

Five Reasons Smaller to Mid-Sized Asset Managers Should Get an ASC 820 Valuation Before Audit Season

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There is a common perception that independent valuation is only for the asset management industry giants. However, for smaller and mid-sized fund managers, it is the most cost-effective way to survive audit season intact. If you are leading a small to mid-sized asset manager (AUM < \$1 billion)—whether you run a private credit strategy, a private equity or venture capital fund, a venture debt vehicle, a boutique hedge fund, or a family office—you have likely had the “valuation debate” internally: “We know these assets better than anyone else. Our internal models are sound. Why should we pay a third party to tell us what our positions are worth? That’s overkill for a fund our size.”

That argument used to carry some weight. It doesn’t anymore. With the tightening of audit standards and increased regulatory scrutiny on ASC 820 (Fair Value Measurement), “marking your own homework” no longer flies with auditors. They are under immense pressure to scrutinize unobservable inputs, and investors are demanding institutional-grade governance regardless of AUM.

Below are five reasons why engaging an independent valuation firm is a sound investment in your firm’s future—not just a line item on your compliance budget.

1. Remove Conflicts of Interest and Build Investor Confidence
2. Free Your Team and Accelerate Your Audit
3. Ensure Consistency and Create a Defensible Regulatory Record
4. Control Costs and Strengthen Your Level 3 Position
5. Catch Problems Early and Avoid Last-Minute Surprises



For small to mid-sized asset managers, the cost of an independent valuation is a fraction of the cost of a failed audit or a lost investor.

1. Remove Conflicts of Interest and Build Investor Confidence

Even if your internal valuation is mathematically sound, it carries an inherent optics problem: you are determining the value of the assets on which your performance fees are calculated. An independent valuation acts as a neutral arbiter, giving regulators and investors confidence that your Net Asset Value (NAV) is objective and free from self-interest.

When sophisticated allocators like pensions, endowments, and funds of funds conduct Operational Due Diligence, they look for exactly this kind of third-party oversight. Engaging a reputable valuation provider demonstrates that your firm operates at an institutional standard. For investors on the fence, it can be the deciding factor.

2. Free Your Team and Accelerate Your Audit

At smaller funds, the CFO or Controller typically wears many hats, from trade operations to HR. Private credit portfolios alone can include convertible debt, term loans, and acquisition financing—each requiring a distinct valuation methodology. Building Option Pricing Models (OPM), yield analyses, or Monte Carlo simulations are significant technical undertakings. Outsourcing that work frees your internal team to focus on key core operations, rather than a specialized function that surfaces only a few times a year.

The efficiency gains carry into the audit itself. The biggest bottleneck in fund audits is the valuation of Level 3 assets—illiquid securities, private debt, and similar positions. When you provide internal marks, auditors must test every formula, input, and assumption, generating a long queue of Provided by Client requests. A third-party report shifts the auditor's role from reconstructing your valuation to reviewing a professional opinion, clearing the path to a faster sign-off and timely K-1 distribution.

3. Ensure Consistency and Create a Defensible Regulatory Record

If you use a revenue multiple in Q1 and switch to a DCF in Q2 because it produces a better number, that raises questions with auditors. Professional valuation firms establish a methodological framework applied consistently across periods. When a methodology must evolve alongside the asset, they document the rationale in a way that insulates you from accusations of “style drift.”

The SEC and other oversight bodies are increasingly focused on private asset valuations and expect to see contemporaneous records of how fair value was determined. This is especially relevant across private credit, private equity, venture capital, and venture debt strategies, where market comparables are limited and judgment-based inputs are common. A comprehensive valuation report provides detailed coverage of the economic environment, industry conditions, and specific inputs used at the time—building a record that protects the firm long after the filing is complete.

4. Control Costs and Strengthen Your Level 3 Position

If you don't engage your own valuation firm, your auditor may do it for you. When complex assets are supported only by internal models, auditors often bring in their own specialists at standard hourly rates. By retaining your own firm, you control the cost and present a professional report that requires review, not reconstruction, often eliminating the need for additional specialists.

Beyond cost, valuing illiquid assets requires judgment on unobservable inputs—discount rates, volatility, exit multiples. If you apply a 15% discount rate, your auditor will ask why it isn't 18%. Independent valuation experts have access to institutional data sources and private transaction databases—that most smaller funds cannot cost-effectively maintain on their own. They ground every assumption in current market data, giving your numbers a foundation that holds up under scrutiny.

5. Catch Problems Early and Avoid Last-Minute Surprises

Few things are more challenging than an auditor challenging your marks three days before the filing deadline. A forced write-down under time pressure restates your returns, strains investor relationships, and puts the firm's credibility at risk. If a position needs to be marked down, working through it in the draft stage with your valuation firm is far less disruptive than addressing it under audit pressure with a hard deadline in view.

This is especially relevant for credit funds holding term loans, acquisition financing, or other illiquid instruments. Relying on a single non-binding broker quote is not enough. Under ASC 820, a quote without an underlying transaction is generally treated as weak evidence of fair value. Independent valuation firms corroborate broker quotes with yield analysis and credit calibration, converting a rough market indication into a defensible measurement that withstands audit testing.

The Bottom Line

You don't have to outsource your entire book. If you are cost-conscious, a hybrid approach makes sense: keep your Level 1 and liquid Level 2 assets in-house, but bring in a specialist for Level 3 and complex positions.

For small to mid-sized asset managers, the cost of an independent valuation is a fraction of the cost of a failed audit or a lost investor. In a market where private asset values face growing scrutiny from auditors, regulators, and LPs, having a valuation firm with relevant asset class expertise is no longer a luxury. As you prepare for audit season, consider bringing in an expert who can ensure your numbers—and your reputation—hold up to the scrutiny ahead.

Get In Touch



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