# Kroll Cost of Capital Inputs

Frequently Asked Questions

# Q: Can I use a spot rate with a Kroll Recommended Equity Risk Premium (ERP)?

A: Yes. However, your selection of risk-free rate will impact the ERP selection. If you were to use a spot rate instead of the accompanying normalized risk-free rate, you would need to adjust the ERP assumption accordingly. You can determine the inferred ERP using the following formula:*

$$\text{Kroll Recommended ERP} + \text{Normalized Risk-free Rate} - \text{Spot Yield on Government Bond} = \text{Inferred ERP}$$

The next page includes an example for the inferred Eurozone ERP.

\* An inferred ERP can be obtained from the Kroll Recommended ERP for both the U.S. and the Eurozone. During periods when Kroll also used a spot (or market) yield on a government bond as the proxy for the risk-free rate as of a given valuation date, no further adjustments are necessary.

# Inferred Eurozone ERP:

## Using the Kroll Eurozone Recommended ERP Against A Spot German Risk-free Rate
As of December 15, 2022

| | Kroll Eurozone Recommended ERP | | German Normalized Risk-free Rate | | 15-Year German Government Spot Yield * | | Inferred Eurozone ERP |
|---|---|---|---|---|---|---|---|
| Low Range | 5.5% | + | 3.0% | − | 2.0% | = | 6.5% |
| High Range | 6.0% | + | 3.0% | − | 2.0% | = | 7.0% |

* Source: Deutsche Bundesbank