Ernst & Young

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. • 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)	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 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