



Memo No. **6**

MEMO

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Project	PCC Agenda Priorities
Project Stage	Pre-agenda
Issue	Employee Stock Ownership Plans (ESOPs)

Memo Purpose

1. Since 2024, the Private Company Council (PCC) has been routinely evaluating its agenda priorities using a structured process. Completed agenda priorities include:
 - (a) Accounting Standards Update No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*
 - (b) FASB Staff Educational Paper—*Topic 606: Presentation and Disclosure of Retainage for Construction Contractors*.
2. The PCC also researched the following agenda priorities and concluded that based on the evaluation factors in Appendix A of this memo, research would be discontinued:
 - (a) Short-cycle manufacturing
 - (b) Weighted-average disclosures
 - (c) Interest method and determining the effective interest rate.
3. Active PCC research projects include:
 - (a) Leases
 - (b) Subjective acceleration clauses and debt disclosures
 - (c) Debt modifications and extinguishments and troubled debt restructurings.
4. With the completion of past agenda priorities and continual progress on its current agenda priorities, the PCC has an opportunity to consider an additional area for research. One area that the PCC has

preliminarily discussed in connection with its periodic assessment of its agenda priorities is ESOPs (from a plan sponsor perspective). Based on those preliminary discussions and recent stakeholder feedback, the staff is providing this memo to facilitate the PCC's consideration of ESOPs as an area for future research. User feedback has indicated a need for enhanced disclosures in a plan sponsor's financial statements as described in this memo, particularly around repurchase obligations.

5. This memo is organized as follows.
 - (a) Background
 - (b) Recent Stakeholder Feedback
 - (c) Prior PCC Consideration of ESOPs
 - (d) Next Steps
 - (e) Appendix A—PCC Evaluation Factors
 - (f) Appendix B—Commonly Used Terms in ESOP Accounting
 - (g) Appendix C—Example—Excerpts from an ESOP Sponsor Audited Financial Statements and ESOP Audited Financial Statements.

Questions for PCC Members

1. Do PCC members want to research ESOPs (from a plan sponsor perspective) as part of their agenda priorities? If so, does the PCC want to focus its research on presentation, disclosures, or both?
2. If PCC members decide to research ESOPs, what would be helpful for PCC members to learn about in a future education session?

Background

6. As defined in the Master Glossary of the Codification, an *employee stock ownership plan* (also called an employee *share* ownership plan) is an employee benefit plan that is described by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 as a stock bonus plan, or combination stock bonus and money purchase pension plan, designed to invest primarily in employer stock.
7. Subtopic 718-40—Stock Compensation, Employee Stock Ownership Plans, provides guidance (from a plan sponsor perspective) for entities that utilize ESOPs. Most of the guidance included in Subtopic 718-40 originated from Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans* (SOP 93-6).

8. Paragraph 718-40-05-2 states that ESOPs are used for many purposes in addition to furthering employee ownership, including the following:
 - (a) To fund a matching program for a sponsor's 401(k) saving plan, formula-based profit-sharing plan, and other employee benefits
 - (b) To raise new capital or to create a marketplace for the existing stock
 - (c) To replace lost benefits from the termination of other retirement plans or provide benefits under postretirement benefit plans, particularly medical benefits
 - (d) To be part of the financing package in leveraged buy-outs
 - (e) To provide a tax-advantaged means for owners to terminate their ownership
 - (f) To be part of a long-term program to restructure the equity section of a plan sponsor's balance sheet
 - (g) To defend the entity against hostile takeovers.
9. As noted in paragraph 718-40-25-2, employers are required to give a put option to participants holding ESOP shares that are not readily tradable, which on exercise requires the employer to repurchase the shares at fair value (referred to as a repurchase obligation). Paragraph 718-40-50-1(f) requires an entity to disclose the existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance sheet date, which are subject to a repurchase obligation.
10. Other disclosures required by paragraph 718-40-50-1 for plan sponsors include:
 - (a) A description of the plan, the basis for determining contributions, including the employee groups covered, and the nature and effect of significant matters affecting comparability of information for all periods presented.
 - (b) A description of the accounting policies followed for employee stock ownership plan transactions, including the method of measuring compensation, the classification of dividends on employee stock ownership plan shares, and the treatment of employee stock ownership plan shares for earnings per share (EPS) computations.
 - (c) The amount of compensation cost recognized during the period.
 - (d) The number of *allocated shares*, *committed-to-be-released shares*, and *suspense shares* held by the employee stock ownership plan at the balance-sheet date.¹
 - (e) Fair value of unearned employee stock ownership plan shares at the balance sheet date.
11. The FASB staff notes that the repurchase obligation is not required to be reflected as a liability on a private company ESOP sponsor's balance sheet. Paragraph 79 in the discussion of conclusions in SOP

¹ See Appendix B for the Master Glossary definitions of the three italicized terms, which are unique to ESOPs.

93-6 notes that the Accounting Standards Executive Committee (AcSEC) believed that employer redemption of ESOP shares from participants are purchases of treasury stock, even if there is a put option on the shares. Therefore, redemptions are treated as equity transactions, not as obligations requiring liability recognition.

12. For comparison purposes, a public company ESOP sponsor reflects the maximum possible cash obligations outside of permanent equity. Paragraph 480-10-S99-4, Sponsor's Balance Sheet Classification of Capital Stock with a Put Option Held by an Employee Stock Ownership Plan, provides text of an SEC observer comment and states the following:

ASR 268 (see also paragraph 480-10-S99-3A) requires that to the extent that there are conditions (regardless of their probability of occurrence) whereby holders of equity securities may demand cash in exchange for their securities, the sponsor must reflect the maximum possible cash obligation related to those securities outside of permanent equity. Thus, securities held by an ESOP (whether or not allocated) must be reported outside of permanent equity if by their terms they can be put to the sponsor for cash. With respect to ESOP securities where the cash obligation relates only to market value guarantee features, the SEC staff would not object to registrants only classifying outside of permanent equity an amount that represents the maximum cash obligation of the sponsor based on market prices of the underlying security as of the reporting date; accordingly, reclassifications of equity amounts would be required based on the market values of the underlying security. Alternatively, the SEC staff would not object to classifying the entire guaranteed value amount outside of permanent equity due to the uncertainty of the ultimate cash obligation because of a possible market value decline in the underlying security.

See Appendix C for excerpts from an ESOP sponsor audited financial statements that illustrates this presentation.

Statistics and Other Information on ESOPs

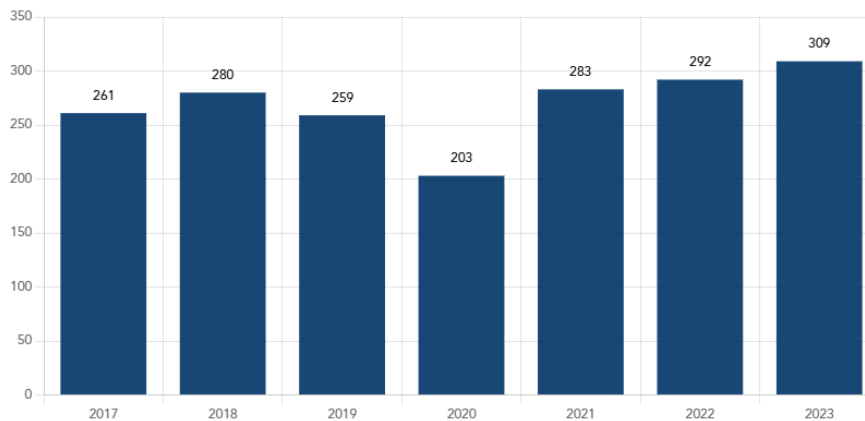
13. The [website](#) for the National Center for Employee Ownership (NCEO), a nonprofit organization supporting the employee ownership community, includes statistics and other information on ESOPs. The FASB has included excerpts below from the NCEO's website, which was updated in January 2026 (for U.S. Department of Labor filings through plan year 2023).
14. In total, there are 6,609 ESOPs in the United States, holding total assets of nearly \$2.1 trillion. The number of unique companies with an ESOP is approximately 6,411 (5,993 private companies and 418 publicly traded companies). A company may sponsor multiple plans. ESOPs cover 15.1 million participants; 11 million are active participants—that is, those who are currently employed and covered by an ESOP. Additional information is illustrated in the chart below:

Category	Number of Plans	Total Participants	Active Participants	Employer Securities (millions)	Total Plan Assets (millions)
Privately held companies	6,098	2,866,357	2,139,661	\$239,223	\$363,395
Small plans (under 100 participants)	3,381	154,116	115,228	\$22,514	\$26,120
Large plans (over 100 participants)	2,716	2,712,240	2,024,433	\$216,708	\$337,275
Publicly traded companies	511	12,238,947	8,860,336	\$158,678	\$1,693,119
Total	6,609	15,105,304	10,999,997	\$397,901	\$2,056,514

Note: there are slight rounding differences in several statistics in this table.

15. Almost 70 percent of ESOP companies are in the following industries: (a) manufacturing (20 percent), (b) professional, scientific, and technical services (19 percent), (c) construction (17 percent), and (d) finance, insurance, and real estate (13 percent).

16. An average of 270 new ESOPs are created per year. The chart below shows new ESOP creation since 2017.



17. Changes in the number of plans in public versus privately held ESOPs from 2015 to 2023 are as follows:

Year	Privately Held ESOPs	Publicly Held ESOPs
2015	6,067	602
2016	6,000	625
2017	5,928	633
2018	5,860	642
2019	5,880	602
2020	5,887	580
2021	5,973	560
2022	6,016	533
2023	6,098	511

18. Additional information about ESOPs can be found [here](#) on the NCEO’s website, such as ESOP contributions and distributions for 2023, what states ESOPs are located in across the United States, and changes in the number of total and active participants from 2015 to 2023.

Recent Stakeholder Feedback

19. The PCC obtained feedback on ESOPs over the past several years, primarily during its annual liaison meeting with ProSight Financial Association’s accounting working group (ProSight), comprising lenders to private companies. The PCC also received some feedback on ESOPs from practitioners and preparers. The FASB obtained feedback on ESOPs in response to the [Invitation to Comment, Agenda Consultation](#) (2025 Agenda Consultation ITC), which was issued for public comment on January 3, 2025, with comments due June 30, 2025. A summary of recent stakeholder feedback is included in the paragraphs below.

20. A verbal update of stakeholder feedback received in early 2026 from practitioners and users in the construction industry will be provided at the March PCC meeting.

Feedback from ProSight

21. ProSight members first brought ESOPs to the PCC as a potential research area in October 2023 and continue to emphasize that it is a top priority. They note that ESOPs have become more prevalent over the last three to five years as baby boomers retire and are using ESOPs as an exit strategy. ProSight members stated that they do not always have access to information that is needed for their financial statement analysis, such as ESOP repurchase obligations and timing and amounts of expected future cash outflows, and noted that enhanced disclosures are needed in the plan sponsor’s financial statements.

22. ProSight members explained that they view ESOP repurchase obligations as debt of the plan sponsor because there are signed contractual repurchase agreements and that they do not receive information about when payouts are expected, which limits their ability to assess future cash outflows. They observed that many ESOPs were established a long time ago and the associated valuations and

expected payouts have increased considerably and that based on current information received, they are unable to reliably predict the timing and amount of those future payouts. ProSight members further explained that the claims against the ESOP are at the option of the plan participants and the valuations of the shares in an ESOP are based on the market value of the company; therefore, the claims on equity could be greater than the book value of the company, which is important for financial statement users to know.

23. For those reasons, ProSight members stated that, at a minimum, the amount of the repurchase obligation and the estimated amounts and timing of future cash outflows associated with the obligation should be disclosed (for example, a 5-year maturity table). Additionally, a qualitative disclosure about how management plans to satisfy the obligation is needed.
24. ProSight members noted that certain disclosures required by Topic 962, Plan Accounting—Defined Contribution Pension Plans, in the ESOP financial statements are not required in the plan sponsor financial statements and because not all ESOPs are required to have an audit, information cannot always be obtained from the ESOP financial statements.² The FASB staff notes that when an ESOP is required to have an audit, those audited financial statements generally are required to be filed with Form 5500, Annual Return/Report of Employee Benefit Plan. The U.S. Department of Labor has a [website](#) that allows the public to search for Form 5500 filings, which would include the attached audited financial statements. See Appendix C for excerpts from an ESOP audited financial statements.

Other Private Company Stakeholder Feedback Provided to the PCC

25. During two PCC liaison meetings held in 2025, private company practitioners and preparers provided the following feedback:
 - (a) ESOPs are common among early-stage life sciences companies to help manage the risks inherent in long research and development timelines.
 - (b) ESOPs are becoming more common especially in the construction industry.
 - (c) Private companies engaged in succession planning are increasingly considering ESOPs as a strategy for ownership transition.

2025 Agenda Consultation ITC Feedback

26. ProSight's feedback to the PCC was also shared with FASB staff and incorporated into Chapter 5, Retirement and Other Employee Benefits, of the 2025 Agenda Consultation ITC along with a question for respondents as follows:

² The AICPA's Audit and Accounting Guide—*Employee Benefit Plans* (paragraph 1.23), states that the Employer Retirement Income Security Act of 1974 (ERISA) contains a requirement for annual audits of plan financial statements by an independent qualified public accountant. Generally, plans with 100 or more participants are subject to the audit requirement.

Investors provided feedback that ESOP repurchase obligation disclosure requirements could be enhanced. GAAP requires an entity to disclose the existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance sheet date that are subject to a repurchase obligation. Investors suggested requiring a quantitative disclosure of an entity’s repurchase obligations over the next five years to provide investors with better information about future expected cash outflows, as well as making improvements to the qualitative disclosures about the terms of the repurchase obligations and how management plans to satisfy those obligations.

Question 34: How pervasive are repurchase obligations for ESOPs? Should additional disclosures be required and, if so, what type (for example, quantitative, qualitative, or both types of disclosures)? Please explain.

27. Eighteen stakeholders directly responded to Question 34 or provided general feedback on ESOP repurchase obligation disclosures and ESOPs. The following tables provide (a) information on the composition of those 18 respondents by stakeholder type (listed in alphabetical order) and (b) their assessment as a top, low, or neutral priority for the FASB to consider for future standard-setting.

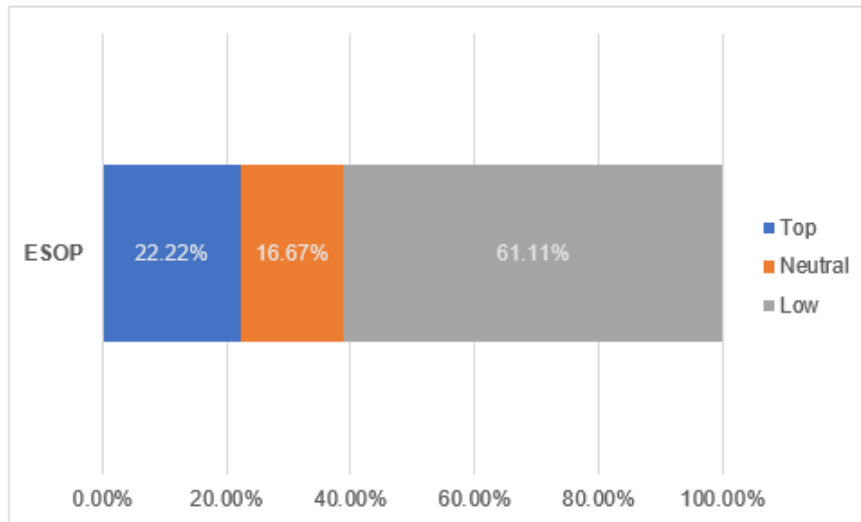
Type of Stakeholder *	Number of Respondents
Advisory Groups	1
Investors and Investor Advocate Groups	2
Other	1
Practitioners	8
Preparers	3
State Societies	1
Trade Groups	2
Total Respondents-Question 34	18

* This includes comment letters received through August 29, 2025³.

The PCC is the advisory group included in the above table and ProSight is included in the investor group category.

³ Stakeholder feedback since August 29, 2025, has been limited to one preparer who indicated that there are challenges in forecasting repurchase obligations and assessed ESOPs as a low priority.

Prioritization Ranking



28. As illustrated in the chart above, most of those stakeholders noted that the ESOP repurchase obligation disclosures topic is a low priority, while a few identified the topic as a top priority. Some other stakeholders were neutral on priority, with some citing that they would support a project if it was determined that the benefits to investors would outweigh the costs to preparers.
29. Regarding the pervasiveness of repurchase obligations, stakeholders provided mixed feedback. Several stakeholders noted that repurchase obligations are a common feature of ESOPs, especially for private companies, because of a requirement for companies to buy back shares from ESOP participants upon distribution. Furthermore, one stakeholder noted that repurchase obligations can have a significant effect on an entity's current and future cash flows, especially as an ESOP matures because vested participant account balances typically increase in value. In contrast, several other stakeholders noted that they are not aware that it is a prevalent practice.
30. In addition to a general lack of pervasiveness, stakeholders that identified requiring additional ESOP repurchase obligation disclosures as a low priority cited the following reasons:
- (a) Sufficient information is currently provided (such as information resulting from the requirement in paragraph 718-40-50-1(f)) about the existence and nature of any repurchase obligation that includes disclosure of the fair value of the shares allocated as of the balance sheet date that are subject to a repurchase obligation.
 - (b) Significant management judgment, time, and cost would be required to prepare additional quantitative disclosures of future payments and, therefore, the benefits of additional disclosures may not outweigh the costs of preparing the necessary information. For example, one stakeholder noted that because repurchase obligations are generally tied to a contingency, such as termination of employment, they cannot be reasonably predicted. Another stakeholder further noted that because of the uncertainty in the timing of future obligations, additional

disclosures may not provide reliable information about the cash flow impact of the obligations. Additionally, one stakeholder observed that estimating the timing of repurchase obligations often requires an entity to engage an actuary or a valuation specialist.

- (c) Significant diversity in reporting outcomes or significant practice issues have not been observed in this area and, therefore, standard setting is not a current priority.

31. Stakeholders who supported requiring additional disclosures about ESOP repurchase obligations—primarily a quantitative disclosure about an entity’s repurchase obligations over the next five years—cited the following reasons:

- (a) Additional disclosures would enhance transparency about ESOPs to help investors better understand the timing of future payments.
- (b) Data should be available to provide additional disclosures.

32. If the Board were to add a project related to ESOP repurchase obligation disclosures, stakeholders suggested several next steps to consider, such as the following:

- (a) Conduct outreach with investors and preparers to determine the benefits to investors and the cost to preparers so that the Board can determine if the benefits outweigh the costs.
- (b) Confer with the PCC to consider the pervasiveness, diversity in practice, and develop recommendations for the Board.
- (c) Require qualitative disclosures about the terms of the repurchase obligations and how management plans to satisfy them.
- (d) Require quantitative disclosures about future payments, such as an entity’s repurchase obligations over the next five years.
- (e) Consider whether separate guidance is necessary on ESOPs or whether, instead, guidance on ESOPs should be incorporated into Topic 718.

33. Separate from repurchase obligation disclosures, two stakeholders provided other feedback related to ESOPs:

- (a) One stakeholder noted that there is diversity in practice related to whether ESOP debt should be recognized in the standalone financial statements of the plan sponsor’s subsidiary (that is, whether the debt should be pushed down to the subsidiary’s financial statements). Therefore, that stakeholder suggested that the Board consider outreach with preparers to understand this diversity.
- (b) One stakeholder encouraged the Board to take a fresh look at accounting for ESOPs, noting that the current guidance is antiquated and the accounting does not mirror the economic substance of the transaction.

Prior PCC Consideration of ESOPs

34. Since the PCC commenced its structured agenda priority process in 2024, they have assessed their priorities twice, in April 2024 and December 2024. In each of those assessments, PCC members and the AICPA representative who observes PCC meetings were asked to rank potential research areas into the following categories: (a) interested—the PCC should pursue a project, (b) potentially interested in the PCC pursuing a project, but need more information, and (c) not interested—the PCC should not pursue a project on this issue. ESOPs was one of many areas included in the population of potential agenda priorities.
35. For the April 2024 PCC meeting, the PCC members (and the AICPA observer) ranked a total of 16 potential research areas. Pertaining to ESOPs, three respondents indicated that they were interested in the PCC pursuing a project, six indicated that they potentially were interested in a project but needed more information, and three indicated that they were not interested in pursuing a project.
36. For the December 2024 PCC meeting, the PCC members (and the AICPA observer) ranked a total of 14 potential research areas. Pertaining to ESOPs, two respondents indicated that they were interested in the PCC pursuing a project, six indicated that they potentially were interested in a project but needed more information, and two indicated that they were not interested in pursuing a project.
37. During both agenda priority assessments, some user PCC members indicated a need for enhanced disclosures about ESOPs in a plan sponsor's financial statements, consistent with the feedback from ProSight.

Next Steps

38. If the PCC decides at its March 2026 meeting to research ESOPs as part of their agenda priorities, the next step would be to hold an education session with the PCC in June. Outreach materials would then be developed, and future outreach would be conducted with private company stakeholders.

Appendix A—PCC Evaluation Factors

A1. The PCC considers the following evaluation factors to assess their agenda priorities. These are the same evaluation factors that have been used by the PCC since the commencement of the structured agenda priority process in 2024.

- (a) Whether the issue is pervasive and does the issue also apply to entities other than private companies
- (b) Whether technically feasible solutions exist or could be developed
- (c) Whether there is an identifiable scope
- (d) Whether the FASB already has a research or technical agenda project
- (e) Whether the issues are reasonable from the Board's perspective (for example, whether the issues are supported by the Private Company Decision-Making Framework)
- (f) The degree to which the issue has been raised, by whom, and with what frequency
- (g) Project plan and timeline to resolve the issue
- (h) Relative priority to the PCC and private company stakeholders (near term or longer term).

Appendix B—Commonly Used Terms in ESOP Accounting

B1. The following are definitions from the Master Glossary of the Accounting Standards Codification of *allocated shares*, *committed-to-be-released shares*, and *suspense shares*.

Allocated shares: Shares in an employee stock ownership plan trust that have been assigned to individual participant accounts based on a known formula. Internal Revenue Service (IRS) rules require allocations to be nondiscriminatory generally based on compensation, length of service, or a combination of both. For any particular participant such shares may be vested, unvested, or partially vested.

Committed-to-be-released shares: Shares that, although not legally released, will be released by a future scheduled and committed debt service payment and will be allocated to employees for service rendered in the current accounting period. The period of employee service to which shares relate is generally defined in the employee stock ownership plan documents. Shares are legally released from suspense and from serving as collateral for employee stock ownership plan debt as a result of payment of debt service. Those shares are required to be allocated to participant accounts as of the end of the employee stock ownership plan's fiscal year. Formulas used to determine the number of shares released can be based on either of the following:

(a) the ratio of the current principal amount to the total original principal amount (in which case unearned employee stock ownership plan shares and debt balance will move in tandem)

(b) The ratio of the current principal plus interest amount to the total original principal plus interest to be paid.

Shares are released more rapidly under the second method than under the first. Tax law permits the first method only if the employee stock ownership plan debt meets certain criteria.

Suspense shares: The shares initially held by the employee stock ownership plan in a suspense account are called suspense shares. Suspense shares are shares that have not been released, committed to be released, or allocated to participant accounts. Suspense shares generally collateralize employee stock ownership plan debt