

Remarks on Buyback and Shareholder Remuneration
Illusion and Reality

December 20, 2025

© Michele Rutigliano and Lorenzo Faccincani

University of Verona
Department of Management

michele.rutigliano@univr.it
lorenzo.faccincani@univr.it

Introduction

Through a share buyback, a company buys its own shares in compliance with the relevant regulations. In Italy, the regulation of share buybacks is found primarily in Article 2357 and following of the Civil Code.¹ In particular, Article 2357 of the Civil Code (Purchase of Own Shares) establishes the following rules, which also apply when the buyback is conducted through fiduciary companies or intermediaries.

- The purchase can occur only within the limits of distributable profits and available reserves as reflected in the most recent approved financial statement.
- The purchase must be for fully paid-up shares, meaning shares for which the corresponding contribution has been fully made by the shareholders.
- The operation must be authorised by a shareholders' meeting, which determines the details, including the maximum number of shares to be bought, the duration of the authorisation (not exceeding 18 months) and the price range.
- For companies with shares listed on regulated markets or widely distributed to the public, the nominal value of the shares bought back cannot exceed 20% of the share capital (also taking into account for this calculation shares owned by controlled companies).²

These four limitations also apply to purchases of shares of the parent company by subsidiaries (Article 2359-bis of the Civil Code).

In addition to the rules contained in the Civil Code, there is a specific regulation for buybacks involving listed shares or shares traded on an Italian multilateral trading system. In particular, Article 132 (Acquisition of own or parent company shares) of Legislative Decree 58/1998 establishes that purchases by companies with listed shares, including those made by a subsidiary, must be carried out in a way that ensures equal treatment of shareholders, according to the procedures specified by CONSOB in Article 144-bis of Regulation 11971/1999 (the 'Regolamento Emittenti').

¹ For an illustration of the theoretical motivations for performing buyback operations, as well as for evidence of the operations carried out, justified and executed in Italy in recent years, see M. Rutigliano, L. Faccincani, 'Il Buyback di azioni proprie. Obiettivi ed evidenze dall'operatività delle principali società quotate italiane' in *Rivista dei Dottori Commercialisti*, No. 4, 2022. In this article, however, a different and more specific topic is addressed: the buyback declared for the purpose of shareholder remuneration, emphasising how the operation, in and of itself, does not actually result in any benefits.

² If the limits are not respected, the fourth paragraph of Article 2357 of the Italian Civil Code states: 'Shares acquired in violation of the previous paragraphs must be sold in accordance with methods determined by the shareholders' meeting, within one year of their purchase. In the absence of such a sale, the shares must immediately be cancelled and the corresponding capital reduction must be carried out. If the shareholders' meeting does not take action, the Board members and Statutory auditors must request that the reduction be ordered by the court, following the procedure set out in the second paragraph of Article 2446.' It should also be noted that Article 2357-bis (Special Cases of Acquisition of Own Shares) provides for circumstances in which the limits of Article 2357 of the Civil Code do not apply, but these are not relevant to the present discussion.

Regarding the specific case of banks repurchasing their own shares, this is permitted only if preapproved by the relevant supervisory authority—the European Central Bank for significant banks and the Bank of Italy for less significant ones. In fact, Article 77 (Conditions for reducing own funds and eligible liabilities), Paragraph 1a of the Capital Requirement Regulation (Regulation [EU] No. 575/2013) establishes that an entity must obtain prior authorisation from the competent authority if it decides to ‘reduce, redeem or repurchase Common Equity Tier 1 instruments issued by the institution in a manner that is permitted under applicable national law’. The competent authority will grant the authorisation if the entity replaces the repurchased or redeemed instruments with instruments of equal or higher quality under sustainable conditions for the entity’s income capacity or if the entity demonstrates that its own funds and eligible liabilities exceed the capital requirements by a margin deemed necessary by the competent authority (Article 78 [Supervisory permission to reduce own funds], Paragraph 1 of Regulation No. 575/2013).³

Having summarised the main regulations, this article further develops some considerations related specifically to buyback operations by listed companies, which are often presented as a means to provide additional remuneration for shareholders. Specifically, it will be argued that such operations—regardless of any market reactions, which can vary in duration and are not necessarily positive upon the announcement and implementation of a buyback—cannot in any way be considered a form of shareholder remuneration because the theoretical values of the shareholders’ financial portfolios remain unchanged after the operation.⁴

Capital Operations, Dividends and Shareholder Benefits

As is well known, financial markets are dominated by expectations, which may be either rational or irrational. Stock markets are no exception, and they are perhaps the markets that most reflect the moods and convictions of operators because their participants include not only institutional investors and professional operators but also smaller investors and savers who sometimes seek quick profits and fall victim more easily to the optical illusions created by announcements and operations that are presented as advantageous for shareholders. Unfortunately, however, real value is not created by announcements or capital operations of any kind, and the impacts these announcements and operations have—typically short-term—on stock prices depend only on what market participants

³ According to Article 78, Paragraph 1 of Regulation No. 575/2013, the competent authority may also grant the entity a general prior authorisation to carry out redemption and buyback operations of Tier 1 capital instruments for a predetermined amount. This authorisation is granted for a period not exceeding one year, with the possibility of renewal. The specific regulations for buybacks by banks highlight that such operations, for companies in any sector, can be carried out provided they do not undermine the company’s current and prospective financial and capital adequacy.

⁴ Extensive literature on the subject at the national and international levels has focused on the effects of buybacks on the market prices of a company’s shares, with inconclusive evidence. This is not a topic of interest for this article, whose clearly stated objectives should be of concrete interest to shareholders.

expect will happen, either positively or negatively, for the company or its shareholders. A capital operation cannot alter the total value of shareholders' financial portfolios. One need only think of capital increases, whether free, paid or mixed, involving the issuance of new shares at prices lower than the market price, which always results in dilution of the company's value across a greater number of shares in circulation. It is also well known that dividend distributions, in and of themselves, do not increase shareholders' financial wealth; shareholders will see, under equal conditions, a decrease in the market price of the shares following the dividend detachment (see Box, Example 1).⁵ Therefore, it is only the market's interpretation of the decision to distribute, not distribute, or how and how much to distribute that can drive the market price up or down, depending on the circumstances. If generous dividends are expected and welcomed by shareholders, the reasons for this are multiple and can vary depending on the type of shareholder.

For example, consider a multi-utility company controlled by public shareholders, typically municipalities or companies affiliated with them, who rely on the dividends from their investments to fund operating expenses or investments, without diluting their holdings through the sale of shares and trusting that future market dynamics can easily absorb the effect of the dividend detachment. Or financial investors and savers with portfolios of varying size might believe that the distribution of dividends reflects the company's good health, and that is capable of generating enough profits to sustain the distribution without significant consequences on liquidity or capitalisation levels. In any case, it should be emphasised that the operation itself does not result in any effect on shareholders' financial wealth; however, it can—through targeted communication campaigns by the company—shape expectations and thus the behaviour of market operators. It cannot be said differently for buyback operations with the cancellation of shares when these are announced as a means to remunerate shareholders.

Consider, for instance, open-market repurchases, whereby the company buys back its own shares using liquidity deemed to be in excess. With the repurchase of shares, the company's value is instantaneously reduced and this value is diluted over a smaller number of shares, net of those repurchased. It does not matter whether or not the market shows clear evidence of this impact: there are multiple determinants of stock price dynamics and it is almost impossible to isolate the effects of any particular variable in hindsight. The theoretical effect on the overall financial wealth of a shareholder who keeps their shares in their portfolio is identical to the effect of a dividend distribution for that same shareholder (see Box, Example 2). The only exception—although a different matter—

⁵ As is well known, shares are quoted according to the so-called cum-dividend price, meaning the gross of the (expected) dividend currently accruing. Obviously, at the moment of the detachment (or more precisely, at the related resolution of the shareholders' meeting to distribute the profit), the value of the dividend is known.

is the non-negligible difference that dividend distributions, in general, are made from profits achieved in the financial year, a condition that is not necessary or always met in a buyback.

Equating buybacks with dividends, as a form of ‘return’ of liquidity to shareholders, as is widely seen, is completely misleading. Dividends are periodically distributed—subject to the dividend policy and provided the economic and financial conditions allow it—to all shareholders, who consider (although erroneously)⁶ these distributions as remuneration for their investment and maintain their status as shareholders. Share buybacks (often at prices influenced upwards precisely by the buyback operations) are not ordinary or periodic in nature; they inject liquidity into the market (through a programme of purchases spread over time by a financial intermediary appointed for this purpose) in exchange for sales in the market by some shareholders who exit the company, obviously without any direct relationship between these sellers (who cannot be identified in relation to the issuer’s buybacks) and the buyer. Shareholders who keep their shares in their portfolio do not receive any payment. In no way can buybacks—either for shareholders who have sold their shares or for those who have kept them in their portfolios—be considered a form of payout.

Buyback and Shareholder Remuneration

Buyback operations are frequent and widespread among companies operating in various sectors and are often synthetically explained with various arguments by press releases.⁷ Among these, there is sometimes an explicit goal of shareholder remuneration. It is, however, reasonable to exclude that management proposes a reduction in capital through a buyback to distribute excess liquidity relative to ongoing and pipeline projects, even when this rationale is not explicit but rather concealed behind other justifications that do not risk undermining shareholders’ confidence in management. It is true that capital has a ‘cost’, even if implicit and not clearly visible, but this does not seem to constitute an argument for managers to justify a reduction of capital in the ordinary course of business.

However, the remuneration of shareholders, who keep the shares in their portfolio, through a buyback is illusory. The potential price effect specifically caused by the operation, because of a possible

⁶ As already mentioned, the detachment of the dividend causes an immediate decrease in the share price by the same amount, although this is often not directly visible because it is integrated into the price fluctuations determined by the current dynamics of supply and demand for the stock.

⁷ However, there may be undeclared motivations, for obvious reasons: for example, reducing liquidity or capital deemed excessive in relation to planned initiatives; strengthening the position of controlling shareholders, in effect with the company’s own resources; supporting the share price and driving it up, possibly alongside a reduction in the float, to help defend against hostile takeovers; increasing earnings per share (EPS) to raise management compensation; meeting analysts’ expectations for the potential positive effect on target prices.

positive market reaction upon the announcement,⁸ does not have an economic justification related to an increase in the intrinsic value of the equity; therefore, it is not likely to last.⁹

One might argue that, *ceteris paribus*, earnings per share (EPS) will increase after a buyback because of the reduced denominator,¹⁰ and so the share price might increase, given a supposed constancy in the price-to-earnings ratio (P/E). But the expectation of P/E constancy after a buyback is unfounded: price dynamics, which may go in either direction, depend primarily on the interpretation of operators regarding the nature and characteristics of the operation within the context of the company's prospective earnings and financial and capital positions.¹¹ Again, come into play market the expectations regarding the effects of the operation, which is neutral with respect to the instantaneous value of financial portfolios post-buyback.

Box. Dividends, Buyback and the Theoretical Instantaneous Value of Stock

1. *A simple numerical example in case of dividend payout*

The company has issued 1 billion shares. The market price is € 3, so the market capitalisation is € 3 billion. The total dividend is € 50 million, so the unit dividend is € 0.05. Conditions remaining the same, the detachment of the dividend results in a value decrease of € 0.05, meaning that the stock price theoretically drops to € 2.95. The shareholder has received € 0.05 and the ex-dividend price is € 2.95, totalling € 3 (before dividend tax).

2. *A simple numerical example in a buyback of similar size*

The company buys back its own shares for a total cash outflow of € 50 million, so, at a market price of €3, it buys 16,666,667 shares. The number of shares outstanding after the buyback is 983,333,333. The theoretical value of the company post-buyback becomes € 2.950 billion. The theoretical value of the stock post-buyback is: $€ 2,950,000,000 \div 983,333,333 = € 3$. The shareholder who kept the shares in their portfolio gains no benefit from the buyback itself. It cannot be stated that there was a remuneration decided by the meeting in the form of a share buyback. No capital gain results directly from the operation, so no tax effect occurs.

3. *A simple numerical example in the case where, after the buyback, a dividend distribution is also decided, with an increase in the unit dividend for the shareholder*

Taking Example 2, the theoretical value of the stock post-buyback is $€ 2,950,000,000 \div 983,333,333 = € 3$. If another €50 million in dividends are distributed, the unit dividend is €

⁸ Not all announced buybacks are actually carried out to the extent authorised by the shareholders' meeting. In such cases, the effects on the share price are, even more so, entirely speculative in a broad sense.

⁹ Shareholders who have sold their shares on the market in conjunction with the buyback have received a consideration in line with current prices, which may have been influenced upwards (or downwards) by the announced or executed operation. However, they are not the intended recipients of a 'presumed' intention to offer additional remuneration to shareholders.

¹⁰ The dynamics of EPS should be evaluated and assessed in relation to the performance of the numerator, which reflects the management's ability to produce economic results by running the company well.

¹¹ It should also be noted that an increase in EPS could still lead to a decrease in the P/E ratio if the share price remains constant or increases proportionally less than the EPS.

$50,000,000 \div 983,333,333 \approx \text{€ } 0.0508$. Conditions remaining the same, the detachment of the dividend results in a value decrease of € 0.0508, meaning that the stock theoretically drops to € 2.9492. The shareholder receives € 0.0508 and the ex-dividend price is € 2.9492, totalling €3 (before dividend tax).

And one might still argue that, with the same total dividend amount, the shareholder will receive an increased dividend because of the reduced number of shares in circulation, forgetting, however, as previously mentioned, that the detachment of the dividend (increased) reduces the price of the share by the same amount (see Box, Example 3). The only way to create value for shareholders is through profitable management decisions, not through such operations.

One must wonder who the ‘victims’ are of the optical illusion that leads people to believe that a buyback represents an extraordinary remuneration for shareholders. They are most likely small shareholders and savers, but it is possible that the perceived benefits of a buyback could influence the market as a whole, including professional and informed investors.

A buyback is an operation that, in the life of a company, should be truly extraordinary and motivated with the necessary transparency, and in any case, it should not be meant—either explicitly or implicitly—to provide an extraordinary remuneration to shareholders.

It is necessary to point out in conclusion that:

- A buyback can push prices higher, at least in the short term, with artificial demand that is not strictly ‘market-driven’¹².

Regarding the financial effects, a buyback is equivalent to a dividend distribution from distributable reserves, which, however, may have a negative impact on stock prices, contrary to the expected benefits from the buyback in terms of supporting prices.

- It weakens the company’s financial strength and worsens its debt-to-equity ratio, in any case and especially if the funds to finance the outflow come from new debt. It could therefore negatively affect the conditions for accessing the markets for financing the company and its rating.
- It diverts financial resources that could be used productively in ordinary operations or new investment projects, fostering development and profitability, and if management is unable to use resources in this way, it is reasonable that they be replaced.

¹² It is worth noting that in no way a support for the share price can be explicitly configured as a buyback objective, and in fact such an objective, assuming it exists, could not be declared, potentially resulting in market manipulation in violation of the relevant legislation.

- It increases EPS, in some cases perhaps instrumentally to offer a better representation of the results with implications for managers' remuneration in the form of bonuses or stock options based on EPS.

Buybacks are proposed by managers and CEOs to the boards of directors and then taken to shareholders' meetings. Sometimes, there is a specific technical-financial knowledge gap between management and the directors, who might sometimes approve operations without fully understanding their real motivations and assessing the consequences. The contribution of an internal committee, such as a 'control and risks' committee, assisted if necessary by external independent consultants to fill any knowledge gaps, could be helpful in supporting these decisions. Trust in the CEO is the basis of good governance, but the board has the duty and responsibility to foster an informed, constructive and lively dialogue in the interest of all shareholders without distinction.

Conclusions

Among the many objectives of economic policy, there has long been a push to increase the number of companies that open their capital to third-party shareholders, gaining listing on a regulated market and thus fostering a greater inflow of Italians' savings into equity investments. Despite the higher costs businesses incur to comply with the regulatory framework for companies addressing public savings, and considering the implications and constraints related to the presence of minority shareholders in the company's capital structure, the benefits for the company are indisputable. These include strengthening the financial structure, acquiring additional resources to realise investment projects, strengthening relationships with banks and the financial market, and increasing attractiveness for more professional and experienced managers, etc

The relationship with shareholders of a company listed on a regulated market should be characterised by high transparency when operations directly involving shareholders, such as capital operations or dividend distributions, are being considered. The points discussed in this paper highlight a truth that is entirely obvious to industry insiders, but not to shareholder-savers who might fall victim to optical illusions regarding the returns promised by equity investments following these operations.

In conclusion, buybacks are justified for the various, more concrete purposes of the operation—mainly as part of management incentive plans, such as stock options exercisable under conditions unaffected by buybacks, and in anticipation of 'shares-for-shares' acquisitions. Buybacks are capital management operations¹³ and are not related to core business activities aimed at generating real value

¹³ Given that a theoretically optimal leverage ratio (debt/equity) is an abstract concept, a topic we do not wish to explore here, the company will seek to implement capital management policies consistent with a variety of objectives and constraints, especially in the banking/financial and insurance sectors, which are subject to stringent prudential regulations. From this perspective, buyback transactions, well supported by sound management arguments, may prove effective for

for shareholders. It is the responsibility of the board of directors and shareholders' meetings¹⁴ to monitor such initiatives to ensure they do not serve to increase the top management's compensation, particularly if these are to some extent linked to EPS levels, and to prevent them from becoming a source of illusory expectations for shareholders and investors.

the corporate bodies and shareholders. This topic is not the subject of these notes, whose title limits the scope of attention to buybacks as a presumed method of shareholder remuneration.

¹⁴ Clearly, in this case, the role of minority shareholders is particularly important, especially institutional investors supported by proxy advisors.