KPMG

FASB issues ASU

Measurement of equity securities held by investment companies

September 10, 2026

FASB modifies how investment companies measure equity securities with contractual sale restrictions.

Source and applicability

- ASU 2026-03, Fair Value Measurement (Topic 820): Investment Companies with Equity Securities Subject to Contractual Sale Restrictions
- Investment companies under Topic 946, Financial Services – Investment Companies

Fast facts, impacts, actions

ASU 2026-03 provides an exception to the fair value measurement guidance in Topic 820 for investment companies that have investments in equity securities subject to contractual sale restrictions. The ASU aims to improve the decision-usefulness of investment company financial reporting and better align the measurement of equity securities subject to contractual sale restrictions with the value that market participants place on those securities.

The ASU mandates two actions by investment companies that hold such equity securities.

Fair value discount	Incorporate a discount when measuring the fair value of equity securities subject to contractual sale restrictions.
Enhanced disclosures	Disclose the amount of the discount included in the fair value measurement.

The **ASU does not change** the fair value measurement of equity securities for entities other than investment companies in the scope of Topic 946.

The FASB acknowledged the issue addressed by the ASU affects other types of entities but determined it was important to address the issue narrowly for investment companies in a timely manner. A project has been added to the FASB's technical agenda to address the fair value measurement of equity securities subject to contractual sale restrictions for all entities.

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Background

Before ASU 2026-03, contractual restrictions on the sale of an equity security were not considered part of the unit of account of the equity security and therefore were not reflected in its fair value measurement. As a result, stakeholders noted that the value of these securities may be overstated, which can inflate net asset value, distort performance reporting and affect management fee calculations.

To address stakeholder concerns, the ASU provides an exception to Topic 820 for investment companies that hold equity securities that are contractually restricted from sale.

ASU 2026-03

Fair value discount

The ASU requires investment companies to apply a discount to the fair value measurement of equity securities that have contractual sale restrictions. The discount reflects the amount market participants would demand because of the restriction. As a result, the fair value is measured based on the market price for an otherwise identical unrestricted equity security of the same issuer in the same market adjusted for the discount that reflects the effect of the restriction.

Restrictions on equity securities that are reflected in the economics of another arrangement to which the investment company is a party, such as a borrowing arrangement in which the investment company pledges the securities as collateral, are not subject to the new measurement requirement.

Enhanced disclosures

All entities are currently required to disclose the following for equity securities subject to contractual sale restrictions:

- the fair value of equity securities subject to contractual sale restriction(s);
- the nature and remaining duration of the restriction(s); and
- circumstances that could cause a lapse in the restriction(s).

In addition to the above, the ASU requires investment companies to disclose the amount of the discount attributable to contractual sale restrictions reflected in the fair value measurement of equity securities.

Effective dates and transition

Effective date	
For all investment companies	Annual and interim reporting periods in fiscal years beginning after December 15, 2027.
Early adoption	Permitted on any date on or after September 9, 2026. The date of adoption may not precede September 9, 2026.
Transition	
Approach	Apply the ASU prospectively to all equity securities with an adjustment to current-period earnings on the date of adoption.

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