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[CEO letter
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**Financial Services
Commission**

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Dear Sir

Independent Valuations

As a result of information provided by fund administrators during 2011, on independent valuations, I am writing to you to provide details of what we consider to be good practice in this area

This letter does not, however, purport to include an exhaustive list of permutations and, therefore, only includes the more salient points which have most frequently been encountered by the FSC when dealing with fund administrators in relation to independent valuations.

PPMs

As part of the information on good practice obtained from fund administrators, it was noted that many fund administrators were involved in the drafting of PPMs to ensure that they are satisfied with the valuation of funds and that this is clearly explained in the PPM and the relevant disclosures are made. This process also normally involves the auditors and the directors. Although, each fund is dealt with on a case by case basis, many administrators ensured that they were satisfied with the process and agreed this before the fund accepted subscriptions. We would encourage this approach. In any event, the FSC would expect fund administrators to be comfortable with the manner in which each fund proposes to conduct underlying valuations and NAV calculations.

Accounting standards followed by funds should be detailed in the PPM where relevant. Administrators should develop models with the auditors in respect of NAVs conducted between valuations for hard to value assets and details of these should be disclosed in the PPM.

Land valuation

It appears from the responses received that the general consensus for the valuation of property and land is to appoint at least one qualified local valuer with knowledge of the jurisdiction and the market in general. The valuer having knowledge of the type of property and valuations is also good practice in this respect. Furthermore, most property funds were considered to be better suited to being set up as closed ended funds to help maintain the integrity of the NAV. It was also considered good practice that any fees taken are valued on the subscription price as opposed to on any new prices.

Other asset valuation

In relation to the valuation of other assets, there are a number of ways that this seems to be undertaken by seeking information from independent sources (be it Bloomberg or internet searches). It is also good practice for details of for example what price will be taken (e.g. mid price) and the circumstances when a different pricing system will be used (e.g. not a frequently traded asset) to be set out in the PPM.

Several firms have suggested that they would require sight of the audited financial statements of the underlying assets, where applicable. Some firms also conduct

research; compare prices with similar products; challenge directors etc to ensure that they are satisfied with the valuation. Some firms also considered the level of work conducted to the percentage of the overall value of the whole investment and any price differences. Furthermore, some administrators encourage harder to value assets to be kept to a minimum value of the whole investment of some funds. Details should also be set out in the PPM and the necessary disclosures should be made. We consider it best practice for every fund to have considered the applicability of these and, if they decide not to adopt them, document the reason why.

New funds

For new EIFs the FSC is asking for aspects of valuations, including details of independent verification, to be detailed in each EIF's offering documentation. Although it is not always possible to obtain an appropriate independent valuation, we are encouraging new funds to ensure that there is some form of independence in the valuation and that the pertinent details are disclosed.

Finally, it should be noted that the Alternative Investment Fund Manager Directive has detailed requirements in respect of valuations.

Yours faithfully

Joanne Beiso
Head of Funds and Pensions Supervision