

FASB Update: Topic 820 Contractual Sale Restrictions

Final standard issued September 2026

ASU 2026-03

Accounting Standards Update (ASU) 2026-03 applies to investment companies within Topic 946 that hold equity securities measured at fair value and subject to **contractual sale restrictions**. The change requires investment companies to reflect contractual sale restrictions in fair value, including restrictions that are specific to the holder rather than inherent in the security—e.g., a contractual lock-up.

The scope is limited to equity securities measured at fair value and does not apply to credit or crypto assets.

Overview of the Recent Accounting Standards Update

Latest Update

The ASU was issued on **September 9, 2026**. It is effective for annual periods beginning **after December 15, 2027**, including interim periods within those annual periods—effectively 2028 for a calendar-year entity. Early adoption is permitted from the issuance date.

The amendments are applied **prospectively to all in-scope equity securities**, including securities with restrictions already in place at adoption. Any adoption-date adjustment is recognized in current-period earnings.

Change from ASU 2022-03

ASU 2022-03 stated that contractual sale restrictions are not part of the unit of account and therefore generally should not reduce fair value. ASU 2026-03 creates a narrow Topic 946 exception requiring investment companies to reflect contractual sale restrictions in fair value; it does not broadly reverse ASU 2022-03 for all entities. For entities outside the scope of Topic 946, the FASB has added a project to its technical agenda to consider the treatment of contractual sale restrictions for all entities.

Upon adoption, this creates a potential divergence from International Financial Reporting Standard (IFRS) 13, because IFRS would generally continue to exclude a restriction that is specific to the holder rather than a characteristic of the asset. At this date, the International Accounting Standards Board has not amended existing IFRS guidance in response to the ASU.

In summary, ASU 2026-03 will impact investment companies within Topic 946 that hold equity securities subject to contractual sale restrictions. Where the same security is held across different funds, with one fund reporting under U.S. GAAP and another under IFRS, application of the new standard may result in a divergence in the reported fair value of that security.

In Practice

The ASU does not currently prescribe a single approach in the calculation of a discount. The discount must reflect the amount that market participants would demand because of the restriction. This guidance aligns closer to the market participant principles underpinning IFRS 13, though may result in fair value differences for the same instrument for investment companies reporting in U.S. GAAP and IFRS.

A discount for lack of marketability (DLOM) would need to be estimated, which considers the nature and remaining duration of the restriction.

To apply a DLOM, one possible valuation approach could be an option pricing model, such as the protective-put method. To apply this methodology, the restriction period, share price, volatility and other market inputs such as the risk-free rate and dividend yield would be required.

Disclosures

Accounting Standards Codification (ASC) 820 already requires entities holding equity securities subject to contractual sale restrictions to disclose:

1. Fair value of the equity securities subject to contractual sale restrictions;
2. Nature and remaining duration of the restrictions; and
3. Circumstances that could cause the restrictions to lapse.

The new standard requires investment companies to disclose the discount attributable to the contractual sale restriction in both interim and annual financial statements. In the adoption period, the entity must also disclose the amount of any adjustment recognized in earnings.

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

Implications for Investment Companies

Determine whether restricted equity securities are in scope. Examples would include:

- Post-IPO lock-up shares stipulated in agreements with the underwriters
- Market-standoff agreement, whereby existing shareholders agree not to sell for a period following an IPO or financing
- Shareholder agreement sale restriction: a shareholder separately agrees that shares cannot be sold until a specified date or event
- Others may include private investment in public equity (PIPE) investments with contractual resale restrictions, sponsor / founder shares subject to lock-up or shares received as part of a mergers and acquisitions (M&A) transaction with a lock-up

Develop a supportable DLOM methodology.

Option-based models:	Protective Put
	Finnerty
	Longstaff
	Asian Protective Put
Empirical:	Compare fair value in the restricted and unrestricted shares in the same or comparable listed company
	Compare fair values of the private and public shares pre- and post-IPO

Update valuation policies and controls.

Prepare new interim and annual disclosures.

- The fair value of the restricted equity securities
 - The nature and remaining duration of the restriction
 - The circumstances that could cause the restriction to lapse
 - The amount of the discount attributable to the contractual sale restriction that is included in fair value
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Consider adoption-date earnings impact.

Consider whether U.S. GAAP and IFRS are consistent or inconsistent for the equity security.

Ready to discuss the opportunities ahead for you?

Connect with a senior professional at connect@lincolninternational.com