which they act as depositary. In particular,

- As part of risk assessment and due diligences on IFMs, they shall ensure that
    - Valuation process, policies and procedures are established in compliance with applicable UCITS and AIFs requirements as well as undertakings for collective investment's rules (in particular for AIFs, Article 17 of the AIFM Law and implementing measures of Article 19 of the AIFM Level 1 Directive);
    - Where applicable, as set out under Article 94.4 of the AIFM Level 2 Regulation, appointment of external valuers by AIFMs comply with the aforementioned articles;

- As part of periodical controls, they shall ensure that valuation methodologies, as defined under IFMs valuation policies, are effectively implemented.

Concerning the IFMs, they shall:

- Ensure that the depositaries of the managed funds have access to the necessary information in order for them to perform their control pertaining to asset valuation according to applicable requirements;
- Ensure asset valuation is addressed as part of their review of depositaries' performance of their contractual obligations.

Disclaimer:

The articles of Law/Regulation/Circular listed above under point 2 of the present report represent a **non-exhaustive** list of key provisions that the IFMs shall respect.

3. Appendix – Glossary

Abbreviations	Definitions
AIF	Alternative Investment Fund.
AIFM	Alternative Investment Fund Manager.
AIFM Law	Law of 12 July 2013 on alternative investment fund managers.
AIFM Level 1 Directive	Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.
AIFM Level 2 Regulation	Commission Delegated Regulation 2013/231/EU of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.
CD	Corporate Debt.
CSA	Common Supervisory Action.
CSSF Regulation 10-04	CSSF Regulation No 10-04 transposing Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company "as amended by CSSF Regulation No 22-05 of 27 July 2022 amending CSSF Regulation No 10-04 of 20 December 2010 (Mém. A 2022, No 405)".

Abbreviations	Definitions
EM equities or bonds	Emerging market equities or bonds.
ESMA	European Securities and Markets Authority.
ESMA report on the CSA on Valuation	Final report on the 2022 CSA on valuation.
EU/EEA	European Union/European Economic Area.
HY bonds	High yield bonds.
IFM	Investment Fund Manager.
LSTs	Liquidity Stress Testings.
NAV	Net Asset Value.
NCAs	National Competent Authorities.
Part II UCIs	Part II of the Law of 17 December 2010 relating to undertakings for collective investment.
PE	Private Equity.
RE	Real estate.
UCI	Undertaking for Collective Investment.
UCITS	Undertaking for Collective Investment in Transferable Securities.
UCITS Law	Law of 17 December 2010 relating to undertakings for collective investment.
UCITS Level 1 Directive	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

Abbreviations	Definitions
UCITS Level 2 Directive	Commission Delegated Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company.

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