September 10, 2026

Kroll Cost of Capital Recommendations Updated to Use Spot Risk-Free Rates

Executive Summary

Kroll regularly reviews fluctuations in global economic and financial market conditions that may warrant changes to its equity risk premium (ERP) and accompanying risk-free rate recommendations. The risk-free rate and ERP are key inputs used to calculate the cost of equity capital in the context of the Capital Asset Pricing Model (CAPM) and other models used to develop discount rates. We also update country risk data on a quarterly basis for more than 175 countries using various models.

As of September 2, 2026, the **Kroll Recommended U.S. ERP is being reaffirmed at 5.0%** when developing USD-denominated discount rates. This guidance originally became effective on September 2, 2025. Similarly, the **Kroll Recommended Eurozone ERP is being reaffirmed in the range of 5.0% to 5.5%, and we still believe that a 5.5% ERP (i.e., toward the higher end of the range)** is more appropriate when developing EUR-denominated discount rates. This guidance was originally established on January 30, 2026. Both U.S. and Eurozone recommendations will remain in place until further guidance is issued.

Effective as of September 2, 2026, Kroll is no longer recommending the use of the higher of normalized risk-free rates or spot rates when developing discount rates. For discount rates denominated in U.S. dollars (USD), Canadian dollars (CAD), British pounds sterling (GBP), or Australian dollars (AUD), Kroll recommends using the applicable spot risk-free rate prevailing as of the valuation date.

In conjunction with this updated recommendation, Kroll will no longer publish normalized risk-free rates for valuation dates on or after September 2, 2026.

Kroll will continue to monitor economic and geopolitical developments, as well as financial market conditions, and will publish updated guidance when appropriate.

Background

Kroll first introduced the normalized risk-free rate because the spot yield on long-term government bonds was viewed as temporarily artificially low after the 2008 Global Financial Crisis by flight-to-quality demand and unusually large central-bank interventions (i.e., Quantitative Easing or (QE)). Since the risk-free rate is a forward-looking component of the discount rate and is intended to reflect, among other things, expected long-term inflation and real interest rates, Kroll concluded that an exceptionally low spot yield might not represent the sustainable return investors would require over the life of a long-term investment.

Using that depressed spot rate together with a conventional ERP could produce an internally inconsistent result: the discount rate would appear lower even though the underlying economic uncertainty and risk had increased. Kroll, therefore, used normalization to estimate a more sustainable long-term government bond yield.

In October 2022, Kroll moved from relying solely on normalized risk-free rates to recommending the higher of the normalized rate or the prevailing spot government bond yield. This change reflected a shift in market conditions: after years of unusually low interest rates and central-bank intervention, inflation had risen sharply, central banks were tightening monetary policy, and long-term government bond yields were increasing rapidly. Kroll maintained the normalized rate as a floor to avoid allowing temporary or historically unusual volatile market conditions to produce an inappropriately low discount rate but recognized that a materially higher spot yield could provide a more current and relevant indication of the risk-free return investors required at the valuation date. This approach, therefore, preserved the stability and long-term perspective of normalization while allowing discount rates to capture sustained increases in observable market yields.

Kroll Cost of Capital Recommendations

- **United States:** The current **Kroll Recommended U.S. ERP of 5.0% is maintained when developing USD-denominated discount rates as of September 2, 2026, until further notice.** This is matched with the **spot 20-year U.S. Treasury yield as of the valuation date.**

- **Eurozone (from a German investor perspective)**: The current **Kroll Recommended Eurozone ERP remains in the range of 5.0% to 5.5%. Based on current economic and financial market conditions, we continue to believe that a 5.5% ERP is more appropriate** when developing EUR-denominated discount rates as of September 2, 2026 and thereafter, until further guidance is issued. We recommend using **the spot 15-year German government bond yield as the proxy for the risk-free rate.** Incremental country risk adjustments for other Eurozone countries with a sovereign debt rating below AAA may be appropriate. Please note that this information does not supersede Germany's IDW (Institut der Wirtschaftsprüfer) guidance for projects that will be reviewed by German auditors or regulators.

- **United Kingdom:** Kroll recommends using the **spot 20-year UK government bond yield as the proxy for the risk-free rate** when developing GBP-denominated discount rates, as of September 2, 2026, until further notice.

- **Canada:** Kroll recommends using the **spot Government of Canada Benchmark Long-Term Bond yield as the proxy for the risk-free rate** when developing CAD-denominated discount rates, as of September 2, 2026, until further notice.

- **Australia:** Kroll recommends using the **spot Government of Australia Commonwealth 10-year Bond yield as the proxy for the risk-free rate** when developing AUD-denominated discount rates, as of September 2, 2026, until further notice.

Kroll continues to recommend the use of a moving average of spot yields in circumstances where short-term market volatility would otherwise have a material effect on the valuation analysis.

We will continue to monitor economic and financial market conditions, as well as geopolitical events that may change our guidance in the coming months. If you have questions, please contact the costofcapital.support@kroll.com.

Data as of September 2, 2026

	U.S. * (in USD)	Eurozone † (in EUR)	U.K. ‡ (in GBP)	Canada § (in CAD)	Australia # (in AUD)
Risk-Free Rate	5.27%	3.69%	5.65%	4.18%	5.22%
Kroll Recommended Equity Risk Premium**	5.00%	5.00% to 5.50%	n/a	n/a	n/a

* We recommend using the spot 20-year U.S. Treasury yield as the proxy for the risk-free rate. Based on current economic indicators and financial market conditions, the Kroll Recommended U.S. ERP is 5.0%. This guidance is effective when developing USD-denominated discount rates as of September 2, 2026, and thereafter.

† We recommend using the spot 15-year German government bond yield as the proxy for the risk-free rate. Based on current economic and financial market conditions, the Kroll Recommended Eurozone ERP is a range of 5.0% to 5.5%, but we believe that an ERP towards the higher end of the range (i.e., closer to 5.5%) is likely more appropriate. This guidance is effective when developing EUR-denominated discount rates as of September 2, 2026, and thereafter. German risk-free rate and Eurozone ERP are for use in EUR-denominated discount rates from a German investor perspective. Additional country risk adjustments may be warranted when estimating discount rates for other countries in the Eurozone.

‡ We recommend using the spot 20-year U.K. Gilt yield as the proxy for the risk-free rate. This guidance is effective when developing GBP-denominated discount rates as of September 2, 2026, and thereafter.

§ We recommend using the spot Government of Canada Benchmark Long-Term Bond yield as the proxy for the risk-free rate. This guidance is effective when developing CAD-denominated discount rates as of September 2, 2026, and thereafter.

We recommend using the spot 10-year Australia Commonwealth Government bond yield as the proxy for the risk-free rate. This guidance is effective when developing AUD-denominated discount rates as of September 2, 2026, and thereafter.

** Although currently we do not have an official Kroll Recommended ERP for the U.K., Canada and Australia, historical and other forward-looking ERP information for these countries is available in the International Cost of Capital Inputs dataset within the Kroll Cost of Capital Navigator.