September 2026

MOORE NEWSLETTER

Valuation under the SFC Fund Manager Code of Conduct (FMCC): what the Code requires, what it leaves open, and how to close the gap

The Securities and Futures Commission's Fund Manager Code of Conduct (FMCC, the Code) reached its fifth edition in October 2024.[1] Most of the attention it attracts goes to custody, liquidity, leverage and securities lending. Its valuation provisions, mainly in section 5.3, are rarely discussed. Yet they decide how a fund's net asset value is built, and they matter more each year as Hong Kong funds hold more assets with no screen price: private credit, pre-IPO stakes, venture positions, property holding companies and, increasingly, tokenised real-world assets.

This newsletter sets out what the Code requires on valuation, where it stops, and how, in our view, a fund manager should fill the space it leaves. Where the Code is silent, we read it alongside the International Valuation Standards (IVS 2025), the standard most Hong Kong business valuers already follow.

AT A GLANCE

- Section 5.3 of the Code sets seven valuation duties for fund managers responsible for a fund's operation or delegated its valuation.
- The Code names no valuation standard, does not define "suitably qualified persons", and leaves "where necessary" (for independent confirmation) open.
- Our view: explicitly adopt IVS 2025 in the valuation policy, document appraiser qualifications by asset class, clearly stipulate the triggers for independent confirmation within the policy, and ensure the annual review tests values (sample), not just procedures.
- Moore Transaction Services provides independent valuations, independent confirmations and annual valuation process reviews under paragraphs 5.3.6 and 5.3.7.

1. WHAT THE CODE REQUIRES, IN ONE PAGE

Section 5.3 applies to a fund manager that is responsible for the overall operation of a fund, or that has been delegated responsibility for valuation. A sub-adviser running a sleeve is outside it unless valuation has been delegated. Two duties bind every fund manager regardless: valuation may only be performed by qualified and experienced person (paragraph 1.2(b)), and it is a back-office function, segregated from the front office with separate reporting lines (1.4(a)). Discretionary account managers are not exempt: Appendix 1 disapplies a few fund-specific items but otherwise expects them to observe section 5.3 and to send clients a valuation report at least monthly.

Within section 5.3 the duties fall into seven lines, set out in Figure 1. Three further provisions sit alongside: side pockets, pricing errors and daily marking of lending collateral.

[1] Securities and Futures Commission, Fund Manager Code of Conduct (FMCC), Fifth Edition, October 2024, available on the SFC website (sfc.hk). Paragraph references are to that edition.

Figure 1. The seven valuation duties in section 5.3 of the Code (paragraphs 5.3.1 to 5.3.7), with side pockets, pricing errors and collateral marking alongside.

FUND MANAGER CODE OF CONDUCT · SECTION 5.3

Fund portfolio valuation: the seven duties

For a Fund Manager responsible for the overall operation of a fund, or delegated responsibility for valuation.

1	**Independent and consistent** A valuation policy that delivers independent valuations and applies the same methodology to similar assets.	5.3.1
2	**A written exceptions process** Every price override or deviation documented with a reason, reviewed by a functionally independent party, with the method for the substitute price described.	5.3.2
3	**Periodic review of the policy** Checked for continued appropriateness and effective implementation.	5.3.3
4	**Third-party valuers, same responsibility** Due care in selecting any external valuer and periodic review of its work. The manager **remains responsible** for the valuation regardless.	5.3.4
5	**Regular valuation, disclosed** Frequency matched to the assets and to dealing, with frequency and basis of valuation disclosed to investors.	5.3.5
6	**A fair value hierarchy for unpriced assets** Comparable third-party transactions, appraisals by **suitably qualified persons**, and independent information, with independent confirmation **where necessary**.	5.3.6
7	**An annual independent review that tests** At least yearly, by a competent and functionally independent party, and it **should include testing the valuation procedures**.	5.3.7

Also: side-pocketed assets need a policy meeting all seven duties, with valuation on entry and ongoing disclosed (5.4). Pricing errors must be detected, corrected and, where material, compensated (5.5.2). Lending and repo collateral is marked to market daily where practicable (3.13.2).

Figure 2. The three fair value sources for unlisted holdings under paragraph 5.3.6(b) of the Code: comparable recent third-party transactions, appraisals by suitably qualified persons with independent confirmation where necessary, and independent information. Three terms are undefined: suitably qualified, where necessary, best industry standards.

FUND MANAGER CODE OF CONDUCT · PARAGRAPH 5.3.6(B)

Fair value for unlisted holdings: the three sources the Code allows

Where a security is unlisted or unquoted and not actively traded, value is based on fair value by reference to:

1. **Comparable recent third-party transactions**

   Recent arm's-length deals in similar investments, selected with professional judgement and prudence, with the reasonableness of the result assessed.

   Ask: how recent, how similar, how arm's length?

2. **Appraisals by suitably qualified persons**

   Valuations by qualified appraisers of the investment or its issuer. Where necessary, independent confirmation from another suitably qualified person.

   Ask: qualified for this asset class, and independent of the deal team? When is confirmation "necessary"?

3. **Independent information**

   Any information about the investment or issuer that is or becomes known to the manager from independent sources.

   Ask: is the source independent, and is it documented in the file?

The manager remains responsible for the valuation whichever source is used, and whoever performs it (5.3.4).

Not defined in the Code: **suitably qualified** **where necessary** **best industry standards**

Figure 2 opens up the sixth duty, the one that matters most for private assets. None of this is controversial. The interest lies in what the seven lines leave unsaid.

2. FOUR QUESTIONS THE CODE LEAVES TO YOU

The Code is principles-based. Where it is silent it does not grant permission. It hands the judgement to the fund manager, who will later have to show that the judgement was sound. Four such judgements recur in every private-asset fund we see.

Which standard is the valuation actually following?
The Code names none. It points to generally accepted accounting principles and to "best industry standards and practices", and leaves the fund manager to decide what those are. In 2026, the answer is not in doubt. The 2025 edition of IVS took effect on 31 January 2025, and its new chapter on "Data and Inputs" sets the bar in three words: significant inputs must be "explained, justified, and documented", failing which the valuation does not comply with IVS.2 For private equity and venture positions, the International Private Equity and Venture Capital Valuation Guidelines ("IPEV Guidelines") sit alongside. A fund's valuation policy should name its standard and its edition, so that everyone who relies on the net asset value ("NAV") knows which rulebook produced it.

Who is a "suitably qualified" appraiser?
The Code describes the people to issue a valuation report as "suitably qualified persons", such as qualified appraisers. Hong Kong has no statutory licence for business valuers, so the phrase points to a qualification that no local law defines. In practice, the fund manager's file has to supply the definition, asset class by asset class: a recognised valuation designation, membership of a body that runs a valuer registration scheme, a track record in that sector, and independence from the deal team and from anyone with an interest in the price. The same test applies to internal valuers. The Code says the fund manager keeps the responsibility in valuing fund assets. It follows that the fund manager keeps the burden of proof.

When is independent confirmation "necessary"?
Paragraph 5.3.6(b) states that "where necessary, the Fund Manager should seek independent confirmation of the valuation from another suitably qualified person', yet it does not specify what constitutes 'where necessary.'. Left undefined, the phrase is decided under pressure, usually at quarter-end. It is better fixed in the policy in advance. In our view, confirmation becomes necessary when a holding is material to NAV, when the primary valuation came from the investment team or an affiliate, when a value has moved materially without an observable transaction, when a performance fee crystallises on it, and at the point of side-pocketing. Written down, a vague phrase becomes a control.

What is the annual review actually testing?
Paragraph 5.3.7 asks the reviewer to test procedures. It does not ask whether any individual value is reasonable. IVS 2025 draws exactly this line, between a valuation process review and a value review.3 A review that confirms the procedure exists has met the letter of the Code. A review that re-performs a sample of valuations and benchmarks their inputs has met its purpose.

The Code says nothing about the discounts for lack of marketability, control premiums and minority discounts that drive most private valuations, yet they are the largest judgement calls in the file. IVS 2025 does address them: it names the typical methods for each, and ties a control premium to whether control "enhances the economic benefits available to the owner of the subject asset".4 A reviewer should therefore ask three things of every adjustment: which method or study it rests on, why that source fits this holding, and whether the number sits within the range the source supports. A reviewer who has not asked has not tested. And the first document any reviewer will open, whether the SFC, the auditor or the board, is the override log that paragraph 5.3.2 already requires.

---

[2] International Valuation Standards Council (ivsc.org), International Valuation Standards (IVS), effective 31 January 2025, IVS 104 Data and Inputs, paragraphs 40.04 and 50.01.

[3] IVS 2025, IVS 106 Documentation and Reporting, section 40, Valuation Review Reports.

[4] IVS 2025, IVS 103 Valuation Approaches, Appendix A10.17(b), Control Premiums and Discounts for Lack of Control.

3. A PRACTICAL CHECKLIST

- Name the standard and edition the valuation policy follows: IVS 2025, and IPEV Guidelines where relevant.
- Set out the fair value hierarchy for each asset class the fund may hold.
- Define qualification and independence criteria for internal and external appraisers.
- Fix the triggers for independent confirmation in the policy.
- Keep a price override log: reason, reviewer, method, for every deviation.
- Record every discount and premium applied, the study or data relied on, and why it fits the holding.
- Ask the annual reviewer to test sample of values, not only the procedures.
- Disclose valuation frequency and basis to investors, and for side pockets, the valuation on entry and ongoing.

4. FREQUENTLY ASKED QUESTIONS

Does the FMCC require a fund manager to appoint an external valuer? No. It requires a proper and independent valuation. An external valuer is one way to achieve it, and paragraph 5.3.4 makes clear the fund manager keeps responsibility for the valuation of a fund's assets either way.

Which standard should a Hong Kong fund's valuation policy cite? The Code names none. In our view IVS 2025 is the reference most defensible today, with the IPEV Guidelines for private equity and venture holdings.

How often must a fund's valuation policy be independently reviewed? At least annually, by a competent and functionally independent party, and the review should include testing of the valuation procedures (paragraph 5.3.7).

Do the FMCC valuation duties apply to discretionary account managers? Largely yes. Appendix 1 disapplies the dealing-frequency test, side pockets and per-class NAV calculation, but expects section 5.3 to be observed where applicable and requires at least monthly valuation reports to clients.

When should a fund manager obtain independent confirmation of an appraisal? The Code says "where necessary" without defining it. We suggest fixing the triggers in the policy: material holdings, valuations prepared by the deal team or an affiliate, large unexplained moves, performance-fee crystallisation and side-pocketing.

5. HOW WE CAN HELP

Moore Transaction Services provides independent valuations of unlisted equity, debt, intangible and property-backed holdings for funds and discretionary accounts, independent confirmation of appraisals prepared by fund managers or third parties, and annual valuation process reviews that include re-performance of sampled values. We also review valuation policies against the Code and IVS 2025, and benchmark the discounts and premiums adopted in a fund's valuations against published studies and observable market evidence. More on our valuation services: www.moore.hk/services/advisory/transaction-valuation/

Moore Hong Kong has been actively providing transaction and valuation advisory services to its clients. Our team of valuation specialists and transaction advisory experts hold professional qualifications including CFA, FRM, CPA, MRICS, CAIA and CESGA.

Should you wish to know more about valuation under the FMCC, please WhatsApp +852 6938 9310 or contact our Transaction Services Managing Director, Kenneth Ma, or Transaction Services Principal, Calvin Wong.

KENNETH MA
Transaction Services Managing Director
T +852 2738 4633
E kennethma@moore.hk

CALVIN WONG
Transaction Services Principal
T +852 2738 4637
E calvinwong@moore.hk