

*Proposed Accounting Standards Update*

Issued: July 1, 2026  
Comments Due: July 17, 2026

Fair Value Measurement (Topic 820)

Investment Companies with Equity Securities  
Subject to Contractual Sale Restrictions

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 820 of the *FASB Accounting Standards Codification*<sup>®</sup>. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2026-ED300, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

## Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until July 17, 2026. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2026-ED300
- Sending a letter to “Technical Director, File Reference No. 2026-ED300, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at [www.fasb.org](http://www.fasb.org).

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at [www.fasb.org](http://www.fasb.org).

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# Proposed Accounting Standards Update

## Fair Value Measurement (Topic 820)

### Investment Companies with Equity Securities Subject to Contractual Sale Restrictions

July 1, 2026

Comment Deadline: July 17, 2026

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# Summary and Questions for Respondents

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

The FASB is issuing this proposed 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 unrestricted equity security issued by the same investee (for which there are quoted prices in an active market for an identical equity security) would each measure fair value on the basis of the market price of an unrestricted equity security.

Stakeholders have 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 between purchasing, redeeming, and remaining shareholders.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to investment companies as defined under 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, the amendments in this proposed Update would 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 proposed amendments also would require that investment companies disclose the amount of the discount attributable to the contractual sale restriction.

This change would 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 proposed Update would better align the measurement of equity securities subject to those restrictions with the value that market participants would place on those shares.

## When Would the Amendments Be Effective and What Are the Transition Requirements?

The effective date will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.

An investment company would be required to apply the amendments in this proposed Update prospectively to all equity securities with any adjustments from the adoption of the proposed amendments recognized in earnings.

Early adoption would be permitted. An investment company that early adopts the amendments in this proposed Update would be permitted to do so on any date on or after the issuance date of a final Update for financial statements that

have not yet been issued or made available for issuance. An investment company that adopts the proposed amendments would be required to apply the proposed amendments prospectively to all equity securities (including equity securities subject to existing contractual sale restrictions) beginning on the date of adoption.

## Questions for Respondents

**Question 1:** Do you agree that the amendments in this proposed Update should apply to investment companies as defined under Topic 946? Please explain why or why not.

**Question 2:** Do you agree that an investment company should consider a contractual restriction prohibiting the sale of an equity security when measuring the fair value of that equity security? Should this guidance be optional? Please explain why or why not.

**Question 3:** Are there other types of assets subject to contractual sale restrictions that should be considered either in this project or in a separate project? In your experience, to what extent are contractual sale restrictions on these other types of assets pervasive and considered by market participants? Please explain your reasoning.

**Question 4:** The proposed amendments would require that an investment company disclose the amount of the discount attributable to contractual sale restrictions on equity securities.

- a. **Investors:** Would the proposed disclosure provide investors with decision-useful information and help investors understand the effects of a contractual restriction on the sale of an equity security held by an investment company? If the amount of the discount disclosed was attributable to all contractual sale restrictions on equity securities in the aggregate, would that provide for decision-useful information? Please explain why or why not.
- b. **Preparers:** What costs would be incurred to disclose the amount of the discount attributable to contractual sale restrictions on equity securities?

**Question 5:** Do you agree with the transition guidance in this proposed Update? Please explain why or why not. Should an investment company instead be permitted to apply the proposed amendments only to equity

securities with contractual sale restrictions that are executed or modified on or after the date of adoption, rather than to all equity securities with contractual sale restrictions in effect at the date of adoption? If so, please describe the nature of the transactions or circumstances that would necessitate that transition alternative and how frequently those circumstances arise in practice.

**Question 6:** How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities differ from the effective date for public business entities? If so, how much additional time would you recommend for entities other than public business entities? Please explain your reasoning.

**Question 7:** Do you agree with the early adoption guidance in this proposed Update? Please explain why or why not.

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2 and 3. 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, 820-10-35-36B, 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 ~~55-52B~~ 55-52A).

- > **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 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 market participants would demand because of the risk relating to the inability to sell the equity security during a specified period.

## 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, 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. 202X-XX, 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. 202X-XX, *Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions*:

**Effective date and early adoption**

- a. For investment companies, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods within those annual reporting periods.
- b. Early adoption of the pending content that links to this paragraph is permitted in an interim or annual reporting period on any date on or after [date to be inserted after exposure] for financial statements that have not yet been issued or made available for issuance. An investment company 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 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 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.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

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

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed 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 proposed 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 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, the amendments in this proposed Update would 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 proposed amendments also would require that investment companies 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, *Financial Services—Investment Companies*, asserting that the current guidance can overstate net asset value (NAV), distort performance reporting and management fees, and create different outcomes between 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.

## 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 proposed Update would 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 in this proposed Update would provide an improved basis for the calculation of investment management fees and would 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 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 feedback received from stakeholders that asked the Board to require consideration of contractual sale restrictions when measuring the fair value of equity securities. 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 will incur significant costs as a result of the amendments in this proposed Update. Stakeholders have indicated that investment companies have experience estimating the effect of a contractual sale restriction on the fair value of an equity security.

## Basis for Conclusions

### Scope

#### *Investment Companies*

BC14. The Board decided that the amendments in this proposed Update should apply to investment companies as defined under Topic 946. Therefore, the proposed amendments represent a narrow exception to Topic 820 applicable specifically to investment companies. 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 measurement of fair value 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 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. Accordingly, the measurement of equity securities by an investment company can, in some cases, directly affect the financial reporting of its investors.

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 address the issue narrowly for investment companies in a timely manner.

### *Contractual Sale Restrictions*

BC17. The amendments in this proposed Update would require that an investment company consider contractual sale restrictions (excluding restrictions imposed on equity securities when those restrictions are reflected in the economics of another arrangement such as a borrowing in which the entity pledged those securities as collateral) on equity securities in measuring fair value. Some Board members believe that fair value measurements of equity securities held by investment companies would better reflect economic value if they incorporated the effect of contractual sale restrictions.

BC18. 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 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.

BC19. The Board also considered whether the amendments in this proposed 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 should not be 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 proposed amendments, would outweigh the expected benefits.

### *Assets Other Than Equity Securities*

BC20. The Board considered whether the amendments in this proposed Update on the fair value of equity securities subject to contractual sale restrictions also should apply to other types of assets held by investment companies. The Board decided that the most pressing need for additional guidance relates to equity securities and, accordingly, limited the scope of the proposed amendments to equity securities.

## Measurement

### *Unit of Account*

BC21. For investment companies, the amendments in this proposed Update would require that the effect of a contractual sale restriction be included in the fair value measurement of an equity security.

BC22. 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 proposed Update would resolve that inconsistency.

BC23. 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 proposed Update would align with past practice for those entities.

## *Other Approaches Considered*

### Recognition as a Liability

BC24. The Board considered an alternative that would have required that an investment company 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.

### Optional Rather Than Required

BC25. The Board also considered whether the amendments in this proposed Update should be optional rather than required. If the proposed guidance were optional, an investment company 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 result in consistent treatment of contractual sale restrictions across all investment companies and, therefore, would not adequately address stakeholder concerns about the decision usefulness of investment company financial reporting, including the effect on NAV.

## Disclosures

BC26. The amendments in this proposed Update would require that investment companies disclose the amount of the discount attributable to contractual sale restrictions on equity securities. The Board decided that this disclosure would provide those entities' investors with decision-useful information. The Board observed that additional disclosure is warranted because the proposed measurement requirements for investment companies

would represent an exception to aspects of the fair value measurement guidance in Topic 820 applied by entities other than investment companies.

BC27. 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 proposed Update, including how much aggregation or disaggregation to undertake when disclosing that information.

## Transition, Transition Disclosures, and Early Adoption

BC28. An investment company would be required to apply the amendments in this proposed 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.

BC29. The amendments in Update 2022-03 required different transition approaches for investment companies and entities other than investment companies. An investment company 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.

BC30. 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 considered 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, regardless of when the restrictions were executed or modified. Therefore, the Board decided to require

prospective application of the amendments in this proposed 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 proposed amendments would be recognized in earnings on the date of adoption, and the amount of that adjustment would be disclosed in the period that the investment company first applies the proposed amendments.

BC31. The amendments in Update 2022-03 did not permit investment companies 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 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 proposed Update to all equity securities with contractual sale restrictions at the date of adoption would better align fair value measurements with an investment's economic value and that doing so outweighed the concerns cited in Update 2022-03.

BC32. The Board also considered a modified retrospective transition approach that would have required that an investment company 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. The Board decided to permit early adoption prospectively on any date that is on or after the issuance date of a final Update for financial statements that have not yet been issued or made available for issuance. An investment company that adopts the amendments in this proposed Update would be required to apply the proposed 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.

## Amendments to the GAAP Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at [xbrled@fasb.org](mailto:xbrled@fasb.org). After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.