Share Buybacks in UK Listed Equities

Multi-firm review

August 2025

Contents

Chapter 1

Introduction

A share buyback is when an issuer buys their own shares from existing shareholders, often through the stock market. Issuers do this to return surplus capital to investors and reduce the number shares in issue.

This paper sets out our findings from a multi-firm review of share buybacks in UK listed equities. We also provide an overview of share buybacks and products in the UK from data we collected as part of the review.

Who this applies to

This multi-firm review will be of interest to:

- Banks who provide share buyback services to UK issuers.
- Issuers of equities listed in the UK, in particular FTSE 350 issuers who are not investment companies.
- Other stakeholders in the sector including investors, trade bodies and other regulators.

Why we did this work

There has been significant growth in share buybacks in the UK over the last few years. In the 3 years after COVID share buybacks accounted for 42% of the capital returned to shareholders by FTSE 350 issuers. This was more than double the 20% in the 3 years before COVID.

Banks play a key role in this process, typically conducting the buybacks on behalf of issuers. Our aim was to assess the outcomes banks deliver when structuring, marketing and executing share buybacks.

What we did

We sampled 7 banks active in share buybacks. We asked them to complete an information request, followed up with questions and held meetings with them.

We analysed data on share buybacks executed by these banks for FTSE 350 issuers who were not investment companies over an 18-month period, representing 165 share buybacks collectively worth £40bn. For context, during the same 18-month period, FTSE 350 issuers bought back £78bn of shares (Source: Bloomberg). We also carried out transaction-specific analysis on individual outcomes using UK MIFID transaction reporting data and other sources.

We then spoke to 7 issuers representing a range of experience in buybacks, as well as investor representatives and trade associations.

What we found

Of the 165 share buybacks we reviewed, 101 were vanilla buybacks (where the bank buys shares on a best-efforts basis and receives a commission-based fee) and 64 were structured buybacks (where the bank may provide a guarantee and receives a variable fee). Our work did not find material concerns about the outcomes banks delivered when structuring, marketing and executing share buybacks. Specifically on structured buybacks, we did not find unmanaged conflicts in the way the products were executed.

The fee in a buyback can depend on a variety of factors including the size of the buyback, the liquidity and volatility of the shares, the trajectory of the share price during the buyback and operational considerations, such as the extent of manual execution required. We observed a range of fees associated with both vanilla and structured buybacks.

Structured buybacks exhibited a wider range of fees compared to vanilla buybacks. Notably, 30% of structured buybacks involved negative fees, where the issuer received a rebate from the bank. Despite this variability, the average fee issuers paid was not significantly different across both types of buybacks.

In cases where issuers paid a fee to a bank for a structured buyback, the bank's profit and loss (P&L) was often lower than the fee received, due to the impact of their hedging activities.

Issuers typically engage with several banks when considering a structured buyback, often including formal processes to compare banks' proposals.

Banks in our sample followed broadly similar approaches in the materials they used to help educate issuers on the products. Most of the approaches they took were reasonable, but we also found areas where some banks could improve materials:

- Covering all the options available to tailor structured buybacks.
- Explaining how structured buybacks work in greater detail.
- Explaining the potential outcomes of structured buybacks.

Chapter 2

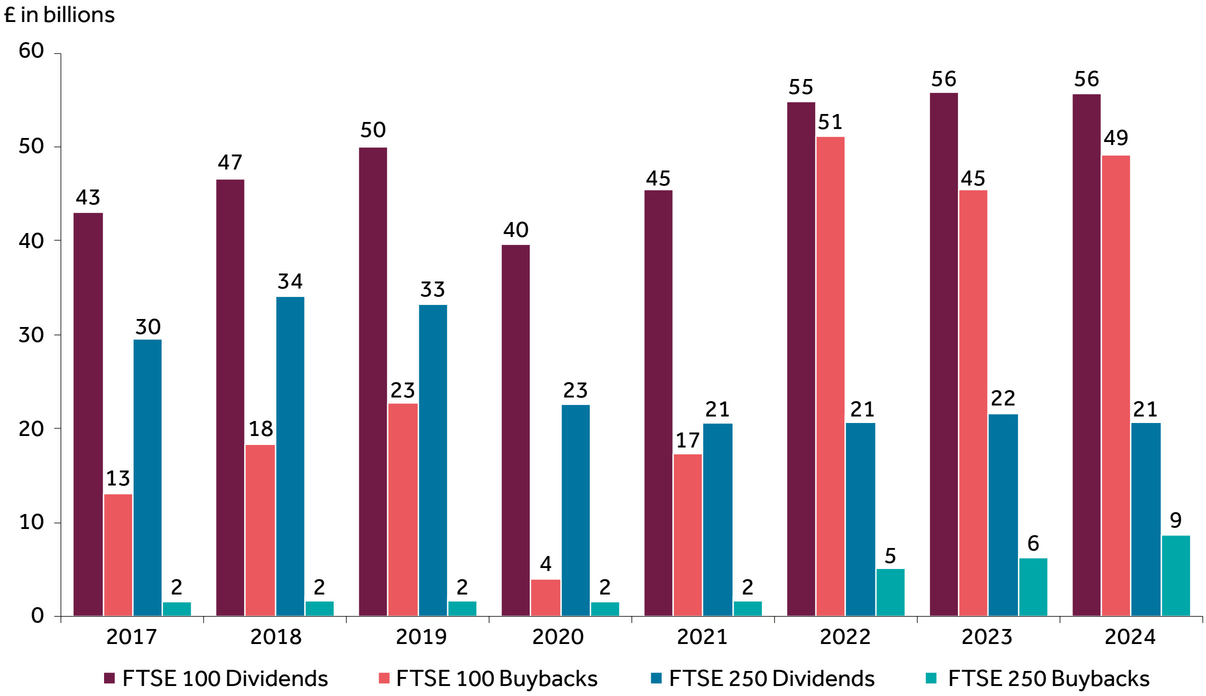
An overview of share buybacks of UK listed equities

FTSE 350 issuers have returned over £250bn in capital to shareholders via buyback programmes over the 8 years between 2017-2024 based on data sourced from Bloomberg. Buybacks represented 20% of the capital returned to shareholders by FTSE 350 issuers in the 3 years before COVID of 2017-2019. For the 2022-2024 period, 42% of the capital returned to FTSE 350 shareholders was via buybacks.

Traditionally, UK issuers returned capital to investors primarily though dividends. Issuers used special dividends or buybacks if they wanted to return proceeds from a divestiture or were adopting a new capital structure. However, buybacks have grown in popularity in the UK.

In the US, buybacks have played a larger role than dividends in capital management for some time. Among other things, this reflects greater use of stock options as compensation and an accounting treatment that allows the share count to adjust when a firm announces a committed buyback programme. In any market, buybacks give issuers flexibility in managing capital, as changing dividend policy carries greater weight with investors than pausing or adjusting the size of a buyback program.

Figure 1. UK dividends and share buybacks (source: Bloomberg)



In the UK, the onset of the pandemic saw a reduction in corporate dividends for both FTSE 100 and FTSE 250 companies. Since then, the quantum of dividends paid by FTSE 100 companies recovered and then plateaued. Dividend levels for the FTSE 250 have meanwhile remained at the reduced level. Altogether, these 350 largest UK corporate issuers are increasingly using buybacks as a way of returning capital to their shareholders.

Regulations relevant to share buybacks

The 2 main relevant pieces of regulation the FCA has responsibility for supervising for UK share buybacks are the UK Market Abuse Regulation (UK MAR) and the UK Listing Rules (UKLR). We do not regulate issuers decisions on whether to undertake a buyback or other measures such as dividends or investment.

The main objective of these rules is to support fair and orderly markets. They ensure buybacks are approved by shareholders, transparently disclosed to the market and that their execution does not drive or manipulate share prices.

UK MAR has prohibitions on insider dealing (Article 14) and market manipulation (Article 15). However, the rules also recognise that buybacks serve a legitimate purpose and so provide an exemption (safe harbour) from these prohibitions when buybacks are disclosed and executed in a way which minimises the risks of insider dealing and market manipulation. To meet the exemption, a buyback needs to satisfy specific conditions, including disclosure to the public, reporting to the regulator and limits on price and volume.

Undertaking buybacks in a way that meets these exemptions is optional for issuers and banks executing them. UK MAR makes clear that a buyback undertaken outside of the exemption would not of itself be deemed market abuse. However, while optional, our review found that the way most banks and issuers undertake buybacks falls within the exemption.

Feedback on UKLR and UK MAR

During our engagement, some banks, issuers and investor representatives, identified features from UK Listing Rules and UK MAR buyback regime which could weaken the efficiency of an issuer's buyback programme.

These included pre and post trade disclosure requirements, restrictions on buybacks being traded on trading venues and limits on the level of trading venues' activity on trading venues which reduce the liquidity and pricing available for buybacks. We recognise the rules should achieve an appropriate balance between protecting the market and enabling issuers to undertake buybacks efficiently and effectively.

We will consider this feedback in any future review of UK Listing Rules and MAR, with the aim of reducing the burden on firms and removing requirements that may disproportionately affect issuers undertaking share buybacks.

Types of share buyback products

Vanilla buybacks

A vanilla (or agency) buyback involves the issuer giving a bank periodic or standing instruction to repurchase shares. The bank will then follow the instruction, executing the transaction on behalf of the issuer in an agency capacity, without taking principal risk.

In a discretionary vanilla buyback, the issuer keeps full discretion over the daily execution of the buyback. It can provide new instruction to the bank, either daily or on an ad hoc basis. If no new instruction is placed, no purchases will take place.

In contrast, in a non-discretionary vanilla buyback, the issuer delegates discretion to take daily trading decisions to the executing bank. Here, the issuer typically sets certain broad parameters, such as volume or price limits. This approach allows purchases to continue even when the issuer is in a closed period or has inside information under UK MAR.

Some issuers apply both approaches to a single programme, giving banks discretion to execute purchases during closed periods only, while retaining discretion for daily decisions at other times.

For vanilla buybacks, the bank's fee is a flat commission rate of the nominal value executed and depends on the issuer's size and liquidity as well as programme size, the extent of manual execution required among other factors.

Structured buybacks

A structured buyback is a type of non-discretionary share buyback where the outcome is tied to a benchmark. Most, although not all, of the structured products guarantee the issuer a pricing outcome which is generally represented as a discount to the benchmark.

The benchmark is the arithmetic average of the daily volume weighted average prices (VWAPs) in the issuer's shares during the buyback's duration.

In a structured buyback the bank exercises its discretion by:

- Basing its daily trading decisions on a proprietary model which aims to outperform a benchmark that is calculated over the actual duration of the buyback.
- Determining the actual duration of the buyback, so long as it is within the minimum and maximum duration agreed with the issuer.

The bank's fee is tied to the difference between the average purchase price it achieves for the buyback and the benchmark, ie the 'outperformance', rather than a fixed commission.

The bank achieves this outperformance by monetising volatility in the issuer's share price. It does this by deciding how many shares it buys each day and, as a result, determining the period over which the buyback occurs, within the terms of the contract. Without contractual restrictions, the amount bought on any single day is typically between zero and 25% of the average volume over the previous 20 trading days (the MAR 25% volume safe harbour).

The basic underlying mechanism of a structured buyback is to buy fewer shares when the share price is above the running benchmark (the benchmark calculated over the buyback period up to that point) than when it is below it. Many of the observed behaviours and outcomes of structured buybacks can be traced to this mechanism.

Similar structures, where banks try to outperform a benchmark with discretion over the duration, are also used in other financial products. Banks gave us examples of shareholders using these structures when acquiring or disposing of stakes in an issuer. The key differences highlighted were that the safe harbours of MAR were not relevant and that these products were much less common than structured buybacks.

Through our engagement, we confirmed that some banks that offer buyback services have themselves used structured buyback products on their own corporate buybacks.

Benchmark used in structured buybacks

The benchmark is the average price an issuer would achieve if they bought the same number of shares on each day of the buyback, at the daily VWAP price. The benchmark is calculated over the buyback's actual execution period, within the minimum and maximum period agreed with the issuer at the outset.

The buyback contracts we reviewed clearly defined the daily VWAP used in calculating the benchmark. This was typically sourced from Bloomberg and only continuous trading of the issuer's shares on the London Stock Exchange (ie excluding auctions) contributed to the benchmark. The limitation to continuous trading for calculating daily VWAP reflects corresponding limits in the MAR safe harbour, which were in turn tracked in the buyback contracts we reviewed.

We note that a straightforward execution strategy that buys the same monetary value of shares at the daily VWAP every day can achieve a lower average price than this benchmark. This is because a firm will buy more shares during a day with a lower daily VWAP, reducing the average purchase price for the overall transaction more than the benchmark. For example, if the daily VWAP for a share for each of 4 days is 100p, 90p, 100p, and 110p then the benchmark will be 100p. However, an issuer who bought £10,000 of shares at the daily VWAP on each of those days would have bought 40,202 shares in total at an average price of 99.5p achieving an outperformance of 0.5%.

How much this vanilla strategy will outperform the benchmark will depend on how much the shares move during the buyback, ie the outperformance will depend on the ensuing volatility of the shares, as is the case for a structured buyback.

Types of structured buyback

Banks use their own terms to describe different types of structured share buybacks which vary between firms. We have defined the terms below to provide consistent terminology in this report.

Guaranteed Discount (GD)

In a structured buyback with a guaranteed discount, the bank will guarantee the issuer a fixed level of outperformance against the benchmark.

If the achieved price is below the discounted benchmark, the issuer will pay the bank a fee. This fee is the difference between the achieved price and the price calculated from the guaranteed benchmark, multiplied by the number of shares bought back.

If the achieved price is above the discounted benchmark, the bank will pay the issuer a rebate. This is the difference between the two, multiplied by the number of shares bought back.

Without a fee cap, the payment from the issuer to the bank is not limited. The bank's payment to the issuer is likely to be no more than the level of discount guaranteed. This is because it is unlikely the bank will underperform the undiscounted benchmark.

Guaranteed Discount with Outperformance Sharing (GD&OS)

In this type of structured buyback, the bank will guarantee the issuer a fixed level of outperformance to the benchmark as above. However, if the achieved price is below the discounted benchmark, the issuer only pays a part of the outperformance as a fee.

In choosing between a guaranteed discount with or without outperformance sharing, an issuer is effectively taking a view on the difference between the volatility implied in the pricing and that which is ultimately realised. An issuer who believes the volatility realised will be higher than the pricing and market expects may reflect this by choosing an outperformance sharing structure.

Outperformance Sharing (OS)

In this type of structured buyback, the bank's fee will be related to the outperformance between the actual execution outcome and the benchmark. However, no discount has been guaranteed. Whether the benchmark itself is guaranteed will depend on the buyback's terms.

Based on the data and our engagement with banks, products that do not involve a discount can give issuers more flexibility, such as early termination. Banks told us that issuers increasingly place greater importance on flexibility in buyback products, particularly since the pandemic, which saw significant volatility and changes in issuers' financial needs.

Chapter 3

Detailed findings

Outcomes achieved in structured buybacks

Of our sample of 165 buybacks for FTSE 350 issuers who were not investment companies, 64 were structured buybacks, of which 55 were completed. Incomplete transactions were those which were ongoing or were ended by the issuer before our information request to banks. This section describes our analysis of the sample. Appendix 1 includes a more detailed overview, including prevalence by product, issuer selection process and key product features.

Using the data from all completed structured buybacks in the sample, we analysed the outcomes banks had delivered for issuers and for themselves. We split the data into 3 main structured buyback types in the sample.

Table 1. Outcomes of structured buybacks

Buyback Types	Guaranteed Discount	Guaranteed Discount & Outperformance Sharing	Outperformance Sharing
Number of completed buybacks	19	17	19
Frequency of issuer paying fee	47%	65%	100%
Frequency of bank paying rebate (guarantee triggered)	53%	35%	0%
Frequency of positive bank P&L	74%	71%	100%

Banks outlined that the discount guaranteed will be larger when there is no outperformance sharing, all else being equal. The data reflects this, with a higher proportion of guarantees triggered in this structure implying a harder to achieve (larger) guaranteed discount.

We did not see any outperformance sharing buybacks in which the guarantee of the undiscounted benchmark was triggered. This is consistent with the benchmark being a measure which, without a discount, a structured buyback is expected to outperform.

Structured buybacks exhibited a wider range of fees compared to vanilla buybacks. Notably, 30% of structured buybacks involved negative fees, where the issuer received a rebate from the bank. Despite this variability, the average fee issuers paid was not significantly different across both types of buybacks.

The range of fees issuers paid banks or received from them was greatest for buybacks with a guaranteed discount to the benchmark and no outperformance sharing.

The range of P&L attributed to each buyback by banks was narrower than the range of fee paid (or rebate received) by issuers. This was the result of banks' hedging activities, which typically moved in the opposite direction from the fee (or rebate).

An analysis of alternative outcomes

The issuer outcomes for these structured buybacks were based on the fee paid or rebate received by the issuer. Another measure of the issuer's outcome is the average, effective share price achieved across the buyback executions, factoring in the fee / rebate.

We compared the price achieved for the completed structured buybacks in our sample to hypothetical alternative outcomes if the issuer had chosen a different way of executing their buyback.

We constructed 4 hypothetical alternative outcomes by first creating alternative execution strategies informed by actual vanilla buybacks. We then applied the alternative strategies to the size of the buyback the issuer had executed and the actual market data for share prices and volumes and compared the average price achieved to the price before the buyback started. We then performed statistical analysis to see if the data supported any one type of execution strategy over the others.

We did not find the differences between the average outcomes of the actual and 4 hypothetical scenarios to be statistically significant, meaning there was no statistically significant support for any one type of execution strategy over others.

However, the range of share price paths and outcomes we observed illustrates banks' important role in helping to educate issuers on how different structures and strategies are likely to perform under varying market conditions. We assess this in the following section.

Chapter 4

Bank conduct during marketing and execution

We describe our assessment approach in Appendix 2.

Our findings about the pre-execution phase of buybacks

During our review, banks said they used meetings and materials to educate issuers during the pre-execution phase. The depth of engagement can vary from multiple teach-ins covering a broad range of options, to more focused answers to a specific issuer request to provide terms on a specific set of structures and features. We saw evidence of this in the materials we reviewed.

Our discussions with issuers reflected the nature of engagement during the pre-execution phase that banks had outlined. As well as speaking to their corporate brokers, most issuers said they also spoke to other relationship banks and had input from outside counsel when considering structured buybacks.

Written materials from banks are an important component of the marketing and education process. We assess these below.

How banks represented the different buyback options

In general, we found the materials from banks provided a reasonable overview of the share buyback options available.

All banks' marketing materials provided an overview table covering the spectrum of buyback options. Most included benefits and risks for each option.

Practice varied on whether banks addressed discretionary and non-discretionary vanilla buybacks separately. There were also differences in how many variations of the structured product they included in the marketing materials as standard. For instance, some banks separately addressed guaranteed discount and outperformance sharing products, while others showed a single option. More comprehensive materials covered all the options available.

The number and nature of benefits and risks between the options varied between firms but were balanced and, among other factors, covered themes such as:

- The complexity of the structure.
- Potential fee differences.
- The issuer's degree of control and ability to react to market conditions.
- The length of time required and certainty of timing.
- The ability to terminate early and the associated cost.
- Management time required.

More comprehensive materials set out most of these themes.

Explaining Vanilla buybacks

Banks typically provided explanations of vanilla buybacks and their key features as part of standard marketing materials shared with issuers.

Most materials we reviewed did not include an explanation of potential non-discretionary execution strategies. However, our sample was based on transactions where the issuer executed a structured buyback, so may not have been representative.

There were also some exceptions to this. In one example, materials for an issuer undertaking their first share buyback included several potential vanilla execution strategies for a non-discretionary vanilla buyback. These included strategies targeting a percentage of daily volumes, a fixed daily monetary amount and a variant where the percentage or monetary amount targeted on the day depended on a pre-agreed grid of share prices. The bank provided clear explanations and pros and cons for each alternative.

Banks explained to us that they also discuss different vanilla execution with issuers when the issuer asks them.

Explaining structured buybacks

Banks' materials presented structured buybacks as products which aim to outperform a benchmark calculated over the buyback's duration through the flexibility the issuer gives the bank.

The materials explained the fee payment for the structures would be based on the difference between the purchase price the bank achieved and the benchmark.

Some materials explicitly stated an objective for the buyback. For example, that the bank would aim to outperform the benchmark or aim to monetise the volatility in the issuer's share price by increasing or reducing the amount of daily purchases depending on the share price and other factors. Whether this objective achieves the lowest price will depend on the share price trajectory during the buyback period.

Banks' materials we reviewed provided similar descriptions of the benchmark and how it would be calculated. Overall, we did not find concerns over how clear disclosures were about the benchmark. Bank marketing materials defined the benchmark as the arithmetic average of daily volume weighted average prices or VWAPs calculated for the actual execution period, with the final completion date decided by the bank within the range of minimum and maximum maturity dates. One bank supplemented this definition by describing the benchmark price as the average that would be achieved if the issuer bought the same number of shares on each day during the buyback period.

The engagement letters we reviewed also provided a definition of the benchmark with further detail about the calculation methodology, including the venues used in the calculation.

For other features of structured buybacks, we saw several ways in which they had been tailored to suit an individual issuer's needs. These included fee caps, price constraints (eg limits on purchase price or overall benchmark), volume constraints (eg minimum or maximum amounts over a period, including daily), minimum buyback periods and early termination mechanisms.

The clearest materials we reviewed presented all available options in one place, together with descriptions of their impact on the buyback. However, some banks did not include these in their materials at all.

Issuers we spoke to generally described banks as responsive to their questions about structures and explaining the products to them. One issuer said that, in retrospect, they would have liked a more proactive discussion of different options, such as fee caps.

> To ensure that banks' materials give a fair representation of all relevant product options, they may want to include options for bespoke features in their marketing materials. This would give issuers a better understanding of their options to tailor products to their needs.

Explaining how structured buybacks work

Materials we reviewed from all banks included statements about the bank's flexibility to use their discretion on daily execution decisions and deciding the final completion date for the buyback. We did not find material concerns about bank materials making these clear.

Statements we identified included that the issuer has no day-to-day control of the process; no certainty of the daily number of shares purchased, which will be at the discretion of the bank; and no certainty of the exact maturity of the buyback, within the pre-agreed range, with the bank deciding when the full amount is completed through their daily purchases.

On the practical, day-to-day operation of the structured products, not all banks' materials provided an overview of how daily executions may vary.

The most comprehensive materials provided included:

- A description of the key parameters the bank's model considers to decide a daily purchase amount. For example, share price vs the benchmark, share price volatility, dividends, share liquidity, amount already repurchased, time until the earliest and latest completion dates, MAR safe harbour restrictions and any other restrictions agreed with the issuer.
- Descriptions of the typical trading patterns as the share price moves relative to the running benchmark or a graphical illustration of the potential trading patterns as a share price trades above and below the running benchmark showing the share price, running benchmark, average purchase price and number of shares bought, including days with no purchases.

- A description of how the benchmark and average purchase price are translated into the fee.

Issuers considered bank materials generally to be fair, clear and not misleading. However, one said they felt the structure was not sufficiently explained to them. Another would have liked a clearer description of how banks use their discretion to time executions over the buyback period.

> Banks that have not included specific information about what drives their execution decisions may want to ensure their materials are fair and sufficiently clear to help issuers understand how the product may behave in practice, demonstrating compliance to COBS 4.2.

Explaining potential outcomes of a structured buyback

We did not often see banks' marketing material discuss potential issuer outcomes under different market conditions. However, we saw some bank materials highlight:

- The possibility of higher fees in some scenarios when there is significant outperformance to the benchmark.
- That a guaranteed discount buyback benchmark is calculated over the actual completion period, rather than the maximum completion period. This means there is a risk that if the share price declines after an early completion the shares were not actually, in hindsight, bought at the optimal price.
- That if the volatility over the buyback is higher than assumed at the outset, an issuer would likely benefit from this in an outperformance sharing buyback but not in a guaranteed buyback.
- That where a dividend is paid during the life of the transaction, the bank may reduce purchases before the ex-dividend date (the day on which shares traded on exchange will not receive the dividend) and increase them after the dividend payment, when the share price has theoretically dropped.
- Simulated data analyses to illustrate, based on several assumptions, an estimated range of potential outperformance to the benchmark at different confidence intervals.

One issuer said they would have found more discussion of potential scenarios helpful. For example, 'if this happened, the buyback would look like this'.

> To ensure that banks' materials give a fair representation of potential outcomes, they may want to include examples of scenarios in their materials. This would help issuers understand the potential outcomes of the buyback structure they choose.

Internal Governance

Some banks highlighted that their internal governance process for structured buybacks do consider issuers' understanding of the transaction, including the teach-in process. For example, one described how structured transactions are covered by a suitability and appropriateness standard. The process requires sign-off from a team supervisor before the transaction is launched. The supervisor considered the issuer's sophistication, knowledge, experience and understanding before approving. Another bank also summarised the issuer's experience and the teach-in process in their transaction approval committee materials.

Our findings about the execution phase of buybacks

How banks use discretion in (non-discretionary) vanilla buybacks

When deciding the amount to be executed each day, banks followed issuer instructions where these were given. Where issuers had not given these instructions, banks typically spread purchases over the specified buyback period. Banks applied their best execution framework to the daily executions, which typically targeted the VWAP on the day, using discreet buyback algorithms tailored to stay within the safe harbours of MAR.

Banks highlighted the daily reporting to the issuer and the market about executed volumes, and the fact that issuers could interact regularly with them throughout the process. The process also allows issuers to provide updated instructions to banks, if the issuer does not have inside information and is not in a closed period, in line with MAR.

Issuers described banks as responsive to questions when market factors affected execution. One issuer said banks could more proactively offer explanations for unexpected execution patterns in vanilla buybacks as they occur.

We did not make a detailed assessment of banks' best execution frameworks in the context of share buybacks. We will be publishing a separate multi-firm review on bank approaches to best execution later this year.

How banks use discretion in structured buybacks

Banks said the decisions for daily executions were based on the outputs of their proprietary models for structured buybacks. The same models also provided the parameters on which they based any hedging activity.

While banks' models differed in their underlying theoretical approaches, they were all based on similar market parameters, aiming to optimise the outperformance between the actual purchase price versus the benchmark. In our assessment of a sample of transactions, we found that the models worked as described.

Issuers said banks were responsive to their questions about daily execution patterns. One issuer asked that banks be more proactive in engaging with them on days where the volume may not align with their expectations based on their understanding of the buyback strategy. Another was content with the daily transaction reporting they already received. We recognise that every issuer will have individual needs.

Identifying and preventing or managing conflicts of interest

Banks typically identified the following potential conflicts of interest for buybacks:

- Transactional conflicts (ie conflicting banking mandates).
- Trading conflicts (both as principal or when trading on behalf of clients).
- Personal conflicts.

Banks managed these through measures including conflicts clearance, information barriers and surveillance, personal conflicts of interest disclosures and approvals. We did not assess the performance of these controls in this review.

Our work focused on scenarios where the bank may have the incentive to influence the timing and size of the execution to benefit their position, through outperformance and thus their fee, in a way that could harm the issuer's interest by not producing the lowest price execution outcome, net of fees.

Scenarios where this type of conflict could occur depend on the issuer's share price trajectory, which we recognise could not be known in advance.

We identified 2 scenarios where this could be the case.

1. When a structured buyback ends early due to a large fall in the issuer's share price below the benchmark. The price the issuer achieved may have been lower if the bank had bought the remaining shares at a slower pace after the share price falls, so the benchmark calculation period had ended later. A longer benchmark period may have caused lower outperformance and fee for the bank due to the final benchmark being lower, as the extra days at the lower price would have affected its calculation.
2. When a structured buyback initially nears an early completion but then continues at a slower pace due to a material rise in the issuer's share price above the benchmark. In this scenario, the price the issuer achieved may have been lower if the final purchases had ended earlier after the price rose above the benchmark. In this case, the benchmark period would also have been shorter and led to a lower outperformance and fee for the bank, due to the benchmark calculation involving fewer days at the higher price.

Based on data we analysed these scenarios are not common. We also recognise that both scenarios make assumptions about future share price paths which are not known at the time.

We also observed that, due to hedging activities, banks' revenues from the structures were not directly aligned to the fees issuers paid. Hedging often brought down banks' total revenue on the structured transactions in which issuers paid a fee. In 1 case, this resulted in a bank losing money on the product.

Considering the likelihood of these scenarios occurring and their likely impacts to banks and issuers, we were satisfied banks were able to manage the risks of harm through educating issuers and making available certain structural features (eg fee caps, proportion of shared upside, applying certain minimum/maximum trading volumes). The alternative outcomes analysis we carried out also supported this view.

4. Next Steps

We have given all banks in the review individual feedback. Other banks offering share buybacks to UK issuers may want to share this report with those involved in the structuring, marketing, execution and approval of share buybacks to consider the findings against their own processes.

Issuers considering returning capital to shareholders may find this review helpful if they are considering a buyback or specific buyback parameters.

We will consider the feedback we received on features of the UK Listing Rules and MAR in any future review of them, with the aim of reducing the burden on firms and removing requirements that may disproportionately affect issuers undertaking share buybacks.

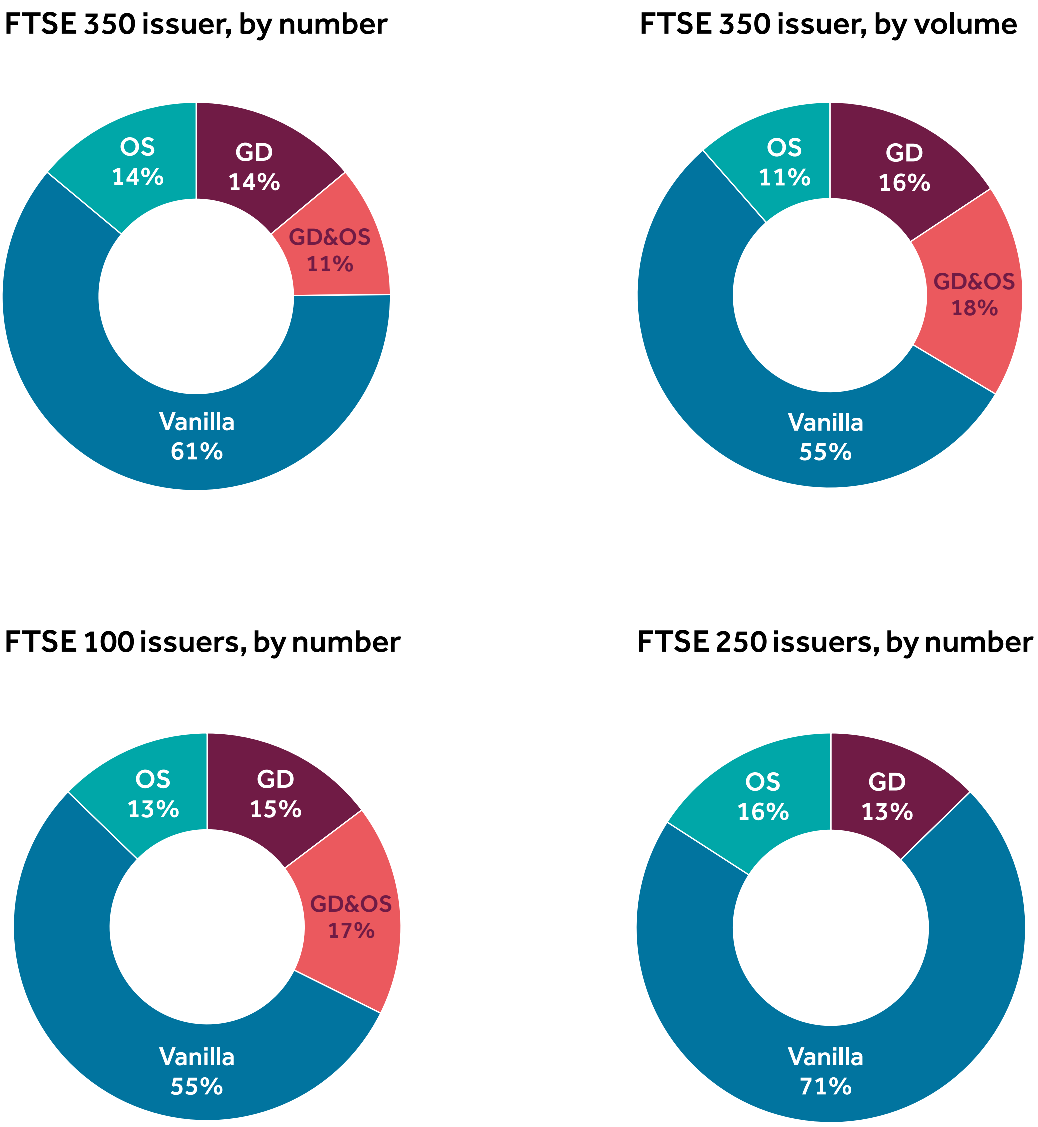
Appendix 1

An overview of our share buybacks data

Types of share buyback

Of all 165 transactions in the sample (by number), structured buybacks represented 39%.

Figure 2. Share buyback types

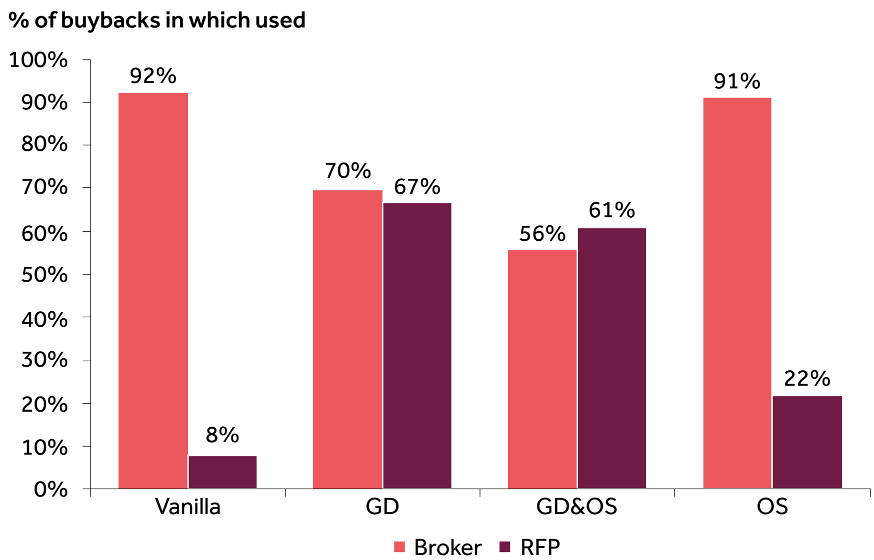


Structured buybacks were more common among larger issuers: making up 45% of transactions by FTSE 100 issuers. This compared against 29% of transactions among FTSE 250 issuers.

Structured buybacks were more common among larger buybacks: volume weighted data showed structured buybacks made up 45% of completed transactions by volume.

Products with both a guaranteed discount and outperformance sharing were the most popular type of structured buyback among FTSE 100 issuers. These products were not used at all by FTSE 250 issuers in the sample, who most often used outperformance sharing with no discount in structured buybacks.

Figure 3. Use of RFPs and brokers in buybacks



We heard a variety of approaches issuers took to appointing a bank to execute their buyback. These included setting specific parameters for the transaction and sending formal Request for Proposals (RFPs) to a group of banks offering share buybacks, more informal discussions with multiple banks to cross check proposals and pricing and working only with their corporate brokers.

As well as their discussions with banks, most issuers used an external counsel who gave them more context on common market practice in contracts.

FTSE 100 and FTSE 250 issuers used their brokers for structured buybacks a similar amount. However, FTSE 100 issuers more frequently used RFPs (63%) than FTSE 250 issuers (11%) when choosing banks for their structured buybacks.

Share buyback features

We asked banks for information on issuer instructions, execution periods, key features and economic terms of the buybacks they had executed. We provide a summary of the data here.

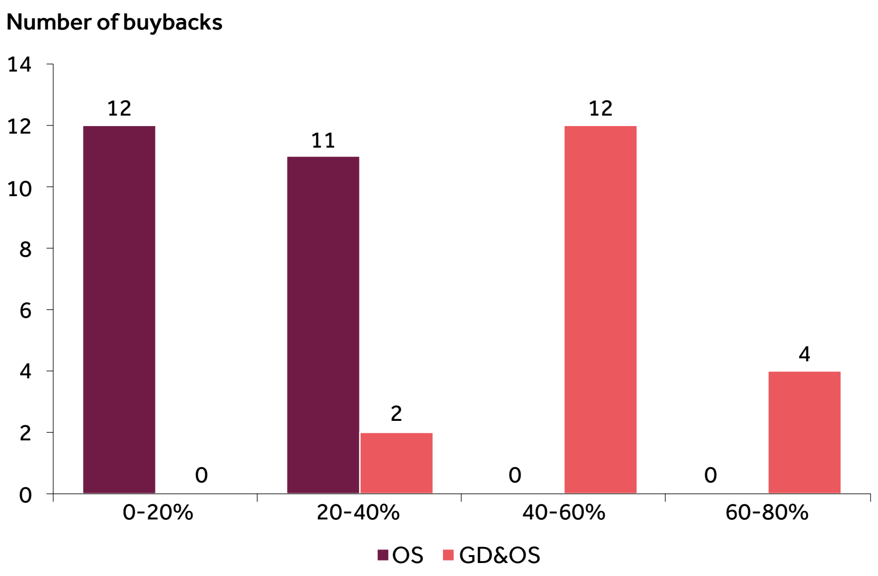
Vanilla buybacks

Approximately 75% of vanilla share buyback agreements were irrevocable / non-discretionary for the issuer. 55% were irrevocable for the full duration of the buyback and 20% only during closed periods.

In the data, we saw a wide variety of irrevocable instructions from issuers, including:

- Target daily amounts, either as numbers of shares, value of shares, or percentages of volume traded.
- Target daily amounts, either as numbers of shares, value of shares, or percentages of volume traded which varied depending on the share price compared to a grid of share prices or an index.
- Spreading purchases evenly over a period.
- Minimum and/or maximum monthly spends.

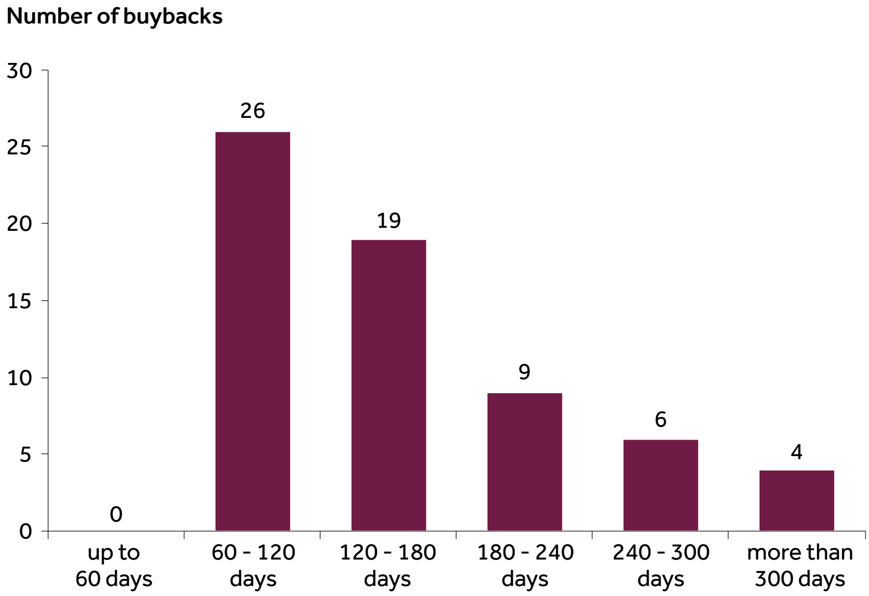
Figure 4. Banks' percentage of outperformance in structured buybacks



Banks' average percentage of outperformance sharing in products where this was part of the key terms was 21% when there was no guaranteed discount and 53% when there was. This likely reflects the increased risk taken by banks in the latter structure.

One third of the outperformance sharing buybacks did not include a guarantee to achieve at least the benchmark price.

Figure 5. Maximum buyback periods in structured buybacks



The average maximum buyback period for structured buybacks was approximately 160 calendar days.

Approximately 60% of structured buybacks specified an earliest date before which the buyback could not complete. On average, this earliest date was 65% through the maximum buyback period (that is 35% from the end), from a range of 20% to 90%. In practice, even with no earliest date specified, there will be an effective earliest date due to the shares' liquidity and the MAR 25% volume safe harbour compared to the number or value of shares left to buy back.

Based on our data and engagement with banks, a shorter period of discretion for the banks will give issuers greater certainty over when the buyback will end, while a longer period will increase the discount banks can offer. This does not give certainty on whether shares will be bought on an individual day within the period unless the issuer has also specified a minimum daily purchase amount.

Hedging in structured buybacks

Where the bank is providing a guarantee of the size and potentially discount of the structured buyback, they will typically look to hedge their market risk.

In approximately 10% of structured buybacks, banks were restricted from hedging the market exposure under the buyback by using the issuer's shares or derivatives. Based on our engagement, this restriction reduces the discount they can offer.

Where banks have hedged, this can result in break costs for issuers if they want to end a share buyback early, depending on the terms.

Other features in structured buybacks

In the sample we also saw the following features included in some buybacks:

- Fee caps (as a cash amount or as a percentage).
- The option for issuers to terminate the share buyback early, or switch to a vanilla buyback, with varying economic implications.
- Price limits on buying shares (caps and/or floors).
- Average purchase price caps.
- Minimum or maximum daily amounts.
- Minimum or maximum amount to be bought by a specific date.
- Excluded days on which no purchases can be made.

Appendix 2

Our assessment approach to bank conduct during marketing and execution

Pre-execution phase of buybacks

The key FCA requirement we assessed banks against during the pre-execution phase of a buyback (marketing/educating) were COBS 4: the communicating with clients rules.

To assess this, we reviewed the marketing and education materials as well as transaction documentation for a selection of the buybacks.

We considered, among other things, whether they provided issuers with:

- A broad and balanced overview of all share buyback structures available at the bank.
- A clear and balanced view of the benefits and risks of different share buyback structures.
- A clear understanding of the options available from the different structures available.
- For vanilla buybacks, an understanding of how any day-to-day execution decisions would be made.
- For structured buybacks, an understanding of the objectives of a structured buyback, how it works in practice, and the potential outcomes of it

We also spoke to a range of issuers to cross reference these assessments with their views of the materials, the broader engagement and process.

Execution phase of buybacks

The key FCA requirements we assessed banks against during the execution phase of a buyback were SYSC 10: the conflicts of interest rules, which require a firm to take all appropriate steps to identify and to prevent or manage conflicts of interest.

To assess whether banks met these rules, we looked at:

- How banks exercise discretion over purchases where they take trading decisions under the buyback independently of, and uninfluenced by, the issuer.
- The trading patterns of a sample of the buybacks the bank had executed.

- Any adverse audit findings or client complaints, enquiries, questions, or concerns from clients about the quality of service or execution they had received.
- The conflicts banks identified in share buybacks, including any that were specific to structured buybacks.

We also discussed with banks their approach to meeting the best execution rules in COBS 11.2A.

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