Pierag

ASU 2026-03



Impact of Contractual Sale Restrictions on the Fair Value of Equity Securities



Executive Summary

FASB Accounting Standards Update 2026-03 creates an exception to Topic 820 (Fair Value Measurement) for investment companies within the scope of Topic 946 (Financial Services: Investment Companies). When an investment company cannot sell an equity security on the measurement date because of a contractual sale restriction, it must reflect that restriction in the security's fair value by applying a market-participant discount. The Update also adds disclosure of the amount of the discount and requires prospective application to all equity securities at adoption with any adoption adjustment recognized in current-period earnings.

At a Glance

Who is affected?

Investment companies within the scope of Topic 946 that hold equity securities measured at fair value and subject to contractual sale restrictions.

What changes?

The contractual sale restriction is reflected in fair value through a discount that represents the amount market participants would demand because of the restriction.

What will be disclosed?

Existing disclosures cover the fair value of the equity securities subject to contractual sale restrictions, the nature and remaining duration of the restrictions and circumstances that could cause them to lapse. ASU 2026-03 additionally requires Topic 946 investment companies to disclose the related discount amount and any adjustment to earnings upon adoption.

When is it effective?

Annual reporting periods beginning after December 15, 2027, including interim periods within those annual periods. Early adoption is permitted on or after September 9, 2026.

Rationale behind the Accounting Standards Update

Under current Topic 820 guidance, a contractual restriction on the sale of an equity security is treated as a characteristic of the reporting entity holding the security, rather than a characteristic of the equity security itself. As a result, the restriction is not reflected in the fair value measurement and is not recognized separately as its own unit of account.

In other words, before ASU 2026-03 is adopted, an investment company holding a publicly traded share subject to an entity-specific lock-up generally measures that share using the same market price as an otherwise identical unrestricted share.

The FASB issued ASU 2026-03 after stakeholders raised concerns that this outcome can cause the reported value of the restricted equity securities to differ from the value market participants would assign to them. Those concerns were relevant for investment companies because fair value measurements directly affect net asset value (NAV) and may also affect investor transactions, performance reporting and management fee calculations.

Current guidance compared with ASU 2026-03

Before adoption	After adoption for Topic 946 investment companies
Contractual sale restriction	
Generally not reflected in the fair value of the equity security	Reflected in fair value through a discount
Unit of account	
Restriction is viewed as a characteristic of the holder and is not separately recognized.	The investment company shall incorporate the effect of the restriction into the fair value measurement of the security, whether the restriction is viewed as a characteristic of the holder or the security.
Quoted Market Price	
An active-market price for the unrestricted security is generally used without an adjustment for contractual restriction.	When available, the market price of an otherwise identical unrestricted equity security is adjusted to reflect the contractual sale restriction.

Disclosure

Existing disclosure requirements apply to equity securities subject to contractual sale restrictions.	Existing disclosures continue, and the amount of the discount attributable to the contractual sale restriction is also disclosed.

Scope

The amendments apply to all investment companies within the scope of Topic 946 that have investments in **equity securities** measured at fair value that are subject to contractual sale restrictions, regardless of fund structure or registration status.

The amendments do not apply to other asset types, including debt securities and crypto assets.



Changes to Fair Value Measurement

New ASC 820-10-35-36BBB requires an investment company within the scope of Topic 946 to incorporate the effect of a contractual sale restriction when it cannot sell an equity security on the measurement date because of that restriction. The discount must reflect the amount that market participants would demand because of the restriction. The requirement does not apply to restrictions already reflected in the economics of another transaction, such as equity securities pledged as collateral for a borrowing.

The Update does not prescribe a single valuation model for the discount. The valuation process therefore remains principles-based and should be supported by the market-participant assumptions, the specifics of the restriction and the facts and circumstances of the investment.

Disclosure Requirements

Topic 820 requires the following disclosures for equity securities subject to contractual sale restrictions. ASU 2026-03 adds a new requirement for Topic 946 investment companies, i.e., the amount of the discount attributable to contractual sale restrictions that is included in the fair value measurement. This requirement applies to both interim and annual reporting periods.

Fair Value	The fair value of equity securities subject to contractual sale restrictions
Restriction Terms	The nature and remaining duration of the restriction
Potential Lapse	Circumstances that could cause the restriction to lapse
Discount Amount	For Topic 946 investment companies, the amount of discount attributable to contractual sale restrictions
Adoption-period Adjustment	The amount recognized as an adjustment to earnings in the period the investment company first applies the Update

Effective date, early adoption and transition

The amendments are effective for annual reporting periods beginning after December 15, 2027, and for interim reporting periods within those annual periods. Early adoption is permitted on any date on or after September 9, 2026.

An investment company applies the amendments prospectively to all equity securities beginning on the adoption date. This includes equity securities that are already subject to contractual sale restrictions on that date. Any adjustment resulting from initial application is recognized in current-period earnings on the adoption date.

The investment company must disclose the amount recognized as an adjustment to earnings in the period in which it first applies the amendments. For early adoption, the amendments apply prospectively from the date of adoption.

About Us

Pierag Consulting was founded in February 2021 by Abhishek Gupta, Thomas Raffa and Pierian Services as a unique business model to serve clients globally by blending domestic proficiency with global expertise. Since then, we have been serving prominent clients across the US, SEA, India and UK in the field of Accounting Advisory, Business Risk, Technology Risk, Assurance, ESG &Sustainability, Deals Advisory, Tax and Digital.

With highly skilled team members, we are fueled by our purpose of 'Inspiring people to do things that inspires them' and our values of 'Excellence, Equity & Empathy'.

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