



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

| <u>Current Practice</u> | <u>Proposed ASU</u> |
|--|---|
| <p>Accounting value of the debt and equity equals the total controlling enterprise fair value of \$1,150.</p> <ul style="list-style-type: none"> • Debt is recorded at \$100 due to change in control provision (sell bonds to same market participant to whom the equity is sold) • Controlling equity interest is recorded at \$1,050 (Controlling enterprise value of \$1,150 less \$100 par value of debt) | <p>Accounting value of the debt and equity will not equal the total controlling enterprise fair value of \$1,150. (\$80 + \$920 = \$1,000)</p> <ul style="list-style-type: none"> • Debt is recorded at fair value of \$80 (price in the secondary market) • Noncontrolling equity interest is recorded at \$920 (Noncontrolling enterprise value of \$1,000 less \$80 fair value of debt) • Reduction in total value of \$150 from current practice |