

Appendix B

## Debt and Equity Valuation Example

## Assumptions:

- Enterprise value of Portfolio Company A (controlling basis) = \$1,150
- Debt has a par value of \$100 and includes a change in control provision
- Fair value of debt (on a stand-alone basis) = \$80
- Debt and a controlling equity interest in Portfolio Company A are held in the same investment company

Current Practice	Proposed ASU	
Accounting value of the debt and equity equals the total controlling enterprise fair value of \$1,150.	Accounting value of the debt and equity will not equal the total controlling enterprise fair value of \$1,150. (\$80 + \$920 = \$1,000)	
Debt is recorded at \$100 due to change in control provision (sell bonds to same market participant to whom the equity is	Debt is recorded at fair value of \$80 (price in the secondary market)	
sold)	<ul> <li>Noncontrolling equity interest is recorded at \$920 (Noncontrolling enterprise value</li> </ul>	
• Controlling equity interest is recorded at \$1,050 (Controlling enterprise value of	of \$1,000 less \$80 fair value of debt)	
\$1,150 less \$100 par value of debt)	Reduction in total value of \$150 from current practice	