

Snapshot

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Equity securities subject to contractual sale restrictions

The amendments in [ASU 2022-03, *Fair Value Measurement \(Topic 820\): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*](#), stipulate that a contractual restriction on the sale of an equity security should not be considered part of the equity security's unit of account, nor considered in measuring its fair value.

An example of a contractual sale restriction is a lock-up agreement, also referred to as a "market standoff agreement," which is a contract between underwriters and other insiders of an entity during its initial public offering that prohibits these parties from selling any of their equity securities in the entity for a stated period of time.

The amendments in [ASU 2026-03, *Fair Value Measurement \(Topic 820\): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions*](#), further amends this guidance by requiring investment companies within the scope of ASC 946 to incorporate the effect of a contractual restriction on the sale of an equity security, by applying a discount when measuring the fair value of that equity security.

Fair value measurement

Fair value, as defined in ASC 820, is the price that would be received either to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The guidance in ASC 820 states that when measuring the fair value of an asset, a reporting entity should consider the characteristics of the asset, including any sale restrictions, if a market participant would also take

those characteristics into account when determining fair value. An important determination in identifying the characteristics of the *asset* is identifying the appropriate unit of account.

Prior to ASU 2022-03, reporting entities that did not reflect the contractual sale restriction in the fair value measurement of the equity security referred to ASC 820-10-35-36B, which states that certain discounts or premiums that reflect a characteristic such as the size of the reporting entity's holding, rather than a characteristic of the asset, are not permitted in calculating the fair value measurement.

Conversely, reporting entities that reflected the contractual sale restriction in the fair value measurement of the equity security pointed to an illustrative example that stated this restriction is a characteristic of the instrument that would transfer to a market participant and, therefore, should be reflected in the instrument's fair value. ASU 2022-03 amended the illustrative example so that this example now aligns with the guidance in ASC 820-10-35-36B, thereby reducing diversity in practice.

Equity securities with contractual sale restrictions held by non-investment companies

The amendments in ASU 2022-03 specify that a contractual sale restriction is a restriction that is attributable to the holding entity, not to the security itself, so the contractual sale restriction does not impact the fair value measurement of the equity security. As a result, an entity is required to measure the fair value of an equity security subject to any contractual sale restriction on the basis of the market

price of the same equity security without a contractual sale restriction (that is, without adjusting the basis to reflect the holder's inability to sell the equity security on the measurement date).

In addition, the amendments in ASU 2022-03 clarify that an entity should not recognize a contractual sale restriction as a separate unit of account.

Equity securities with contractual sale restrictions held by investment companies

The amendments in ASU 2026-03 revise the guidance in ASC 820 for investment companies within the scope of ASC 946, requiring them to incorporate the effect of a contractual sale restriction in the fair value measurement of an equity security by applying a discount reflecting the amount that market participants would demand for the contractual sale restriction.

However, an investment company should not incorporate into the discount any restrictions that are reflected in the economics of another transaction, for example, a borrowing in which the equity securities are pledged as collateral.

Restricted securities

The amendments in both ASU 2022-03 and ASU 2026-03 do not change the guidance for equity securities subject to *legal restrictions* that prevent the securities from being sold on a national securities exchange or an over-the-counter (OTC) market until the securities are registered or deemed to be exempt from registration (for example, equity securities held following a private placement transaction involving an issuer whose shares were also sold on a national securities exchange or an OTC market). A holder of equity securities subject to these legal restrictions must consider the impact of the restriction in the fair value measurement of the equity securities.

A *legal restriction* differs from a *contractual sale restriction* in that *any* holder of the equity securities subject to a legal restriction is unable to access certain markets where the equity securities are sold until the securities are either registered or deemed to be exempt from registration. Therefore, unlike a

contractual sale restriction, the legal restriction is a characteristic of the asset.

Disclosures

Under the amendments in both ASUs, entities should disclose the following information for equity securities subject to contractual sale restrictions (except for equity securities restricted from sale because they are pledged as collateral and included in other disclosures):

- The nature and remaining duration of the contractual sale restriction
- The circumstances that could cause a lapse in the contractual sale restriction
- The fair value of equity securities subject to contractual sale restrictions reflected on the balance sheet

Upon adoption of the amendments in ASU 2026-03, an investment company in the scope of ASC 946 should disclose the amount of the discount attributable to the contractual sale restriction included in the fair value measurement of the equity securities.

Effective date: ASU 2026-03

For investment companies in the scope of ASC 946, the amendments in ASU 2026-03 are effective for fiscal years beginning after December 15, 2027, including interim periods within those fiscal years.

Early adoption is permitted *only* on any date on or after September 9, 2026.

Transition: ASU 2026-03

Investment companies within the scope of ASC 946 should apply the amendments in ASU 2026-03 to all equity securities on a prospective basis. Any adjustment to a security's fair value as a result of applying the amendments should be recognized as an adjustment to current-period earnings on the date of initial application and disclosed in the notes.

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