



ACCOUNTING STANDARDS UPDATE

No. 2026-03
September 2026

Fair Value Measurement (Topic 820)

Investment Companies with Equity Securities
Subject to Contractual Sale Restrictions

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Financial Accounting Standards Board
801 Main Avenue • Norwalk, CT • 06851

Accounting Standards Update 2026-03

Fair Value Measurement (Topic 820)

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The FASB is issuing this Update to improve the decision usefulness of investment company financial reporting by amending the guidance on how those entities determine the fair value of an equity security that is subject to a contractual restriction that prohibits the sale of that security.

Under Topic 820, Fair Value Measurement, a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Topic 820 also states that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. Therefore, under current guidance, (1) an entity holding an equity security subject to a contractual sale restriction and (2) an entity holding an identical equity security issued by the same investee without a contractual sale restriction (for which there are quoted prices in an active market) would each measure fair value on the basis of the market price of the unrestricted equity security.

Stakeholders indicated that current guidance results in fair value measurements that do not reflect how market participants would value equity securities that are subject to contractual sale restrictions. This concern was particularly emphasized for investment companies. Stakeholders asserted that applying current guidance overstates net asset value (NAV), distorts performance reporting and management fees, and creates different outcomes for purchasing, redeeming, and remaining shareholders.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to investment companies within the scope of Topic 946, Financial Services—Investment Companies, that have investments in equity securities measured at fair value that are subject to contractual sale restrictions.

What Are the Main Provisions, How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Are They an Improvement?

Under current GAAP, a contractual restriction on the sale of an equity security is not considered in measuring the fair value of the equity security. Also, an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction.

For investment companies within the scope of Topic 946, the amendments in this Update provide an exception to Topic 820 requiring that a contractual restriction on the sale of an equity security be considered in measuring the fair value of the equity security. The amendments also require that investment companies within the scope of Topic 946 disclose the amount of the discount attributable to the contractual sale restriction.

This change will improve the decision usefulness of an investment company's financial reporting by reflecting a contractual sale restriction in the fair value measurement of an equity security held by the entity under Topic 820. Therefore, the amendments in this Update better align the measurement of equity securities subject to those restrictions with the value that market participants would place on those shares.

When Will the Amendments Be Effective and What Are the Transition Requirements?

The amendments in this Update are effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods.

Early adoption is permitted. An investment company within the scope of Topic 946 that early adopts the amendments in this Update is permitted to do so on any date on or after the issuance date of this Update.

An investment company within the scope of Topic 946 is required to apply the amendments in this Update prospectively to all equity securities with any adjustments from the adoption of the amendments recognized in earnings.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck-out~~.

Amendments to Subtopic 820-10

2. Amend paragraphs 820-10-35-2C, 820-10-35-6B, 820-10-35-16D, 820-10-35-36B, 820-10-35-41, 820-10-50-6B, and 820-10-55-52A and add paragraphs 820-10-35-36BB through 35-36BBB and their related headings and 820-10-55-52B and its related heading, with a link to transition paragraph 820-10-65-14, as follows:

Fair Value Measurement—Overall

Subsequent Measurement

> Definition of Fair Value

• > The Asset or Liability

820-10-35-2B A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value a reporting entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

- a. The condition and location of the asset
- b. Restrictions, if any, on the sale or use of the asset.

820-10-35-2C The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants. Paragraph 820-10-55-51 illustrates a restriction's effect on fair value measurement. Paragraph 820-10-35-36BBB provides an exception that requires investment companies within the scope of Topic 946 to incorporate contractual sale restrictions in the fair value measurement of equity securities.

- > **The Transaction**

820-10-35-6B Although a reporting entity must be able to access the market, the reporting entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market. For example, an **equity security** that an entity cannot sell on the measurement date because of a contractual sale restriction shall be measured at fair value on the basis of the price in the principal (or most advantageous) market. A contractual sale restriction does not change the market in which that equity security would be sold (see paragraphs 820-10-55-52 through 55-52B55-52A).

- > **Application to Liabilities and Instruments Classified in a Reporting Entity's Shareholders' Equity**

- • > **General Principles**

- • • > **Liabilities and Instruments Classified in a Reporting Entity's Shareholders' Equity Held by Other Parties as Assets**

820-10-35-16D When measuring the fair value of a liability or an equity instrument held by another party as an asset, a reporting entity shall adjust the quoted price of the asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. When the asset held by another party includes a characteristic restricting its sale, (see paragraphs 820-10-35-6B and 820-10-35-36BB820-10-35-36B), the fair value of the corresponding liability or equity instrument also would include the effect of the restriction. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

- a. The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (for example, the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset.
- b. The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the reporting entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement. See paragraph 820-10-35-18A for further guidance.

> Inputs to Valuation Techniques

• > General Principles

820-10-35-36B A reporting entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 820-10-35-2B through 35-2C). In some cases, those characteristics result in the application of an adjustment, such as a premium or discount (for example, a control premium or noncontrolling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the Topic that requires or permits the fair value measurement. Premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph 820-10-35-44) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. ~~Similarly, a discount applied to the price of an equity security because of a contractual sale restriction is inconsistent with the unit of account being the equity security. A contractual sale restriction is a characteristic of the reporting entity holding the equity security rather than a characteristic of the asset and, therefore, is not~~

~~considered in measuring the fair value of an equity security (see paragraphs 820-10-55-52 through 55-52A). A contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security and shall not be separately recognized as its own unit of account. In all cases, if there is a quoted price in an active market (that is, a Level 1 input) for an asset or a liability, a reporting entity shall use that quoted price without adjustment when measuring fair value, except as specified in paragraph 820-10-35-41C. [Content amended and moved to paragraph 820-10-35-36BB]~~

• • > Equity Securities Subject to Contractual Sale Restrictions

• • • > Entities Other Than Investment Companies

820-10-35-36BB For entities other than investment companies within the scope of Topic 946, ~~Similarly,~~ a discount applied to the price of an equity security because of a contractual sale restriction is inconsistent with the unit of account being the equity security. A contractual sale restriction is a characteristic of the reporting entity holding the equity security rather than a characteristic of the equity security ~~asset~~ and, therefore, is not considered in measuring the fair value of an equity security (see paragraphs 820-10-55-52 through 55-52A). A contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security and shall not be separately recognized as its own unit of account. ~~If in all cases,~~ if there is a quoted price in an active market (that is, a Level 1 input) for an asset or a liability, a reporting entity shall use that quoted price without adjustment when measuring fair value, except as specified in paragraph 820-10-35-41C. **[Content amended as shown and moved from paragraph 820-10-35-36B]**

• • • > Investment Companies

820-10-35-36BBB When an investment company within the scope of Topic 946 cannot sell an equity security on the measurement date because of a contractual sale restriction, the investment company shall incorporate the effect of the restriction in the fair value measurement of that security by applying a discount (see paragraph 820-10-55-52B). An investment company within the scope of Topic 946 shall incorporate the effect of the restriction regardless of whether the contractual sale restriction is a characteristic of the reporting entity holding the equity security or a characteristic of the equity security. The discount shall reflect the amount that market participants would demand

because of the restriction. The requirements of this paragraph do not apply to restrictions imposed on equity securities that are reflected in the economics of another transaction entered into by the reporting entity (for example, a borrowing in which the reporting entity pledged those equity securities as collateral).

> Fair Value Hierarchy

• > Level 1 Inputs

820-10-35-40 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

820-10-35-41 A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in ~~paragraph~~ paragraphs 820-10-35-36BBB and 820-10-35-41C.

Disclosure

> Equity Securities Subject to Contractual Sale Restrictions

820-10-50-6B An entity shall disclose the following information for equity securities subject to contractual sale restrictions:

- a. The fair value of equity securities subject to contractual sale restrictions
- b. The nature and remaining duration of the restriction(s)
- c. Circumstances that could cause a lapse in the restriction(s)~~restriction(s).~~
- d. For investment companies within the scope of Topic 946, the amount of the discount attributable to contractual sale restrictions included in the fair value measurement of equity securities.

If an entity has multiple investments in equity securities subject to contractual sale restrictions, the entity shall consider the guidance in paragraph 820-10-50-1D when disclosing the information required in (a) through (d)~~(e)~~. Equity securities restricted from sale because they are pledged as collateral and included in other disclosures required by other Topics shall not be included in the information required in (a) through (d)~~(e)~~.

In addition, amend the following pending content for paragraph 820-10-50-6B, with a link to transition paragraph 270-10-65-1, as follows:

Pending Content:

Transition Date: (P) December 16, 2027; (N) December 16, 2028 |
Transition Guidance: 270-10-65-1

820-10-50-6B For interim and annual reporting periods, an entity shall disclose the following information for equity securities subject to contractual sale restrictions:

- a. The fair value of equity securities subject to contractual sale restrictions
- b. The nature and remaining duration of the restriction(s)
- c. Circumstances that could cause a lapse in the restriction(s)~~restriction(s)~~.
- d. For investment companies within the scope of Topic 946, the amount of the discount attributable to contractual sale restrictions included in the fair value measurement of equity securities.

If an entity has multiple investments in equity securities subject to contractual sale restrictions, the entity shall consider the guidance in paragraph 820-10-50-1D when disclosing the information required in (a) through (d)~~(e)~~. Equity securities restricted from sale because they are pledged as collateral and included in other disclosures required by other Topics shall not be included in the information required in (a) through (d)~~(e)~~.

Implementation Guidance and Illustrations

> Illustrations

• > Example 6: Restricted Assets

820-10-55-51 The effect on a fair value measurement arising from a restriction on the sale or use of an asset by a reporting entity will differ depending on whether the restriction would be taken into account by market participants when pricing the asset. When the restriction is included within the unit of account of the asset, the restriction is a characteristic of the asset and should be considered in measuring the fair value of the asset. Cases A and B illustrate the effect of restrictions when measuring the fair value of an asset.

- a. Subparagraph superseded by Accounting Standards Update No. 2011-04.
- b. Subparagraph superseded by Accounting Standards Update No. 2011-04.

• • > **Case A: Restriction on the Sale of an Equity Security**

• • • > **Restriction Taken into Account**

820-10-55-52 Company X issues Class A shares through a sale on a national securities exchange or an over-the-counter market as well as through a private placement transaction. Because the Class A shares issued through the private placement are not registered and are legally restricted from being sold on a national securities exchange or an over-the-counter market until the shares are registered or the conditions necessary for an exemption from registration have been satisfied, a market participant would sell the private placement Class A shares in a different market than the market used for registered Class A shares on the measurement date. Because that restriction would be included within the unit of account of the equity security, a market participant would consider the inability to resell the security on a national securities exchange or an over-the-counter market when pricing the equity security; therefore, the reporting entity that holds the Class A shares acquired through a private placement transaction would consider that restriction a characteristic of the asset. In that case, the reporting entity should measure the fair value of the equity security on the basis of the market price of the similar unrestricted equity security adjusted to reflect the effect of the restriction. The adjustment will vary depending on all of the following:

- a. The nature and remaining duration of the restriction
- b. The extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors)
- c. Qualitative and quantitative factors specific to both the instrument and the issuer.

• • • > **Restriction Not Taken into Account**

820-10-55-52A A reporting entity that is not an investment company within the scope of Topic 946 holds Class A shares of Company X that are eligible for sale on a national securities exchange or an over-the-counter market. Separately, the reporting entity enters into a contractual arrangement in which

it agrees that it will not sell the Class A shares for a certain time period. That arrangement may be referred to as a lock-up agreement or a market standoff agreement or may be the result of a provision within a separate agreement between certain shareholders (that is, separate from the legal documents that establish the rights and obligations of all holders of a particular class of stock). In that instance, the restriction is not included in the unit of account and therefore is not a characteristic of the asset. The equity security subject to the contractual sale restriction is identical to an equity security that is not subject to a contractual sale restriction. Therefore, consistent with the guidance in paragraphs 820-10-35-6B and 820-10-35-36BB~~820-10-35-36B~~, the fair value of the equity security subject to the contractual sale restriction should be measured on the basis of the market price of the same equity security without the contractual sale restriction and should not be adjusted to reflect the reporting entity's inability to sell the equity security on the measurement date.

• • • > Reporting Entity Is an Investment Company, Restriction Taken into Account

820-10-55-52B Assume the same facts as in paragraph 820-10-55-52A, except that the reporting entity is an investment company within the scope of Topic 946. In that instance, the fair value of the equity security subject to the contractual sale restriction should be measured on the basis of the market price for an otherwise identical unrestricted equity security of the same issuer in the same market, adjusted to reflect the effect of the restriction in accordance with paragraph 820-10-35-36BBB.

3. Add paragraph 820-10-65-14 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2026-03, *Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions*

820-10-65-14 The following represents the transition and effective date information related to Accounting Standards Update No. 2026-03, *Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions*:

Effective date and early adoption

- a. For investment companies within the scope of Topic 946, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods.
- b. Early adoption of the pending content that links to this paragraph is permitted on any date on or after September 9, 2026. That is, the date of adoption shall not precede September 9, 2026. An investment company within the scope of Topic 946 that adopts the pending content that links to this paragraph shall apply it prospectively in accordance with (c) beginning on the date of adoption.

Transition method

- c. An investment company within the scope of Topic 946 shall apply the pending content that links to this paragraph on a prospective basis to all equity securities. Any adjustment as a result of applying the pending content that links to this paragraph shall be recognized as an adjustment to current-period earnings on the date at which the investment company first applies the pending content.

Transition disclosures

- d. An investment company within the scope of Topic 946 that adopts the pending content that links to this paragraph in accordance with (c) shall disclose the amount recognized as an adjustment to earnings in the period in which the entity first applies the pending content.

Amendments to Subtopic 940-820

4. Amend paragraph 940-820-30-1, with a link to transition paragraph 820-10-65-14, as follows:

Financial Services—Brokers and Dealers—Fair Value Measurement

Initial Measurement

940-820-30-1 This Section does not purport to delineate all factors that may be considered by management in determining the **fair value** assigned to a particular financial instrument. However, the following is a list of certain factors that have been taken into consideration by broker-dealers as part of the determination of fair value:

- a. Financial standing of the issuer
- b. Business and financial plan of the issuer
- c. Cost at date of purchase
- d. The liquidity of the market
- e. Restrictions on salability (see paragraphs 820-10-35-6B and 820-10-35-36B~~820-10-35-36B~~)
- f. Pending public offering with respect to the financial instrument
- g. Pending reorganization activity affecting the financial instrument (such as merger proposals, tender offers, debt restructurings, and conversions)
- h. Reported prices and the extent of public trading in similar financial instruments of the issuer or comparable entities
- i. Ability of the issuer to obtain needed financing
- j. Changes in the economic conditions affecting the issuer
- k. A recent purchase or sale of a security of the entity
- l. Pricing by other dealers in similar securities.

Amendments to Status Sections

5. Amend paragraph 820-10-00-1, by adding the following items to the table, as follows:

820-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
820-10-35-2C	Amended	2026-03	09/09/2026
820-10-35-6B	Amended	2026-03	09/09/2026
820-10-35-16D	Amended	2026-03	09/09/2026
820-10-35-36B	Amended	2026-03	09/09/2026
820-10-35-36BB	Added	2026-03	09/09/2026
820-10-35-36BBB	Added	2026-03	09/09/2026
820-10-35-41	Amended	2026-03	09/09/2026
820-10-50-6B	Amended	2026-03	09/09/2026
820-10-55-52A	Amended	2026-03	09/09/2026
820-10-55-52B	Added	2026-03	09/09/2026
820-10-65-14	Added	2026-03	09/09/2026

6. Amend paragraph 940-820-00-1, by adding the following item to the table, as follows:

940-820-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
940-820-30-1	Amended	2026-03	09/09/2026

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt
Dr. Joyce T. Joseph
Catherine M. Shakespeare

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing this Update to improve the decision usefulness of the information provided to investors by amending the guidance in Topic 820, Fair Value Measurement, on how investment companies within the scope of Topic 946, Financial Services—Investment Companies, measure the fair value of an equity security that is subject to a contractual restriction that prohibits the sale of that security.

BC3. For investment companies within the scope of Topic 946, the amendments in this Update require that a contractual restriction on the sale of an equity security (such as a lock-up agreement) be considered in measuring fair value. The amendments also require that investment companies within the scope of Topic 946 disclose the amount of the discount attributable to a contractual sale restriction.

Background Information

Topic 820 Approach for Fair Value Measurement of an Equity Security Subject to a Contractual Sale Restriction

BC4. Under current GAAP, the guidance in Topic 820 establishes a framework for measuring fair value. Topic 820 states that when measuring the fair value of an asset or a liability, a reporting entity should consider the characteristics of the asset or liability, including restrictions on the sale of the asset or liability, if a market participant also would take those characteristics into account. For equity securities subject to contractual sale restrictions, Topic 820 states that a contractual sale restriction is a characteristic of the reporting

entity holding the equity security rather than a characteristic of the asset and, therefore, is not considered in measuring the fair value of an equity security.

BC5. Before the issuance of the amendments in Accounting Standards Update No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, stakeholders indicated that there was conflicting guidance in Topic 820 that resulted in diversity in practice. Some stakeholders applied a discount to the price of an equity security subject to a contractual sale restriction, whereas other stakeholders considered the application of a discount to be inappropriate under the principles of Topic 820.

BC6. The amendments in Update 2022-03 (a) resolved the diversity in practice, without changing existing principles in Topic 820, by clarifying that entities should exclude the effect of contractual sale restrictions when measuring the fair value of equity securities, (b) amended a related illustrative example, and (c) introduced new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value.

Issues Raised by Stakeholders

BC7. In April 2026, the Board received an agenda request related to Topic 820 on measuring the fair value of equity securities subject to contractual sale restrictions. The agenda request indicated that measuring fair value without considering contractual sale restrictions results in valuations of equity securities that do not reflect economic reality or the value that market participants would place on those shares. The agenda request emphasized this concern for investment companies within the scope of Topic 946, asserting that the current guidance can overstate net asset value (NAV), distort performance reporting and management fees, and create different outcomes for purchasing, redeeming, and remaining shareholders. The agenda request also asserted that the amendments in Update 2022-03 are inconsistent with certain regulatory requirements.

BC8. The agenda request observed that these concerns have become more significant since the issuance of Update 2022-03 because companies are staying private longer and entering the public markets at larger valuations, and, as a result, the resulting lock-up restrictions may have a more significant economic effect on the value of an equity security. Accordingly, the agenda

request asked that the Board consider including contractual sale restrictions in the fair value measurement of equity securities.

BC9. In May 2026, the Board added a project to its technical agenda on the fair value measurement of equity securities subject to contractual sale restrictions for investment companies within the scope of Topic 946. On July 1, 2026, the Board issued proposed Accounting Standards Update, *Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions*, for public comment with the comment period ending on July 17, 2026. The Board received 24 comment letters in response to the amendments in the proposed Update.

Benefits and Costs

BC10. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC11. The amendments in this Update improve the decision usefulness of investment company financial reporting, including NAV, by requiring accounting for equity securities subject to contractual sale restrictions at amounts that better reflect the economic value of those securities. The Board considered that because the valuation of equity securities directly affects NAV, it also affects the price at which the shares of certain investment companies are sold to or redeemed from investors. In addition, by improving the measurement of investments held by investment companies and NAV, the amendments provide an improved basis for the calculation of investment management fees and result in more meaningful reporting of investment company performance. The Board also considered that appropriately measuring the fair value of equity securities subject to contractual sale

restrictions is critically important for investment companies within the scope of Topic 946 because one of an investment company's typical characteristics is that it manages substantially all of its investments on a fair value basis.

BC12. Some Board members believe that fair value measurements of equity securities held by investment companies better reflect economic value when they incorporate the effect of contractual sale restrictions. Those restrictions expose a holder to liquidity risk and price volatility during the restriction period, risks that the holder (unlike a holder of an unrestricted equity security) cannot avoid by selling and may not be permitted to mitigate by hedging through short sales or derivative transactions. This is consistent with both the feedback received from stakeholders that asked the Board to require consideration of contractual sale restrictions when measuring the fair value of equity securities and the feedback received from many comment letter respondents to the proposed Update. Other Board members believe that a limited exception to Topic 820 fair value measurement, which is based on a hypothetical transaction between buyers and sellers that can transact, is appropriate in this case because investors in certain investment companies, particularly open-end funds, purchase and redeem fund shares at NAV. Those Board members note that fair value should not ordinarily incorporate the effect of an entity-specific contractual sale restriction because upon sale the security realizes the full fair value of an unrestricted security. Consequently, the estimated discount for an entity-specific sale restriction has no net effect on either cumulative income or cash flow.

BC13. The Board does not anticipate that investment companies within the scope of Topic 946 will incur significant costs as a result of the amendments in this Update. Stakeholders generally indicated that investment companies have experience estimating the effect of a contractual sale restriction on the fair value of an equity security and, therefore, implementing the proposed amendments would not require significant time and effort. Those stakeholders highlighted the existing requirement to consider other types of sale restrictions, such as legal or regulatory sale restrictions, when measuring fair value. The Board acknowledges, however, that some respondents indicated that implementation costs could be meaningful for certain entities because of the need to update processes and controls. The Board considered that feedback in establishing an effective date for the amendments in this Update.

Basis for Conclusions

Scope

Investment Companies within the Scope of Topic 946

BC14. The amendments in this Update apply to investment companies within the scope of Topic 946. Therefore, the amendments represent a narrow exception to Topic 820 applicable specifically to investment companies within the scope of Topic 946. Some stakeholders emphasized concerns about current guidance that specifically relate to investment companies. For example, those stakeholders highlighted the effect that excluding contractual sale restrictions from the fair value measurement of equity securities has on NAV and observed that the calculation of NAV (including NAV per share) can affect performance reporting and management fee calculations. Moreover, because investors in certain investment companies, particularly open-end funds, can purchase and redeem fund shares at NAV, the Board noted that this issue is especially significant for investment companies.

BC15. The Board further noted that an investment company's measurement of equity securities can, in some cases, directly affect the financial reporting of its investors. For example, Topic 820 permits, as a practical expedient, a reporting entity to measure the fair value of certain investments on the basis of the NAV per share of the investment if the NAV is calculated in a manner consistent with the measurement principles in Topic 946. Similarly, if an investor accounts for its interest in an investment company under the equity method, the investment company's measurement of those equity securities would affect the investor's financial reporting.

BC16. The Board acknowledges that the amendments in Update 2022-03 also affected other types of entities (for example, operating entities with equity investments). However, the Board observed that (a) recent stakeholder feedback focused primarily on investment companies, (b) the NAV-related issues raised are unique to those entities, and (c) a project focused on those entities could be completed expeditiously. Individual Board members gave different weight to those considerations. For example, some Board members would have preferred to address the fair value measurement requirements for equity securities subject to contractual sale restrictions for all entities. However,

those Board members determined that it was important to narrowly address the issue for investment companies in a timely manner.

BC17. Many comment letter respondents agreed that the amendments in the proposed Update should apply to investment companies within the scope of Topic 946. Respondents often emphasized the importance of reliable fair value measurements for investment companies because those fair value measurements directly affect NAV. Some of those respondents specifically highlighted the urgency of addressing this issue affecting the fair value measurement of equity securities subject to contractual sale restrictions for investment companies.

BC18. The Board acknowledges that some comment letter respondents recommended that the Board require entities other than investment companies to incorporate contractual sale restrictions in the fair value measurement of equity securities. While some Board members agree that this issue should ultimately be addressed more broadly, they concluded that addressing it for investment companies within the scope of Topic 946 should not be delayed.

BC19. By contrast, other comment letter respondents suggested limiting the scope of the amendments in the proposed Update to either (a) registered investment companies and business development companies or (b) open-end funds. The Board acknowledges that the frequency with which an investment company transacts with its shareholders at NAV can exacerbate the issues associated with an overstated NAV. However, stakeholders observed that the fair value measurement of an investment company's assets directly affects its NAV and, in turn, may affect management fees, incentive allocations, distributions to equity holders, and other calculations. Accordingly, the Board concluded that the issue is relevant to all investment companies within the scope of Topic 946 and that limiting the scope based on fund structure or registration status would not adequately address the underlying concern.

BC20. Some Board members also observed that excluding certain funds from the scope of the amendments in this Update could create inconsistencies across funds that offer liquidity at NAV to their investors. For example, a fund-of-funds may offer liquidity to its investors at NAV and use the NAV practical expedient in Topic 820 to measure its investments in other funds. If an underlying fund that does not offer liquidity to its investors at NAV were excluded from the amendments, the fund-of-funds might measure its investment in that underlying fund on the basis of an overstated NAV. Requiring

that all investment companies within the scope of Topic 946 apply the amendments in this Update avoids that inconsistency.

BC21. On the basis of those considerations, the Board concluded that the amendments in this Update should apply to investment companies within the scope of Topic 946.

Contractual Sale Restrictions

BC22. The amendments in this Update require that an investment company within the scope of Topic 946 consider contractual sale restrictions on equity securities (excluding restrictions imposed on equity securities when those restrictions are reflected in the economics of another transaction entered into by the reporting entity, such as a borrowing in which the entity pledged those securities as collateral) in measuring fair value. Some Board members believe that fair value measurements of equity securities held by investment companies better reflect economic value when they incorporate the effect of contractual sale restrictions.

BC23. The Board did not pursue a broad reconsideration of the guidance in Topic 820 as it relates to contractual sale restrictions. Instead, the Board decided to introduce a narrow exception for investment companies within the scope of Topic 946 in response to feedback from stakeholders that it is important for investment companies to incorporate the effect of contractual sale restrictions in the measurement of equity securities and NAV.

BC24. The Board also considered whether the amendments in this Update should define the term *contractual sale restriction* and decided that a definition is not necessary. Under current guidance, entities are already required to identify contractual sale restrictions on equity securities and distinguish them from other types of restrictions for disclosure and fair value measurement purposes. Some stakeholders indicated that a new definition was not necessary and could affect the application of Topic 820 by entities that are not investment companies. Accordingly, the Board decided that the expected costs of creating a definition for the term *contractual sale restriction*, including the risk of unintended consequences for other types of entities that are not within the scope of the amendments, outweigh the expected benefits.

BC25. Most comment letter respondents did not suggest that the Board define the term *contractual sale restriction* within the amendments in this Update. Rather, some respondents requested that the Board clarify whether certain types of restrictions should be considered contractual sale restrictions for purposes of applying the amendments. Therefore, for the reasons noted in paragraph BC24, the Board affirmed its decision not to develop a new definition for this term.

BC26. Specifically, some comment letter respondents noted that the basis for conclusions in the proposed Update discussed restrictions that are reflected in the economics of another transaction entered into by the reporting entity, such as a borrowing in which equity securities are pledged as collateral. Those respondents requested clarification about whether those restrictions should be considered contractual sale restrictions or asked that the discussion be incorporated into the amendments in this Update. In response to that feedback, the Board revised the amendments to clarify that an investment company within the scope of Topic 946 should not consider in its fair value measurement of an equity security a contractual sale restriction that is reflected in the economics of another transaction, such as a borrowing in which a restriction is imposed on equity securities that are pledged as collateral. The Board expects that this will mitigate the risk that the effect of a contractual sale restriction will be double counted.

BC27. The Board acknowledges that equity securities pledged as collateral would represent the most common fact pattern to which this clarification would apply. While the Board did not identify other transactions requiring a similar clarification, the Board determined that including the phrase “reflected in the economics of another transaction entered into by the reporting entity” gives an investment company within the scope of Topic 946 the ability to apply judgment to its specific facts and circumstances while aligning with the notion that the same economic effect should not be double counted.

Assets Other Than Equity Securities

BC28. The amendments in this Update apply only to equity securities held by investment companies within the scope of Topic 946. Accordingly, the amendments do not apply to other asset types, including crypto assets and debt securities.

BC29. While some comment letter respondents to the proposed Update supported limiting the scope of the proposed amendments to equity securities, other respondents suggested that the Board expand the guidance to other assets either in finalizing this guidance or as part of a separate project. While a majority of the Board expressed interest in addressing this issue for assets other than equity securities, the Board continues to believe that the most pressing need for additional guidance relates to equity securities and, therefore, affirmed its decision to limit the scope of the amendments in this Update to those investments.

BC30. Some feedback also suggested that the amendments should apply only to Level 1 equity securities. However, the Board observes that there is no basis for concluding that a contractual sale restriction should be included or excluded when measuring the fair value of an equity security because of the valuation technique applied by a reporting entity (that is, whether Level 1, Level 2, or Level 3 of the fair value hierarchy). This view is consistent with the Board's observations in the basis for conclusions of Update 2022-03.

Measurement

Unit of Account

BC31. For investment companies within the scope of Topic 946, the amendments in this Update require that the effect of a contractual sale restriction be included in the fair value measurement of an equity security.

BC32. Some stakeholders indicated that they do not find the distinction between a contractual sale restriction and a legal or regulatory sale restriction to be economically substantive. Those stakeholders also expressed concerns about the inconsistency in how those different types of restrictions are reflected in fair value and, by extension, NAV. By including a contractual sale restriction within the same unit of account as the equity security, consistent with how legal and regulatory sale restrictions are treated under current guidance, the amendments in this Update resolve that inconsistency.

BC33. Furthermore, before adopting the amendments in Update 2022-03, some entities incorporated discounts for contractual sale restrictions directly into the fair value measurement of equity securities. The Board expects that the amendments in this Update will align with past practice for those entities.

BC34. Overall, comment letter respondents supported requiring some or all investment companies within the scope of Topic 946 to incorporate a contractual sale restriction in the fair value measurement of an equity security. Their reasons for supporting the amendments in the proposed Update aligned with those considered by the Board.

BC35. Some stakeholders requested that the Board clarify that an investment company within the scope of Topic 946 is not required to incorporate a contractual sale restriction in the fair value measurement of an equity security when the discount is immaterial. The Board observed that the guidance in paragraph 105-10-05-6, which states that “the provisions of the Codification need not be applied to immaterial items,” is applicable to the amendments in this Update and to all Codification guidance.

Other Approaches Considered

Recognition as a Liability

BC36. During initial deliberations, the Board considered an alternative that would have required that an investment company within the scope of Topic 946 recognize a separate liability for any contractual sale restriction that is not considered part of the unit of account of an underlying equity security. The Board decided that a contractual sale restriction would not meet the definition of a liability in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, Chapter 4, *Elements of Financial Statements*, and questioned whether a contractual sale restriction has independent economic substance separate from the underlying equity security that would support separate recognition. Comment letter feedback did not indicate that the Board should reconsider requiring separate recognition of a contractual sale restriction as a liability.

Optional Rather Than Required

BC37. The Board also considered whether the amendments in this Update should be optional rather than required. If the guidance were optional, an investment company within the scope of Topic 946 could elect to continue applying existing guidance, and, as a result, its fair value measurements would not reflect the effects of contractual sale restrictions on equity securities. However, the Board decided that an option would not have resulted in

consistent treatment of contractual sale restrictions across all investment companies within the scope of Topic 946 and, therefore, would not have adequately addressed stakeholder concerns about the decision usefulness of investment company financial reporting, including the effect on NAV.

BC38. Comment letter respondents generally agreed that the amendments in the proposed Update should be required rather than optional. Their reasons for supporting a requirement, and rejecting optionality, aligned with those considered by the Board.

BC39. By contrast, some respondents suggested that incorporating contractual sale restrictions into the fair value measurement of equity securities should be permitted, but not required, for private funds or closed-end funds. Those respondents observed that the issues that the amendments in the proposed Update were intended to address are generally more significant for registered investment companies or open-end funds.

BC40. While the Board acknowledges that certain stakeholders support optionality, it concluded that the expected benefits to investment company investors justify the costs of establishing the new guidance as a requirement. The Board agreed with comment letter feedback indicating that not requiring the guidance could create diversity in practice and reduce comparability among investment companies. More significantly, the Board concluded that optional guidance would not address, for some investment companies within the scope of Topic 946, stakeholders' concerns about the effect of an overstated NAV on fund investors. Therefore, the Board affirmed its decision to establish the new guidance as a requirement, rather than an option.

Disclosures

BC41. The amendments in this Update require that investment companies within the scope of Topic 946 disclose the amount of the discount attributable to contractual sale restrictions on equity securities in the notes to financial statements for both interim and annual reporting periods. The Board decided that this disclosure will provide those entities' investors with decision-useful information. The Board observed that additional disclosure is warranted because the measurement requirements for investment companies within the scope of Topic 946 represent an exception to aspects of the fair value measurement guidance in Topic 820 applied by other entities. Some Board

members also emphasized that because contractual sale restrictions are temporary, investors need clear information about the amount of the discount. Consistent with the disclosures required by the amendments in Update 2022-03, the Board decided that a reporting entity should consider the guidance in paragraph 820-10-50-1D when disclosing the information required by the amendments in this Update, including how much aggregation or disaggregation to undertake when disclosing that information.

BC42. Many comment letter respondents supported the disclosure requirement in the amendments in the proposed Update. Those respondents indicated that the proposed disclosure would provide decision-useful information and also agreed that the guidance in paragraph 820-10-50-1D should be considered in determining the appropriate level of aggregation or disaggregation. Other respondents disagreed with the proposed disclosure requirement. Some indicated that the proposed disclosure is unnecessary given the existing disclosure requirements in Topic 820, while others recommended more granular disclosures.

BC43. The Board concluded that requiring disclosure of the amount of the discount attributable to contractual sale restrictions on equity securities, subject to the guidance in paragraph 820-10-50-1D, will provide investors with transparent and decision-useful information that is not overly costly or burdensome to prepare.

Effective Date, Transition, and Early Adoption

Effective Date

BC44. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods. The Board decided that this effective date appropriately balances the need to improve the decision usefulness and consistency of fair value measurements and NAV calculations in a timely manner against the need to give stakeholders sufficient time to prepare for adoption.

BC45. Many comment letter respondents supported a uniform effective date across all entities because entities other than public business entities are not expected to need additional time to implement the amendments. While some

respondents noted that they would support (or would not oppose) a different effective date for entities other than public business entities, the Board concluded that a common effective date will promote comparability and did not identify any factors specific to entities other than public business entities that would have justified a later effective date.

Transition

BC46. An investment company within the scope of Topic 946 is required to apply the amendments in this Update prospectively to all equity securities with any adjustments from the adoption of the amendments recognized in earnings on the date of adoption. This includes all equity securities with contractual sale restrictions in effect on the date of adoption.

BC47. The amendments in Update 2022-03 required different transition approaches for investment companies and entities other than investment companies. An investment company within the scope of Topic 946 was required to apply the amendments in that Update prospectively to equity securities subject to contractual sale restrictions that were executed or modified on or after the date of adoption. For an equity security that became subject to a contractual sale restriction that was executed or modified before the date of adoption, the investment company was required to continue accounting for that equity security using the accounting policy applied before the adoption of the amendments until the contractual restriction expired or was modified. However, entities other than investment companies were required to apply the amendments prospectively to all equity securities, and any adjustment as a result of applying the amendments was required to be recognized in earnings on the date of adoption and disclosed in the period that the entity first applied the amendments.

BC48. Some stakeholders indicated that investment companies should be required to expeditiously reflect the effect of contractual sale restrictions in the calculation of NAV because of the importance of NAV to investment companies and their investors. Similarly, the Board observed that requiring prospective application to all equity securities (including equity securities subject to existing contractual sale restrictions) would improve the measurement of equity securities and NAV for investment companies within the scope of Topic 946, regardless of when the restrictions were executed or modified. Therefore, the Board decided to require prospective application of the amendments in this

Update to all equity securities beginning on the date of adoption (which would include all contractual sale restrictions in effect on the date of adoption). Under this transition approach, any adjustment resulting from applying the amendments should be recognized in earnings on the date of adoption, and the amount of that adjustment should be disclosed in the period that an investment company within the scope of Topic 946 first applies the amendments.

BC49. The amendments in Update 2022-03 did not permit investment companies within the scope of Topic 946 to apply this transition approach because of concerns about introducing non-market-based volatility to NAV. However, the Board noted that permitting the transition approach that was required by the amendments in Update 2022-03 would allow investment companies within the scope of Topic 946 to grandfather equity securities with existing contractual sale restrictions under current guidance, reducing comparability and potentially resulting in an entity accounting for equity securities with contractual sale restrictions under two distinct fair value measurement requirements simultaneously. The Board decided that applying the amendments in this Update to all equity securities with contractual sale restrictions at the date of adoption will better align fair value measurements with an investment's economic value and that doing so outweighed the concerns cited in Update 2022-03.

BC50. During initial deliberations, the Board also considered a modified retrospective transition approach that would have required that an investment company within the scope of Topic 946 recognize a cumulative-effect adjustment to net assets as of the beginning of the annual reporting period of adoption. In addition, that transition approach would have required that an investment company recast interim financial statement information reported between the beginning of the annual reporting period of adoption and the date of adoption. Consistent with its conclusions in Update 2022-03, the Board rejected this transition approach because it would have introduced complexity and operability challenges related to recalculating NAV and management fees that would not be justified by providing investors with decision-useful information.

BC51. Many comment letter respondents supported the proposed transition guidance, including the transition disclosures, stating that it would (a) improve the measurement of equity securities subject to contractual sale restrictions

existing at the date of adoption, (b) enhance comparability, and (c) avoid the complexity of applying different measurement guidance across an investment company's equity securities.

BC52. Some comment letter respondents raised concerns about the proposed transition guidance. For example, some noted that because early adoption is permitted, investment companies could adopt the amendments in the proposed Update on different dates, which may result in otherwise identical restricted investments in equity securities being measured inconsistently across investment companies. Others noted that recognizing an adjustment in earnings for existing contractual sale restrictions on equity securities at the adoption date would result in an investment company recognizing a non-market-based adjustment to NAV and suggested that investment companies be permitted to apply the amendments only to equity securities with contractual sale restrictions executed or modified on or after the date of adoption.

BC53. Some respondents also noted that the proposed transition guidance could create "arbitrage opportunities" for investors that anticipate the timing and expected effect of adoption of this guidance on NAV. However, comment letter feedback also indicated that permitting early adoption would help to mitigate this concern.

BC54. The Board considered this feedback and decided to prioritize requiring that an investment company measure all of its equity securities subject to contractual sale restrictions under the same fair value measurement guidance. The Board observed that permitting entities to apply the amendments in this Update only to equity securities with contractual sale restrictions executed or modified on or after the date of adoption could leave the NAV concerns unaddressed for pre-adoption holdings, even for entities that have adopted the amendments. Therefore, the Board affirmed its decision to require prospective application of the amendments to all equity securities beginning on the date of adoption. Furthermore, in the rare instance that an investment company continues to hold equity securities with contractual sale restrictions that were executed or modified before the adoption of the amendments in Update 2022-03 and for which the effect of the contractual sale restriction continues to be incorporated into the fair value measurement, the investment company will be required to apply the amendments in this Update to those securities upon adoption. Accordingly, after the effective date of this Update, no equity securities will continue to be grandfathered under the transition

provisions of Update 2022-03. However, because the effect of the contractual sale restriction was already incorporated into the fair value measurement of those securities, the Board does not expect that application of the amendments in this Update will result in a transition adjustment for those securities.

Early Adoption

BC55. The Board decided to permit early adoption on any date that is on or after the issuance date of this Update. An investment company within the scope of Topic 946 that adopts the amendments in this Update is required to apply the amendments prospectively beginning on the date of adoption, rather than as of the beginning of an interim or annual reporting period. In making that decision, the Board considered feedback from stakeholders that recasting financial information from before the date of adoption would require hindsight, create a discrepancy between NAV used for transactions and NAV calculated in financial statements, and not provide investors with useful information. Under the prospective approach required by the amendments in this Update, including upon early adoption, the Board does not expect that entities will calculate NAV for purposes of shareholder redemption transactions differently than how NAV will be calculated for purposes of preparing financial statements.

BC56. Comment letter respondents broadly supported the guidance on early adoption in the amendments in the proposed Update. However, a few stakeholders noted that the phrase “financial statements that have not yet been issued or made available for issuance,” in the proposed amendments could be misinterpreted to require retrospective application. To address this concern, the Board clarified the amendments by removing that phrase and explicitly stating that the date of adoption cannot precede the issuance date of this Update.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). Those improvements, which will be incorporated into the proposed 2027 GAAP Taxonomy, are available through [GAAP Taxonomy Improvements](#) provided at www.fasb.org, and finalized as part of the annual release process.