Emerging Valuation Challenges From the 2026 ASA Complex Securities Conference

Business Valuation Update

June 30, 2026

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Categories: fair value for financial reporting

Tags: american society of appraisers (ASA), fair value, fair value measurements, conference, financial instruments

The ASA recently hosted its virtual 2026 Complex Securities Conference, chaired by Adam Smith of Valuation Research Corp. (VRC).[1] The event brought together experienced practitioners to explore practical valuation approaches, modeling considerations, and real-world applications across a range of complex securities.

Several sessions explored issues raised in the AICPA's recent working draft, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* (AICPA Guide) and valuation considerations for backstop agreements and their emerging role in AI infrastructure funding.

Taken together, the discussions suggest an ongoing evolution in valuation practice. Practitioners are moving beyond traditional single-method frameworks toward approaches that better reflect economic reality.

No-arbitrage arguments. The AICPA Guide emphasizes assessing whether valuation results are economically consistent with the relative value and implied yields of the securities in the capital structure. To address this common challenge, the presenters applied no-arbitrage principles to evaluate valuation approaches through a framework that bridges option-pricing models and traditional yield analyses.[2]

No-arbitrage principles require that implied discount rates increase from senior to junior securities within a capital structure. Building on this framework, the presenters examined several common equity allocation methodologies using a capital structure example featuring convertible preferred shares and common stock. These alternatives to the traditional OPM can produce results that violate no-arbitrage conditions, including "hidden" arbitrage cases in which relative security prices may appear reasonable yet still violate convexity requirements.

Key takeaway. Reviewing for no-arbitrage conditions may serve as a useful, model-independent check on equity allocation results and may help identify inconsistencies that might otherwise be overlooked.

Backstop agreements. Backstop agreements have evolved into a financing tool for capital-intensive data center development.[3] A backstop agreement is a contingent financial commitment from a creditworthy counterparty to provide capital or satisfy obligations if primary funding or performance fails.

In the data center market, a GPU manufacturer, cloud provider, or hyperscaler may backstop a lease obligation or output-capacity commitment between developers and tenants. If default occurs, the guarantor may assume the lease and, in some cases, receive an equity interest. By reducing tenant credit risk and improving the predictability of expected cash flows, backstops can help developers secure more favorable construction financing terms.

From a valuation perspective, a backstop agreement functions as a hybrid instrument that combines credit risk, option pricing, and real estate lease economics, introducing complexity and requiring significant professional judgment. Their valuation typically requires a blended framework incorporating default probabilities, lease rate dynamics, and embedded optionality.

Key takeaway. Backstop agreements highlight how emerging financing structures, especially those tied to AI infrastructure, are creating new valuation challenges that require careful judgment, transparent assumptions, and flexible modeling techniques.

Convertible notes. The conference also examined valuation models for convertible notes, which are frequently used in venture and growth-stage financing because the flexible structure blends debt and equity characteristics into a single instrument. Presenters noted that traditional valuation approaches may undervalue downside protection while overemphasizing conversion scenarios.[4]

To capture the economics of these instruments better, the presenters introduced enhanced modeling approaches. Treating convertible notes as hybrid contingent claims integrates both equity optionality and credit risk and incorporates a broader range of exit scenarios, including low-value outcomes, delayed exits, and defaults.

This methodology integrates credit risk modeling, capital structure positioning, and the seniority and timing of cash flows, particularly under extension or restructuring. This dual lens better aligns valuations with market participants' risk assessments. The use of scenario analysis and probabilistic simulation to capture the full range of outcomes allows practitioners to model path-dependent features and reflect management and investor optionality under varying conditions. This approach can also quantify the sensitivity of the valuation to changes in key assumptions, such as volatility, discount rates, and exit timing.

Key takeaway. Hybrid modeling approaches may produce more robust and defensible valuations for convertible notes. Scenario-driven frameworks may enhance transparency and improve communication of risk to stakeholders.

DLPPU method. The AICPA Guide introduces the debt-like preferred plus upside (DLPPU) method, which values liquidation preferences as stand-alone debt instruments and helps ensure that credit spreads align with a company's actual risk profile.[5] The DLPPU method better reflects the hybrid nature of preferred equity securities, which traditional OPM methods may not fully capture.

The DLPPU method addresses this gap by decomposing preferred securities into two components. The first is a debt-like element that reflects the security's downside protection, including liquidation preference, accrued dividends, and priority in the capital structure. In lower-value outcomes, this portion behaves more like a credit instrument and is typically valued using credit-oriented techniques. The second component captures the security's equity upside participation after the preference thresholds are satisfied and is typically valued using option-based or scenario-driven methods.

By combining these two components, the DLPPU framework produces a more balanced and economically grounded valuation, particularly when exit outcomes are uncertain or widely dispersed, downside protection is meaningful relative to enterprise value, or traditional option-pricing models may overstate value by assuming continuous upside participation.

Key takeaway. The DLPPU method offers a practical framework for valuing complex preferred securities by explicitly separating downside protection from upside participation. This provides a more transparent and economically grounded alternative to single-method approaches, especially in uncertain market environments.

Conclusion. As financial instruments and capital structures become more complex, traditional single-method approaches are often insufficient. Across topics ranging from equity allocation to hybrid securities and backstop agreements, speakers emphasized the importance of using valuation methods that are economically consistent, grounded in market evidence, and transparent in their assumptions.

For practitioners, credible valuation increasingly depends on selecting approaches that capture a security's full economics while remaining grounded in market evidence and sound judgment.

Amir Alerasoul *specializes in the valuations of complex securities such as options, warrants, convertible bonds, contingent considerations, and preferred and common stock in privately held companies under ASC 718, ASC 805, or ASC 820.* **Pablo Alfaro** *specializes in valuing complex securities including options, warrants, convertible bonds, and preferred and common stock in privately held companies.* **Adam Smith, ASA, ABV,** *has an extensive background that includes helping shape valuation standards and practices at the national and international levels, with contributions to organizations such as the Financial Accounting Standards Board (FASB) and the International Valuation Standards Council (IVSC). All three individuals are with Valuation Research Corp.*

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1 Virtual event held June 4, 2026; learn.appraisers.org/products/2026-asa-complex-securities-conference.

2 No-Arbitrage Arguments and the Link Between OPM and Yield Approach (Amir Alerasoul and Pablo Alfaro).

3 Backstop Agreements: A New Hybrid Instrument in Data Center Finance (Marina Kagan).

4 Convertible Note Modeling (Amanda Miller and Amit Saraswat).

5 Demystifying the Debt-Like Preferred Plus Upside Method (Oksana Westerbeke).

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