



FASB proposal

Initial measurement of paid-in-kind dividends on equity-classified preferred stock

September 30, 2025



FASB proposes guidance on the initial measurement of paid-in-kind dividends on equity-classified preferred stock.

Applicability

- Proposed ASU, [Initial measurement of paid-in-kind dividends on equity-classified preferred stock](#)
- All entities that issue paid-in-kind (PIK) dividends on equity-classified preferred stock, whether convertible or nonconvertible, including preferred stock classified as temporary equity (but excluding preferred stock classified as a liability under Topic 480).

Fast facts, impacts, actions

Some preferred stock instruments pay dividends in-kind (PIK dividends) through the issuance of additional preferred securities (with the same terms as the original preferred stock) or effectively through an increase to the original preferred stock's liquidation preference for the dividend amount. Such PIK dividend features may always require payment in-kind or allow the issuer the discretion to pay in cash or in-kind (i.e. discretionary or nondiscretionary PIK dividends).

The FASB proposes to standardize the initial measurement of PIK dividends on equity-classified preferred stock by requiring entities to measure such dividends using the PIK dividend rate stated in the preferred stock agreement, multiplied by the liquidation value (or liquidation preference) of the shares. This approach would eliminate current diversity in practice by filling a gap in US GAAP guidance.

The scope of the proposed amendments would be limited to certain equity-classified preferred stock. Notably, both liability-classified preferred stock accounted for under Topic 480 and nonmonetary asset transfers accounted for under Topic 845 would be excluded.

The proposed ASU would allow entities to adopt the amendments either prospectively or through a modified retrospective approach, with early adoption permitted for financial statements not yet issued.



Because the proposed ASU would standardize how PIK dividends are initially measured, it could lead to some entities changing how they measure these dividends. Therefore, entities should assess the financial reporting effect of this proposal and determine which transition method they plan to adopt.

The FASB seeks feedback from all stakeholders and comments are due by October 27, 2025. The effective date of these amendments is to be determined.

Background

Currently, there is no specific authoritative guidance in US GAAP on how to initially measure PIK dividends on equity-classified preferred stock. This lack of guidance has led to diversity in practice, particularly regarding how issuers should measure these dividends. Common approaches often depend on whether a PIK dividend is discretionary or nondiscretionary, with some entities either relying on analogies to existing guidance related to common stock dividends measured at fair value, or applying an effective yield similar to interest paid on debt instruments.

Stakeholders have expressed concerns about the ambiguity surrounding the initial measurement of PIK dividends on equity-classified preferred stock. This lack of uniformity limits the comparability of financial statements across entities that issue these instruments. It also means that financial statement users may find it difficult to assess the liquidation value of preferred stock and the related preference of any claims upon a liquidation or deemed liquidation event.

On March 25, 2025, the FASB added a project to its technical agenda to address the initial measurement of PIK dividends on equity-classified preferred stock. Following deliberations, the Board reached tentative decisions on June 25, 2025, and issued an Exposure Draft on September 30, 2025 to clarify how discretionary and nondiscretionary PIK dividends are to be initially recognized and measured. This project aims to resolve diversity in practice and improve consistency in financial reporting.

Scope limitations

The proposed ASU would explicitly exclude the following types of dividends and distributions from its scope:

- dividends on preferred stock classified as a liability under Topic 480 (distinguishing liabilities from equity);
- nonmonetary distributions of assets accounted for under Topic 845 (nonmonetary transactions);
- dividends on preferred stock payable in equity that differs in terms from the original preferred stock (such as dividends payable in common shares or preferred shares with different rights or terms);
- dividends on preferred stock payable in a variable number of shares of the preferred stock, based on a fixed monetary value; and
- stock splits or other dilutive-type adjustments.

This means the new guidance would apply only to equity-classified preferred stock, including those classified as temporary equity by analogy to SEC Staff Announcement, Classification and Measurement of Redeemable Securities (paragraph 480-10-S99-3A), where the dividends are payable in preferred stock with the same rights and terms of the original preferred stock.

Measurement of PIK dividends

The proposed ASU would require entities to initially measure PIK dividends on equity-classified preferred stock based on the PIK dividend rate specified in the preferred stock agreement, regardless of whether the entity has discretion to pay dividends in-kind. Some issuers of preferred stock instruments satisfy their dividend payment obligations by either:

- issuing additional preferred stock with the same terms as the original preferred stock; or
- increasing the liquidation preference for the original preferred stock by the determined dividend amount.

Regardless of the manner in which a PIK dividend is structured, it would be initially measured based on the stated dividend rate of the original preferred stock instrument and the stock's liquidation preference.

For example, if an entity issues preferred stock with a liquidation preference of \$50 per share and an annual stated dividend rate of 10%, the annual PIK dividend would be measured at \$5 per PIK share (\$50 liquidation preference × 10% stated dividend rate).



Historically, some entities have measured PIK dividends based on the fair value of the equity-classified preferred stock at the dividend date or using an effective yield method. Therefore, the proposal's measurement method may produce different results, and could affect EPS calculations to the extent it alters income available to common shareholders.

Transition and early adoption

The proposed ASU would allow companies to choose between two transition methods: prospective or modified retrospective. Under the prospective method, the amendments would be applied only to PIK dividends issued on or after the initial application date. In contrast, the modified retrospective approach would require recasting prior reporting periods presented, with a cumulative-effect adjustment to equity as of the beginning of the earliest period presented, related to previously issued PIK dividends on equity-classified preferred stock.

For example, assume an entity were to choose the modified retrospective approach and presents financial statements for 2024 and 2025. It would need to recast its 2024 financial statements and adjust equity as of January 1, 2024, to reflect the new measurement guidance for all outstanding equity-classified preferred stock outstanding as of the initial application date.

Early adoption would be permitted for interim and annual reporting periods for which financial statements have not yet been issued or made available for issuance, provided the amendments would be adopted as of the beginning of the annual reporting period that includes the interim period.

Next steps

The FASB will determine the effective date after considering stakeholder feedback.

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