

Early Impressions

FASB's Accounting Standards Update ASU 2026-03

Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions



Executive Summary

On September 9, 2026, the Financial Accounting Standards Board (FASB) issued **Accounting Standards Update (ASU) 2026-03, Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions**. The update introduces a narrow exception to Topic 820 for investment companies within the scope of Topic 946. Where a contractual restriction prevents the sale of an equity security at the measurement date, the investment company must now reflect that restriction in the security's fair value by applying a discount.

For investment companies, this reverses the position established by ASU 2022-03. That Update concluded a contractual sale restriction is a characteristic of the holder rather than of the security, and therefore had to be excluded from fair value. Stakeholders subsequently told the Board that the resulting measurement overstates net asset value (NAV), distorts reported performance and management fee calculations, and produces uneven outcomes between subscribing, redeeming, and continuing investors. The concern has grown as companies stay private for longer and list at larger valuations, making lock-up periods economically more significant.

Alongside the measurement change, an investment company must disclose the amount of the discount attributable to contractual sale restrictions included in the fair value measurement of its equity securities, for interim as well as annual periods.

The amendments take effect for annual reporting periods beginning after **December 15, 2027**, and interim periods within those annual periods, with no deferral for entities other than public business entities.

This publication sets out what has changed, where judgment will be required, and the practical steps that CFOs, controllers, valuation committees, and boards should take ahead of adoption.

ASU 2026-03 — what it does at a glance

Measurement exception

820-10-35-36BBB

Investment companies apply a discount for contractual sale restrictions

New disclosure

820-10-50-6B(d)

Amount of the discount included in the fair value, interim, and annual

Everyone else unchanged

820-10-35-36BB

Entities other than investment companies continue to exclude the restriction

We hope you find this publication valuable and welcome further discussion.



Sandip Khetan
Co-Founder, Global Head
of Accounting & Reporting
Consulting



Ashish Gupta
Partner, Accounting &
Reporting Consulting



Puneet Chowdhary
Associate Partner, Accounting
& Reporting Consulting

Background

Topic 820 measures fair value based on a hypothetical transaction between market participants. A restriction is reflected in that measurement only if it is a characteristic of the asset itself and therefore sits inside the unit of account. Legal and regulatory restrictions, such as unregistered shares acquired in a private placement, for example, have long met that test. Contractual restrictions such as lock-up and market stand-off agreements have not.

From diversity in practice to a targeted exception

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When	What happened
Before 2022	Diversity in practice. Some entities discounted equity securities due to contractual sale restrictions; others considered the discount inconsistent with Topic 820.
June 2022	ASU 2022-03 removed the diversity by confirming that contractual sale restrictions are excluded from fair value, and added disclosures for affected securities (820-10-50-6B).
April 2026	An agenda request argued that the resulting measurement does not reflect economic reality for investment companies, overstating NAV, and distorting performance reporting and management fees.
May 2026	The Board added a project to its technical agenda, limited to investment companies within the scope of Topic 946.
July 2026	Proposed ASU issued on July 1 with a comment period closing on July 17. The Board received 24 comment letters.
September 2026	ASU 2026-03 issued on September 9.

Why the Board acted for investment companies

- **NAV drives investor transactions.** Investors in many funds subscribe and redeem at NAV. Ignoring a lock-up can therefore shift value between investors entering, exiting, and remaining in the fund.
- **NAV drives fees and returns.** Management fees, incentive allocations, distributions, and reported returns are often based on NAV. A higher NAV can therefore affect more than just the reported value of an investment.
- **The restriction has a real economic impact.** During a lock-up, the fund cannot sell the security and remains exposed to price changes and liquidity risk. In many cases, it also cannot hedge that exposure.
- **Similar restrictions were treated differently.** Legal or regulatory restrictions were reflected in fair value, while similar contractual restrictions were not.
- **The impact can extend beyond the fund.** Investors and other entities that use the NAV practical expedient or equity method may ultimately reflect the investment company's measurement.

Summary at a Glance

The six dimensions below summarize the Update.

What changed

An investment company must apply a discount when measuring the fair value of an equity security that is contractually prohibited from selling at the measurement date.

Who is affected

All investment companies within the scope of Topic 946, including registered funds, business development companies (BDCs), and private funds alike.

What is unchanged

- Entities other than investment companies.
- The prohibition on blockage factors.
- Restrictions already inside the unit of account.
- All asset classes other than equity securities.

New disclosure

The amount of the discount attributable to contractual sale restrictions included in the fair value measurement, for interim and annual periods.

Effective date

Annual reporting periods beginning after December 15, 2027, and interim periods within them. Early adoption permitted on any date on or after September 9, 2026.

Transition

Prospective to all equity securities, including restrictions already in place. The day-one adjustment is recognized in current-period earnings and disclosed.

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The exception applies only when all three conditions are met. Each condition needs to be assessed separately, with the third condition likely to require the most judgment.

01

The entity

An investment company within the scope of Topic 946

02

The instrument

An equity security measured at fair value, subject to a contractual restriction that prohibits its sale at the measurement date

03

The carve-out test

The restriction is not already reflected in the economics of another transaction entered into by the fund

All three met

Measure the security at the price of an otherwise identical unrestricted security, less a discount for the restriction (820-10-35-36BBB)

What falls inside and outside the exception

Within the exception	Outside the exception
Investment companies covered by Topic 946 , including registered investment companies, business development companies, and private funds.	Entities that are not investment companies , which continue to exclude contractual sale restrictions from fair value.
Both open-end and closed-end funds , regardless of their registration status or liquidity terms.	Assets other than equity securities , including debt securities and crypto assets.
Equity securities , including Level 1 securities with a quoted market price.	Restrictions already reflected elsewhere , such as securities pledged as collateral for a borrowing.
Contractual restrictions on sale , such as Lock-up agreements, market stand-off agreements, and comparable contractual prohibitions on sale	Legal or regulatory restrictions that are already reflected in fair value because they are part of the unit of account.

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ILLUSTRATIVE EXAMPLE

Applying the three scope conditions

Fact pattern: Fund M is a private fund that meets the definition of an investment company in Topic 946. It holds two positions in Company Q, a newly listed issuer.

- Position 1 is 1,000,000 listed common shares acquired before the IPO and subject to a 180-day underwriter lock-up.
- Position 2 is a further 250,000 listed shares that Fund M has pledged as collateral under a margin borrowing; the pledge prevents their sale until the borrowing is repaid.

Analysis:

- **Position 1 meets all three conditions.** Fund M is an investment company; the lock-up is a contractual restriction that prohibits sale at the measurement date, and the restriction is not priced into any other arrangement. A discount is required, and its amount is disclosed.
- **Position 2 fails the third condition.** The restriction exists because of the borrowing, and its economics are already reflected in the terms of that borrowing. No separate discount is applied, and the position is excluded from the 820-10-50-6B disclosures where it is captured by collateral disclosures under another Topic.

IMPLEMENTATION MATTERS

Where scope decisions will take time

- **Confirming which entities are investment companies.** Groups will need to map their master-feeder structures, blockers, parallel vehicles, and consolidated subsidiaries, and determine where investment company accounting continues to apply.
- **Identifying contractual sale restrictions.** The ASU does not define what qualifies as a “contractual sale restriction.” Funds will therefore need to assess different types of restrictions, including underwriter lock-ups, market standstill clauses, shareholder agreement restrictions, rights of first refusal, transfer approvals, and trading windows.
- **Prohibition versus friction.** Paragraph 820-10-35-36BBB is engaged where the fund cannot sell at the measurement date. Terms that delay or condition a sale rather than prohibit it fall outside the literal wording and call for a documented policy.
- **Avoiding double-counting.** If a restriction is already reflected in the fair value of a security, any additional contractual restriction should only capture its incremental effect.
- **Identifying pledged positions.** Funds will need to review prime brokerage, margin, and repurchase arrangements to identify securities for which the restriction is already reflected in another transaction.
- **Determining what qualifies as an equity security.** Certain interests, such as limited partnership or limited liability company interests, convertible instruments, and investments measured using the NAV practical expedient, may fall outside the exception.

UNIQUS VIEW

The absence of a definition is a deliberate transfer of judgment

The Board considered defining “contractual sale restriction” but decided not to. As a result, funds will need to determine which types of restrictions fall within the new guidance. The judgment will largely sit with the fund and its valuation designee.

In practice, the more difficult cases are likely to be restrictions that limit or delay a sale without completely prohibiting it. Examples include

- Negotiated standstill clauses, i.e., Shareholder agrees not to sell its shares for a specified period, often as part of a negotiated agreement.
- staggered release schedules, i.e., the shareholder is allowed to sell its shares, but only in stages over time
- certain shareholder agreement provisions, i.e., a shareholder agreement may contain specific rules governing when and how a shareholder can sell its shares.

Funds should consider documenting how these restrictions are assessed and applying the approach consistently across funds and reporting periods.



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Key Highlights of the Amendment

The Update makes two substantive changes for investment companies: a measurement exception that requires a fair value discount, and a disclosure that makes the size of that discount visible.

1

Fair value discount

Where an investment company cannot sell an equity security at the measurement date due to a contractual sale restriction, it measures fair value by reference to the price of an otherwise identical unrestricted security of the same issuer in the same market, adjusted for a discount reflecting what market participants would demand for the restriction.

The measurement mechanic

Observed price

Otherwise identical unrestricted security of the same issuer, in the same market

Less: discount

The amount that market participants would demand because of the restriction

Equals: fair value

Carrying amount of the restricted equity security, and the input to the NAV

ILLUSTRATIVE EXAMPLE

Measuring and disclosing the discount

Fact pattern: Fund M holds 1,000,000 listed common shares of Company Q. Company Q was listed on September 30, 2025, and Fund M is subject to a 180-day lock-up expiring on March 29, 2026. At instead of On December 31, 2025, the quoted price of Company Q's unrestricted shares is USD 20.00. Approximately 90 days of the restriction remain. Using a protective put framework calibrated to the security's implied volatility and the remaining restriction period, the valuation designee estimates the discount that market participants would demand at 8 percent.

Measurement: Fair value = $\text{USD } 20.00 \times (1 - 8\%) = \text{USD } 18.40 \text{ per share, or USD } 18,400,000$, against USD 20,000,000 under the previous model.

Disclosure: Fund M discloses the fair value of USD 18,400,000, the nature and remaining duration of the lock-up, the circumstances that could cause it to lapse, and the discount of **USD 1,600,000** included in the measurement.

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IMPLEMENTATION MATTERS

Operationalizing the discount

- **Model selection and governance.** Protective put frameworks and observed restricted-stock studies are the common starting points. Whichever is chosen, the methodology, its inputs, and the rationale for rejecting alternatives should be documented and approved before the first application.
- **Input discipline.** The remaining restriction period, volatility, dividend yield, and the liquidity of the reference market drive the answer. Volatility sourced from an illiquid or newly listed security requires particular care.
- **Blockage factors remain prohibited.** The discount must capture the restriction, not the holding's size relative to trading volume. Models that scale with position size need to be tested against that boundary.
- **Hierarchy categorization.** The Update is silent on this point. Funds should decide whether an adjusted Level 1 price remains Level 1, moves to Level 2, or moves to Level 3; document the basis and expect the answer to affect hierarchy tables and transfer disclosures.
- **Daily-priced funds.** The discount has to roll down as the restriction period shortens and must be produced at every strike. Manual quarter-end computation is unlikely to be sustainable for a daily NAV process.
- **Administrators and pricing vendors.** Responsibility for calculating, reviewing, and recording the discount should be agreed early, and service level agreements updated.
- **Rule 2a-5 and board reporting.** Registered funds should fold the methodology into the valuation-designee framework, including back testing, price challenges, and periodic board reporting.
- **Fund documents and fee mechanics.** Where the partnership agreement or offering document defines NAV by reference to US GAAP, management fees, incentive allocations, hurdles, and high-water marks move with the discount. Legal review is warranted.

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UNIQUS VIEW

The measurement is the easy part

Applying an 8 percent discount is arithmetic.

Supporting why 8 percent is appropriate is not.

The amendment introduces a recurring, judgment-based, market-driven estimate that directly affects the value at which investors transact. It is therefore likely to attract attention from auditors, boards, and registered fund examiners.

Two questions deserve clear answers from the outset. **First, who owns the valuation?** Is it the valuation designee, the administrator, or a third-party specialist? **Second, how will the fund demonstrate consistency** across positions, funds, and reporting periods? Applying different discounts to similar contractual restrictions is likely to be one of the first areas challenged.

Our view is that funds should run the methodology in parallel through 2027 using live positions. A model that has never been tested against a real-world lock-up or other contractual sale restriction is not ready for a day-one adjustment that changes NAV.





Enhanced disclosures

The disclosure requirements in paragraph 820-10-50-6B already applied to all entities holding equity securities subject to contractual sale restrictions.

Entities already provide information about equity securities affected by contractual sale restrictions, including the **fair value of the restricted securities, the nature and remaining period of the restrictions, and the circumstances that could result in those restrictions ending.**

For investment companies, the ASU adds another layer of transparency: they will also need to **separately disclose the portion of the fair value attributable to the contractual sale restriction**, i.e., the discount recognized in the valuation for the restriction.

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Illustrative disclosure extract

“As of December 31, 2025, the Fund held equity securities subject to contractual sale restrictions with an aggregate fair value of USD 18,400,000 (2027: USD nil). The restrictions arise from underwriter lock-up agreements entered into in connection with initial public offerings and expire between March 2026 and July 2026. A restriction may lapse earlier if the underwriters release the Fund from the agreement or the issuer is acquired. The fair value of these securities reflects a discount of USD 1,600,000 attributable to those restrictions.”

Effective Dates and Transition

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Effective Dates and Transition

Effective date

Annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual periods. The same date applies to all investment companies; there is no deferral for entities other than public business entities.

Early adoption

Permitted on any date on or after September 9, 2026.

Transition method

Prospective to all equity securities, including those subject to contractual sale restrictions already in place on the date of adoption.

Day-one adjustment

Recognized as an adjustment to current-period earnings on the date of first application. There is no cumulative-effect adjustment to opening net assets and no recasting of prior periods.

Transition disclosure

The amount is recognized as an adjustment to earnings in the period of first application.

For the full text of the Update, see [ASU 2026-03](#) on the FASB's website.

How Uniquis Can Help

Our Accounting and Reporting Consulting practice supports investment managers, fund administrators, and their boards across the full adoption journey, from sizing the effect on NAV to defending the methodology in the first audit after adoption.

Executive Summary	Impact assessment Inventory of restricted equity positions across funds and vehicles, Topic 946 scoping, and quantification of the expected effect on NAV, fees, and reported performance.	Accounting policy Technical position papers covering the restriction taxonomy, the carve-out for restrictions priced elsewhere, fair value hierarchy categorization, and materiality.
	Valuation methodology Design, calibration, and independent review of restriction discount models, including benchmarking against market practice and back-testing.	Process and controls Data model for capturing the discount, administrator, and pricing vendor coordination, control design, and alignment with Rule 2a-5 valuation designee frameworks.

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Jamil Khatri
Co-Founder & CEO



Sandip Khetan
Co-Founder, Global Head
of Accounting & Reporting
Consulting



Arda Kaya
Partner, Accounting &
Reporting Consulting



Ashish Gupta
Partner, Accounting &
Reporting Consulting



Avinash Ramkumar
Partner, Accounting &
Reporting Consulting



Geoffrey Alen
Partner, Accounting &
Reporting Consulting



Sharad Chaudhry
Partner, Accounting &
Reporting Consulting



Puneet Chowdhary
Associate Partner,
Accounting & Reporting
Consulting



Harsimran Singh Sangha
Managing Director, Accounting &
Reporting Consulting



Shival Sehgal
Managing Director, Accounting
& Reporting Consulting



Shoichi Ohno
Managing Director, Accounting
& Reporting Consulting

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