

"Governance of Share Buy-backs and Market Outcomes: A Comparative Regulatory Perspective"

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Abstract

This study aims to provide a comparative analysis of buy-back laws in the US, UK, and India with an emphasis on how well they promote financial stability, improve shareholder welfare, and allow for corporate conduct flexibility. Share buy-back, a financial restructuring vehicle, gained international momentum in the 1980s and 1990s. India legalized buy-back in 1998 through an amendment to the Companies Act, 1956. The USA and UK have established buy-back regimes, with the USA having SEC Rule 10b-18 (1982) and the UK having buy-backs governed by the Companies Act, 1985. India's regulatory regime is still stricter than the USA and UK. This research evaluates India, the USA, and the UK's buy-back regulations for their effectiveness in fostering financial stability, shareholder welfare, and flexibility in corporate conduct. Results show that India's buy-back provisions are effective in maintaining financial discipline but may call for flexibility towards general corporate adaptation. The study suggests that U.S. disclosure standards should be more rigorous, shareholder approval for high-value buybacks, UK procedural delays should be reduced, solvency requirements should be more flexible, and Indian buyback approval procedures should be simplified for more transparency.

Keywords: Buy-back of Shares, Regulatory Provisions, Companies Act, SEBI, SEC Rule 10b-18, Corporate Governance.

1. Introduction

Dynamic business environment creates need for firms' financial restructuring with a view to ensure optimum utilization of shareholders' fund to keep the value of the firm high (Shaw and Rakshit, 2015). Share repurchase, technical name of Buy-back of shares is a vital tool for financial restructuring and one of the modes of recapitalization. It serves the company as a means of distribution excess cash in low growth environment, improving EPS and operating profit, preventing takeover threat as well as boost share price (Jenson, 1986; Chatterjee and Dutta, 2015; Alghamdi, 2018). Corporations most typically repurchase their own shares to reduce equity. Share buybacks are a common way to return additional value to owners without increasing dividend requirements. Investors are more concerned with stock price volatility than with a company's buyback practice.

There are several laws and regulations to regulate Share Buy-back practices with a view to prevent unethical and untrustworthy practices. Such laws, regulations, and guidelines are considered necessary for effective implementation of Buy-back practices and to protect the interest of shareholders. The development of newer method for raising capital or surplus earning distribution required changes in regulatory framework (Chakraborty, 2008). The Buy-back regulatory framework differs from country to country depending upon the country's corporate scenario, sources of finance, Buy-back period etc. The regulatory norms surroundings Buy-back have significant impact on corporate practice of Buy-back across countries (Chatterjee and Dutta, 2015). Country to country motivational factors also differ due to difference of institutional framework of Share Buy-back (Jena, Mishra and Rajib, 2016).

US companies have adopted Buy-back programme in large number since early 1980s, but in 1990s it became global. Today it is spreading in many countries and they have adopted Buy-back provision in their company regulation. 20 years ago in 1998, Buy-back provisions have been introduced in India by introducing section 77A, 77AA, & 77B in Companies Act 1956 and Indian companies were permitted for Buy-back practices in India. Since inception number of Buy-back announcement was very low, but 2020s witnessed upward rising trend of Share Buy-back practices by Indian Corporate sector.

Majority of studies on regulatory framework of share Buy-back have been conducted in the developed countries. The effectiveness of regulatory frameworks in shaping share buy-back programs is understudied, with limited comparative research comparing India, the USA, and the UK. Existing literature primarily focuses on developed economies, neglecting emerging markets like India, and lacks comprehensive empirical analysis.

In this paper we try to provide a comprehensive and comparative study of regulatory framework of Buy-back in India with the comparative study with other countries i.e. USA & UK.

2. Literature Review:

There is some existing literature review which explains the importance of regulatory provisions. Some of them are as follows:

Grullon & Ikenberry (2000) interpreted that although SEC rule 10b-18 well served US Market yet it is ill-defined and narrow in scope. Absence of organizational framework and standard disclosure environment is puzzle about corporate repurchase activity. Sabri (2003) examines the International Corporate Laws and Regulations on the issue of Buy-back and found increasing movement of adoption and deregulation of World Stock Market has positive and significant impact on Buy-back events. Chakraborty (2004) interpreted that the Buy-back environment in the UK is more organized and regulated than India or USA. As compared to USA and UK, Indian regulatory provision of Buy-back appears to be stringent in certain aspects which need to be relaxed to promote healthy growth of Buy-back in Future. Hackethal and Zdantchouk (2004) observed that differences in legal requirement for implementing Buy-back event are main determinant for average price effect of Buy-back. Bjorn Holmgren, Christian Wallenstan & Berntsson (2005) has explained in his paper that the choice of techniques always depends on the situation the firm faces. The future of synthetic buyback is dependent on especially legislation.

Weigand and Baker's study on US firms' distribution policy evolution from dividends to share repurchase (2009) reveals that since the mid-1980s, US firms have significantly repurchased their own common stock due to improved regulatory environment. Post-repurchase insider shareholdings confirm the credibility of repurchase announcements for firms with better corporate governance. Buyback outcomes are influenced by internal governance mechanisms and external monitoring factors like Big Four auditors and regulatory price ranges (Wu, 2012). Alberto Manconi Urs Peyer Theo Vermaelen's (2015) study on buy-back timing, governance, and regulations found that share buybacks worldwide yield significant positive announcement returns, with country governance quality being a key factor investor use to assess the reasons for the buyback. Chatterjee & Dutta (2015), found that US is originated country of Buy-back in the late 1960s. They also found in their study that regulatory framework around Buy-back have material impact on corporate Buy-back practices which is vary across nations depending upon regulatory norms. Varma & Munjal (2016) found that capital structure correction is the primary driver of tender offer buybacks. The event study mechanism was used to monitor share price changes. The abnormal return indicated a positive market reaction, emphasizing the value creation through tender offer share buybacks. Jena, Mishra & Rajib (2016) found that country to country motivational factor differ due to difference of institutional framework of Share Buy-back, corporate governance and audit quality in a country. The market responds to buyback announcements by providing new information about a company's future and share price. Positive signals include management believing the stock is undervalued, confidence in the company's cash to cover future commitments, and a negative signal that management suggests investors invest elsewhere. The overall positive response comes from investors being relieved that managers won't spend the

company's cash on mergers or negative net present value projects (Farooq, 2016). Firms with larger promotor ownership interests see stronger market reactions, and liquidity improves following announcements. Open market repurchase schemes boost liquidity, whereas tender offers don't. Firms with a high promotor ownership experience increased liquidity. Shorter-term repurchase schemes enhance liquidity more. (Dayanandan et al., 2020). Dividends are significantly less tax efficient than repurchases. As a result, share repurchases have recently gained popularity among public firms. Share repurchases have surpassed dividends as the most common form of corporate pay-out (Mazur et al. 2023). UK firms tend to participate in fewer significant repurchase actions compared to their US rivals. In the US market, corporations often use share repurchases to return cash to shareholders due to favourable tax policies and less regulation. The US has become the dominant market for returns of share repurchases due to lower corporate tax rates, accessible capital markets, and a focus on shareholder. (Wang et al. 2021; Vaupel et al. 2023; Jamadar, 2024).

Table 1: Reviewed Literature focused on country Regulation and effects on Buy-back

Author(s) & Year	Country	Focus Area	Key Findings	Regulatory Insights
Brav et al. (2005)	USA	Corporate motivations for buybacks	Firms use buybacks to distribute excess cash and signal undervaluation	Although SEC Rule 10b-18 offers a safe harbor, it does not impose strict disclosure requirements.
Dittmar (2000)	USA	Determinants of share repurchases	Undervaluation and excess cash drive repurchase decisions	Regulations provide freedom, they may also permit opportunistic behaviour.
Fried (2005)	USA	Agency costs and market signalling	Buybacks can assist in bringing managers' and shareholders' interests into alignment.	Suggests requiring shareholder consent before making significant repurchases.
Oswald & Young (2008)	UK	Market reaction and governance in UK buybacks	Positive impact on shareholder value, but procedural delays noted	Procedural inspections enforced by the UK's Companies Act may limit flexibility.
Verma & Paul (2012)	India	Impact of buybacks on stock prices	Positive short-term market reaction to buyback announcements	SEBI regulations impose multiple conditions, leading to procedural rigidity
Goyal & Joshi (2014)	India	Legal framework analysis	Buybacks constrained by solvency and debt-equity criteria	Calls for harmonization with global practices and procedural relaxation
Singh & Yadav (2016)	India	Regulatory compliance and corporate governance	Buybacks promote financial discipline, but compliance is burdensome	Suggests the need for simplification in approval and reporting mechanisms
SEBI Discussion Paper (2019)	India	Review of buy-back regulations	Highlights misuse by promoters and issues in debt-equity norms	Stricter norms for promoter buybacks and tighter post-buyback compliance
PwC Report (2020)	Global (Incl. UK)	Comparative analysis of buyback frameworks	UK is transparent but slower; US is fast but less transparent; India is restrictive	Control and flexibility must be balanced among jurisdictions.

Source: Compiled from reviewed literature

The USA, UK, and India are evaluating market-driven approaches, with the USA focusing on flexibility, the UK demonstrating transparency, and India demonstrating rigid norms. Most of the literature reviews are based on developed countries i.e. US and UK. Literature reviews supported the role of Regulatory Institutional framework in the trend of Buy-back in respective countries.

3. Data and Methodology

Database is taken from various secondary sources to examine and analyze the regulatory provisions of Buy-back in India as well as comparative study with regulatory framework of two major worldwide countries USA & UK. Present paper is exploratory and analytical in nature which helps to understand the regulatory provisions in India and explore the understanding of Buy-back provisions in India by comparative study with two major dominated Buy-back countries USA & UK. The two countries have pioneered the Buy-back legislation in the world and are initial platform for Buy-back regulation in the world, thus, these two countries have been selected for comparative study of Buy-back provisions in India. This study also analyzes regulatory framework of each sample countries on the basis of its effectiveness on corporates buy-back activity as well as stock market. The paper divided into three sections: (i) First section examine the environment & regulatory provision of USA, UK & India; (ii) second section examine the comparative study of regulatory framework of USA, UK & India; and (iii) last section analyze regulatory framework of each sample countries on the basis of its effectiveness on corporates buy-back activity as well as stock market and attempt to sketch out certain valuable recommendations for growth and transparency in Buy-back practices in India.

3. Buy-back Regulations and Provisions

3.1 Buy-back environment .Prior 1998 Indian company was prohibited to repurchase their own shares. In order to help restore the confidence of the shareholders, government, industry and the stock market need to introduce Share Buy-back in India.

Thus, In 1998 the "Companies Act, 1956" abolished major restrictions for Indian corporations to repurchase their own shares, by inserting three new sections 77A, 77AA & 77B in Companies Act, 1956 by the companies (Amendment) Act, 1999. In respect to Buy-back practices of listed companies, guideline and government rules were prescribed by Securities Exchange Board of India (SEBI) under SEBI (Buy-back of shares) Regulations, 1998 on November 14, 1998. At present Buy-back practices of all Indian companies have to abide by Provisions of Sections 68, 69 & 70 of Companies Act, 2013 and guidelines of SEBI (Buy-back of Securities) regulations, 1998. As Buy-back of Shares is two decades old practice in India buy it has gain momentum in the year 2016-17 and continues its upward trend in financial year 2017-18 also. As per prime database in the year 2017-18 Indian Companies have highest ever Buy-back offer (59 offers) of 53,307 Crores.

3.2 Buy-back Regulations and Provisions of India, USA and UK:

The Companies Act of 1956 removed significant limitations on Indian firms' ability to buy back their own stock in 1998, enabling them to earn back the trust of their shareholders. Under the SEBI (Buy-back of shares) Regulations, 1998, the Securities Exchange Board of India (SEBI) established government regulations and guidelines for listed businesses' buyback policies. All Indian businesses are now required to follow the requirements of the SEBI (Buy-back of Securities) regulations, 1998, as well as the provisions of Sections 68, 69, and 70 of the Companies Act, 2013. According to India's buy-back law, a business must repurchase its shares or potentially designated securities using cash obtained from the issuance of its shares or potentially designated securities, free reserves, or the securities premium account. However, unless the company's articles permit it, a special resolution for the buyback has been voted at the general meeting, and the total number of shares traded is less than 25% of the company's paid-up capital and free reserves, the firm is not permitted to buy back its shares. All shares or other specified securities that may be offered are tied to the direct buy-back, and they are all fully paid up when the post-debt equity ratio reaches 2:1. Each buyback must be finished within a year from the date the special resolution is passed, and no offer of buyback will be counted within a year of the prior buyback offer's closure date. A payment equivalent to the nominal value of shares purchased back for free reserve or securities

premium accounts must be transferred to the "capital redemption account" as shown on the company's balance sheet, according to Section 69, which deals with capital redemption accounts. If a company doesn't pay dividends, redeem preferred shares, or service its obligations or loans, it can't buy back shares or securities. Share repurchases started in the United States of America in 1982 when the Securities and Exchange Commission issued rule 10b-18. By offering a legislative framework and protection for stock buybacks, this law enables businesses to voluntarily repurchase stock without facing criminal charges for manipulation. The regulation is permissive yet adequate to lower the uncertainty of litigation and permit an increase in share buyback activities. Companies must follow certain regulatory requirements on the manner, timing, cost, and volume of purchases under Rule 10b-18. Repurchases of common stock must be approved by the company's articles of association, and issuers are only allowed to operate with one broker or dealer every trading day. Businesses can use debt to finance these buybacks and do not have to cancel shares and can be reissued later.

Public corporations are strictly subject to the UK corporations Act 1985, which amended the 1981 Act. A corporation may only buy its own shares under Section 162 of the Companies Act 1985 if the Article of Association (AOA) permits it to do so. The corporation has the option to buy shares on the market or off the market, if permitted. There are limitations on purchases that are authorized by the AOA and done through an accredited investment exchange. Although it had less authority than the 1981 Act, the UK firms Act of 1981 permitted buy-back provisions for publicly traded firms. Sections 159–181 of the 1985 Act, which only applies to public businesses, were amended by the 1981 Act to replace this more limited authority. A corporation may only buy its own shares under the 1985 Act if the Article of Association (AOA) permits it to do so. Purchases are conducted through recognized investment exchanges that are regulated by the market when they are on the market, and through recognized exchanges that are not regulated when they are off the market. While an off-market acquisition necessitates a separate resolution by the shareholder, an on-market buy requires authorization from the board.

Companies that engage in repurchases must adhere to the listing rule, which permits them to do so within a year, limit the buyback of existing shares to less than 15%, and pay prices for shares that are no more than 5% higher than the average market value over the ten business days prior to the purchase. In the event that no shares are redeemed or acquired, UK firms are exempt from responsibility for damages under Section 160(4), which deems bought-back shares as cancelled when repurchased. Officers impose a final punishment on firms that do not submit returns in the required format and reveal them to the registrar of companies for registration. Directors who make a declaration without a valid reason for their view face imprisonment or a fine, according to Section 173(6). Private limited firms in the UK can purchase their own shares up to a total purchase price of either 5% of their fully paid share capital at the start of the fiscal year or £15,000.

4. Comparison of Buy-back provisions in USA, UK and India:

As per the above study, a summarize comparison of Buy-back provisions in the USA, UK, and India is sketched out:

Table 2: Comparative analysis of Buy-back Regulations of USA, UK and India

Table 1: Comparative analysis of Buy-back Regulations of USA, UK and India				
Sr.no.	Particulars	USA	UK	India
1	Year of Emergence of Buy-back Regulation	1982	1981 and 1985	1998
2	Regulatory laws	Safe Harbor Rule 10b-18 of Securities Exchange Commission.	<ul style="list-style-type: none"> Companies Act 1985 with amendments Bermuda companies act 1981 	<ul style="list-style-type: none"> Companies Act 1956 and 2013, SEBI Buy-back regulation 1998.
3	Specific restriction	Safe harbor	Mandatory rule	Mandatory rule
4	Article of Association requirement	Mandatory	Mandatory	Mandatory
5	Resolution for Buy-back Approval	Board resolution passed during the meeting of the company's Board of Directors.	<ul style="list-style-type: none"> For on-market purchase Board resolution should be passed; For Off-market purchase: Special resolution passed at the general meeting of the company; 	The company's board resolution is required if the buy-back is less than 10% of paid-up capital and free reserves, and a special resolution is passed at the journal meeting if it exceeds 10%.
6	Body responsible for Buy-back approval	Board of directors	<ul style="list-style-type: none"> Board of directors Or Shareholders meeting 	<ul style="list-style-type: none"> Board of directors and/or shareholders meeting.
7	Methods of Buy-back	<ul style="list-style-type: none"> Fixed Price tender offer; Dutch auction offer; Open market Purchase; Private negotiations 	<ul style="list-style-type: none"> Off-market Purchase; On-market Purchase 	<ul style="list-style-type: none"> Fixed Price Tender Offer; Open Market Purchase; Purchase of employees' securities issued under stock option plan.
8	Limit (Price/ equity shares)	The price of a transaction should not exceed the highest dependent bid or the last independent transaction price, and daily volume should not exceed 25% of the average trading volume over four previous weeks.	The price for repurchase must not exceed 5% of the average price of proceeding five business days, and the volume must not exceed 15% of outstanding equity shares daily.	As per Companies Act <ul style="list-style-type: none"> Amount – Cannot be exceed 25% of its total paid-up equity capital and free reserves in that financial year; Equity share – Cannot exceed 25% of equity paid –up capital.
9	Sources of Buy-back	<ul style="list-style-type: none"> Distributable profit; Debt financing 	<ul style="list-style-type: none"> Distributable profit; Out of proceed of fresh issue of share made. 	<ul style="list-style-type: none"> Paid-up capital Free reserves Securities premium account Proceeds of any shares or other specified securities
10	Solvency norms after Buy-back	No norms	No norms	Debt-equity ratio should be 2:1 as per Section 68 (2) d companies Act 2013.
11	Treasury operations	Allowed	Bought back shares can be kept as treasury stock and can deal with them at any of them at any time.	Compulsory; requires extinguishment of shares bought back within 7 days of completion of Buy-back.

			(Companies Act, 2006; Section 724 (3))	
12	Continuous Disclosure	Quarterly	Daily	No statutory requirement.
13	Buy-back period	None	18 months	12 months
14	Penalty on failing to implement a Buy-back programme already announced	No Penalty	Shareholders can demand specific performance of a contract to repurchase delayed creditors, but a corporation's failure to comply may result in personal accountability and potential offense.	No penalty. However, the corporation or its officers may face imprisonment for up to two years and/or a fine of up to fifty thousand rupees if conditions are not met.

Source: Author Own compilation from Share buy-back regulations of respective countries.

5. Trend of Share buy-back in India:

The trend of share buy-backs in India has evolved significantly over the years. In the early years (1998-2010), buy-back activity was relatively low, with only a few issues and smaller amounts. The highest buy-back amounts during this period were recorded in 2004-05 (Rs. 3,600 crore) and 2008-09 (Rs. 4,218 crore), likely influenced by economic conditions such as the global financial crisis. However, from 2011 to 2016, there was a noticeable increase in buy-back amounts, with significant jumps in 2011-12 (Rs. 13,765 crore) and 2013-14 (Rs. 11,380 crore). The number of buy-back issues also increased gradually, reflecting greater corporate participation. The trend reached its peak and expanded further between 2017 and 2020, with a sharp rise in buy-back activity. Major buy-back amounts were observed in 2016-17 (Rs. 34,468 crore), 2017-18 (Rs. 53,307 crore), and 2018-19 (Rs. 55,587 crore), with the highest number of issues recorded in 2018-19 (63 buy-backs). This surge was likely influenced by regulatory changes and corporate tax reforms, which encouraged companies to opt for buy-backs. However, post-pandemic volatility from 2020 to 2023 led to fluctuations in buy-back amounts. Although buy-backs remained significant, the amount declined to Rs. 39,295 crore in 2020-21 and further fluctuated in 2021-22 (Rs. 31,316 crore) and 2022-23 (Rs. 21,781 crore), potentially due to economic uncertainties and market instability.

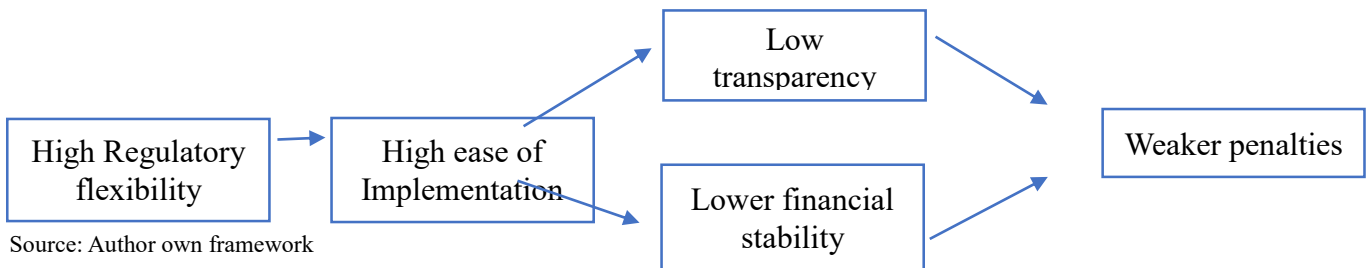
More recently, from 2023 to 2025, buy-back activity has shown a strong resurgence, with the amount reaching Rs. 51,143 crore in 2023-24, close to the previous peak levels. In 2024-25 (as of February 8, 2025), Rs. 7,770 crore has already been recorded, indicating continued corporate interest in buy-backs. However, the number of issues has slightly declined compared to earlier peaks, suggesting that while buy-back sizes have increased, fewer companies are participating in the process. This trend highlights the growing significance of share buy-backs as a financial strategy, driven by economic conditions, regulatory policies, and corporate financial planning.

6. Discussion: Evaluation of the Effectiveness of Buy-back Regulations in India, the USA, and the UK with empirical evidence

A well-structured Buy-back regulatory framework is essential for maintaining **market stability, preventing corporate misuse, ensuring investor protection, and balancing corporate liquidity with long-term financial health**. Based on the comparative analysis presented in the study, this evaluation assesses the effectiveness of Buy-back regulations in **India, the USA, and the UK** based on key regulatory parameters.

The USA has the **most flexible Buy-back regulations**, allowing companies to use repurchases strategically for capital management. However, research indicates potential misuse due to **loose disclosure norms**. The US has a flexible regulatory framework under SEC Rule 10b-18, offering a safe harbour provision to protect companies from market manipulation claims. Buy-backs are widely used by US companies as a capital distribution tool, often replacing dividends due to favourable tax treatment. The rule allows repurchased shares to be held as treasury stock, allowing companies to reissue shares later. However, the US lacks strong investor protection measures, such as shareholder voting on buy-backs, and no solvency requirements post-buy-back, increasing financial risk. Additionally, Rule 10b-18 does not mandate real-time disclosures for buy-back activities, potentially leading to market manipulation. Overall, the US model is highly flexible but weak in investor protection and transparency. Grullon and Michaely (2002) discovered that stock prices rise by an average of 2-3% immediately following a buyback announcement, owing to good investor mood. Fried (2005) contends that companies employ buybacks to artificially raise stock prices, benefiting insiders at the expense of long-term investors. Bonaime (2012) discovered that corporations repurchase shares aggressively when stock prices fall, perhaps indicating market manipulation. Hribar et al. (2006) demonstrated that companies with high debt levels frequently use buybacks rather than dividends, raising financial leverage concerns. According to Almeida et al. (2016), debt-financed buy-backs increase the probability of bankruptcy during economic downturns. Fried and Wang (2018) examined 10,000 buy-back programs and discovered that many do not boost long-term financial performance, but rather act as earnings management strategies. Kahle and Shastri (2020) discovered that corporations frequently fail to complete announced buy-backs while facing no penalties under SEC Rule 10b-18. Empirical data shows that buy-backs in the USA are successful for short-term stock price gains. However, executives may utilize them to distort financial performance due to weak disclosure rules and absence of consequences.

Fig.1 Effectiveness of Buy-back Regulations in USA

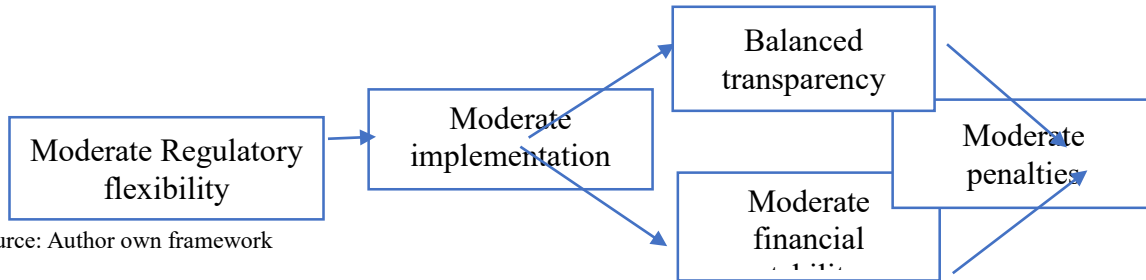


Source: Author own framework

The UK's regulatory framework for buy-backs is strict, requiring detailed disclosures, shareholder approval, and limiting the buy-back amount to 15% of outstanding shares. This ensures transparency and investor participation in corporate decisions. However, it is more restrictive than the USA, potentially discouraging companies from using buy-backs as financial restructuring tools. The UK's penalty for non-implementation of buy-backs is weak, with mostly fines as the legal consequences. Despite these weaknesses, the UK model balances flexibility and investor protection, making it an effective financial restructuring tool. Dittmar (2000) discovered that UK corporations that engage in buy-backs generate a 1.5%-2% positive abnormal return, which is slightly lower than in the United States due to tougher restrictions.

Manconi, Peyer, and Vermaelen (2015) discovered that buy-backs are positively correlated with country governance quality, which boosts investor confidence, Jensen (2010) discovered that mandatory shareholder voting on off-market buybacks boosts investor trust and improves corporate governance. Chakraborty (2004) stated that UK regulations ensure that buy-back programs align with long-term shareholder interests, as opposed to the USA, where executives dominate buy-back decisions. In contrast Wang et al. (2021) found that UK firms repurchase less shares than US firms due to tighter budgetary limitations and approval procedures. Vaupel et al. (2023) discovered that UK corporations prefer dividends to buybacks due to tax treatment disparities. Empirical data suggests that while buy-backs in the UK are carefully regulated to safeguard investors, their frequency and flexibility are limited due to tight permission procedures. The UK has **moderate Buy-back regulations**, ensuring **investor protection** while allowing flexibility. Empirical evidence suggests **better corporate governance but limited Buy-back frequency**.

Fig. 2: Effectiveness of Buy-back Regulations in UK



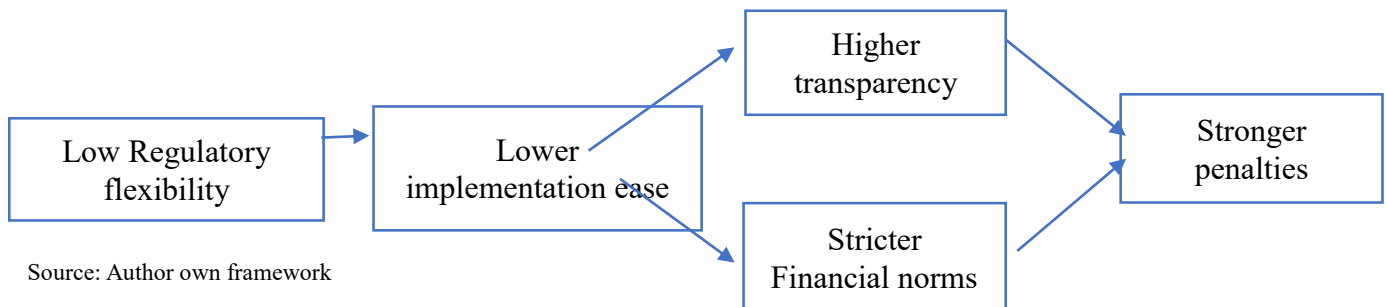
Source: Author own framework

India's Buy-back regulations are a mandatory framework with clear liquidity norms, ensuring financial stability and higher transparency. They require a debt-equity ratio not to exceed 2:1 post-buy-back, and shareholders must approve buy-backs exceeding 10% of paid-up capital and free reserves. However, the lengthy approval process and strict financial conditions may discourage companies from using buy-backs for capital restructuring. Additionally, mandatory share extinguishment reduces financial flexibility. Compared to the USA, Indian companies conduct fewer buy-backs. Despite these strengths, the regulations may be highly regulated with strong investor protection but lack flexibility.

The Companies (Amendment) Act, 1999 does not prescribe any accounting and disclosure norms for actual buyback activity undertaken by the companies. As a result, accounting treatment of the buyback transaction may vary between companies and its disclosure practices are most likely to be voluntary in nature. Buy-back amounts have significantly increased over time, reflecting corporate preference for returning capital to shareholders. Economic downturns (e.g., 2008-09, COVID-19 impact) show fluctuations in buy-back activity. Regulatory changes and corporate tax incentives have likely influenced the rise in buy-backs post-2016. Recent years show a trend of high buy-back amounts but fewer issues, indicating larger individual buy-backs by major companies.

According to Jena, Mishra, and Rajib (2016), Indian enterprises that perform buy-backs have positive excess returns (~1.8%), which indicates investor trust. Shaw and Rakshit (2017) emphasized that the solvency criterion (a debt-equity ratio of 2:1) discourages excessive debt-financed buy-backs, maintaining financial sustainability. Chatterjee and Dutta (2015) stated that Indian buy-back restrictions have successfully prevented misuse and insider manipulation as a result of strong SEBI disclosure requirements. SEBI Reports (2021, 2023) reveal that buy-back fraud instances in India are substantially lower than in the United States due to strict regulatory sanctions. Alghamdi (2018) discovered that India's stringent regulatory requirements restrict corporations from adopting buy-backs as frequently as in the United States. Mazur et al. (2023) found that buy-back activity in India is lower than in industrialized markets due to lengthy regulatory processes and strict budgetary limits. Empirical data suggests that while India's tight buy-back policies improve transparency and financial stability, procedural complexity and rigid criteria limit adoption. India has the **strictest Buy-back regulations**, ensuring **financial stability and shareholder protection**. However, empirical data indicates **lower adoption rates** due to **rigid solvency norms and procedural delays**.

Figure 3: Effectiveness of Buy-back Regulations in India



Source: Author own framework

Comparative Summary of Buy-back Regulation Effectiveness

Table 3: Comparative Summary of Buy-back Regulation Effectiveness

Criteria	USA	UK	India
Regulatory Flexibility	High	Moderate	Low
Market Manipulation Control	Low	High	High
Shareholder Rights	Limited	Strong	Strong
Transparency & Disclosure	Weak	Strict	Strict
Financial Stability Norms	Weak	Moderate	Strict
Penalty for Non-Compliance	Weak	Moderate	Strong
Ease of Implementation	Easy	Moderate	Complex

Green: High/Strong/ Strict/ Easy; Orange: Moderate; Blue: Low/weak/Complex

Source: Author own Analysis based on review of regulations and effect on Buy-back.

As per literature effectiveness of Buy-back regulations based on Empirical evidence:

Table 4: As per literature effectiveness of Buy-back regulations based on Empirical evidence:

Aspect	USA	UK	India
Stock Price Reaction	Strong (2-3% increase post Buy-back)	Moderate (1.5-2%)	Positive (~1.8%)
Investor Protection	Weak (voting is not mandatory)	Strong (Mandatory approval for off-market Buy-backs)	Strong (Shareholder approval required for >10% Buy-backs)
Transparency & Disclosure	Weak due to no real time reporting	High transparency due to detailed disclosure norms.	High due to SEBI mandates strict compliance.
Regulatory Enforcement	Weak (No penalties for incomplete Buy-backs)	Moderate (Fines for non-compliance)	Strong (Legal penalties for violations)
Buy-back Adoption	High (Common capital distribution method)	Moderate (Preferred over dividends but less common than USA)	Low (Less frequent due to complex approval process)
Use of Debt for Buy-backs	Allowed (No solvency limits)	Restricted (No major debt-financed Buy-backs)	Restricted (Debt-equity ratio must be ≤2:1)
Market Manipulation Risk	High change of manipulation (Earnings management common)	Low due Strict governance norms.	Low due to Strong SEBI oversight

Green: Strong/High/Positive aspects; Orange: Moderate aspects; Blue: Weak/Low/Restricted aspects

Source: Author own Analysis based on reviewed literature and effect of regulation on Buy-back.

The USA has flexible regulations, UK has a balanced approach, and India has a stricter framework, all ensuring financial stability but limiting corporate flexibility. The USA offers flexibility for corporations, while the UK and India provide strong governance and stricter rules for investor protection and market integrity, while India enforces strict compliance standards for financial stability. The USA has highly flexible buy-back laws, but they are susceptible to abuse due to lack of disclosure norms and debt-financed buy-backs. The UK has a balanced approach with strong governance, ensuring transparency and reducing market manipulation risks. India has the strongest compliance but limited adoption, with buy-back laws ensuring financial stability and strict transparency norms enforced by SEBI regulations. However, rigid approval processes and lack of treasury stock flexibility limit buy-back activity.

6 Conclusion & Recommendation:

Under present regulatory environment Indian Buy-back practices has growth trend which is highest 59 Buy-back offers with the amount of Rs. 53,307 Crore in financial year 2017-18. In India disclosure norms are not much strict which may lead to confusions and discrepancy in procedures where some regulatory norms should be strictly followed which need flexibility in Buy-back provisions. All cash in balance sheet is the property of shareholders and without their consent excess cash amount cannot take out from the organization. Thus, shareholders should have voting right in taking decision regarding use of any amount of excess cash through Buy-back process.

To improve corporate adoption rates and financial flexibility, the United States should impose stricter real-time disclosure standards, require shareholder approval for high-value buybacks, reduce procedural delays in the United Kingdom, allow for flexibility in solvency requirements, and simplify buy-back approval procedures in India. The United States requires tighter transparency standards and solvency criteria to restrict excessive debt-funded buy-backs, while the United Kingdom minimizes procedural delays for small buy-backs, India simplifies regulatory permission for buy-backs, and permits treasury stock retention for greater flexibility.

1. Reference

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