

Rizvi College of Arts, Science and Commerce

Subject: Financial Accounting V

Topic: Buy Back Of Shares

Class: TYBAF

Semester V

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BUYBACK OF SHARES



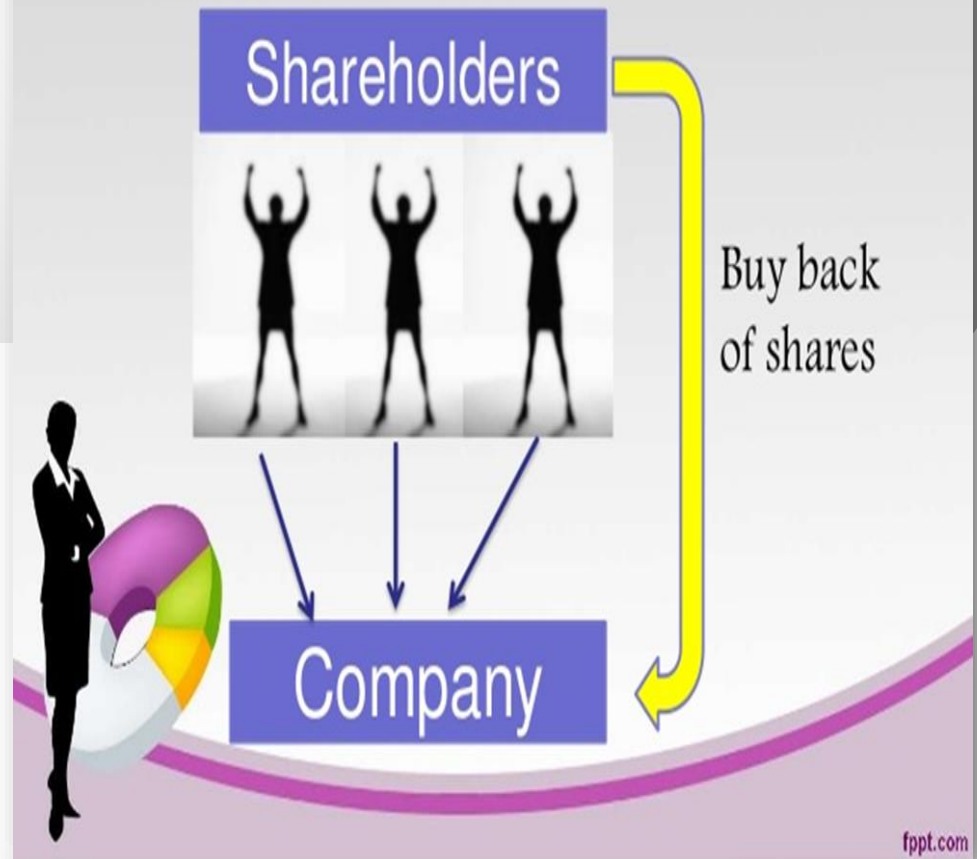
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Meaning :

- Buy back of shares is a process where a company seeks to repurchase its own securities from its existing shareholders
- Buy back of equity shares is an important mode of capital restructuring.

Understanding of buy back of shares

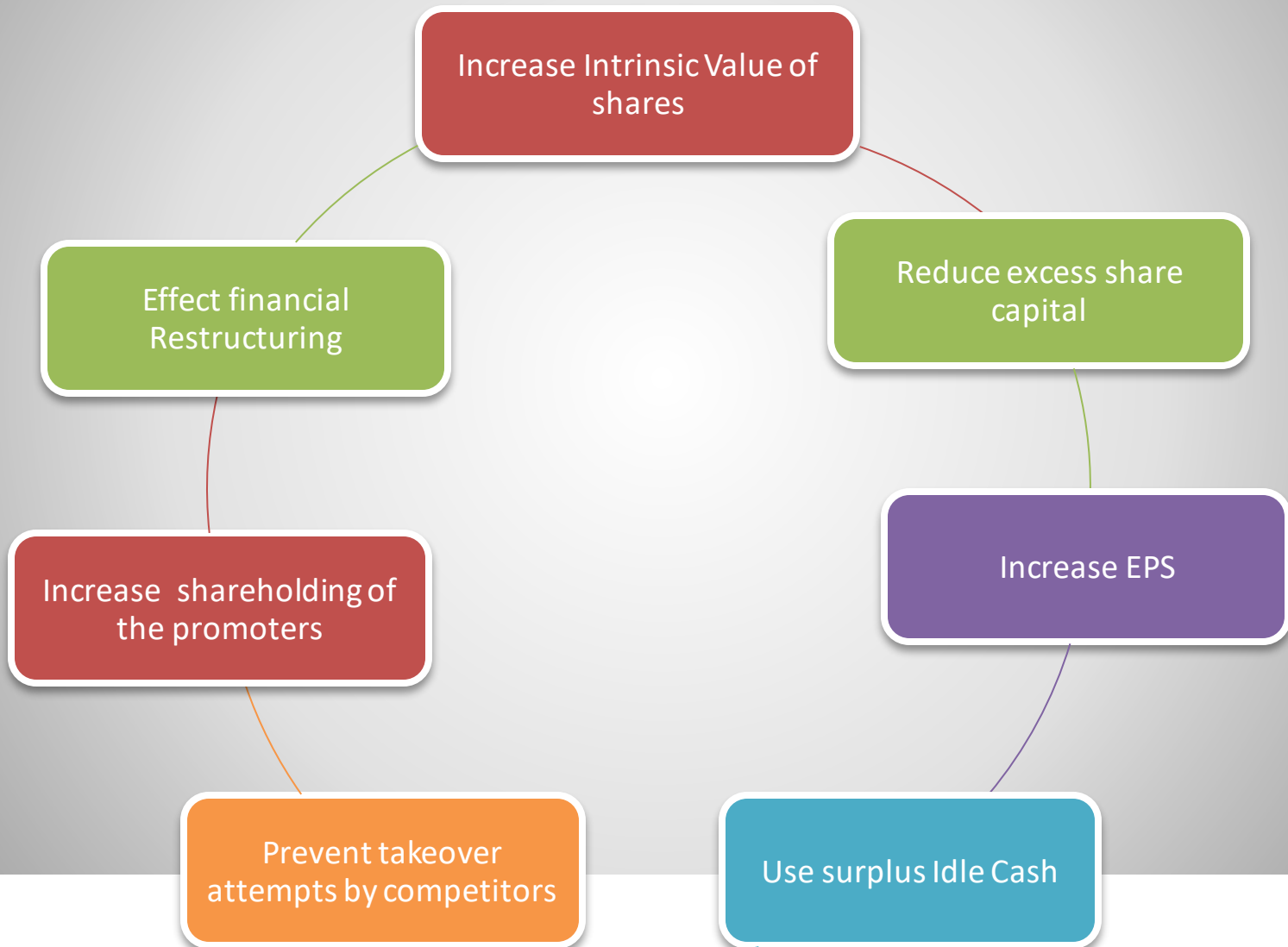


Reasons for Buy Back

- ❖ Signaling Effect
- ❖ Realign the Capital
- ❖ Increase the Earning Per Share
- ❖ Improve Returns to Stakeholders
- ❖ Reduction in Share capital



Objectives of Buy Back



Buy Back v/s Redemption of Preference Shares

No.	Buy Back of Shares	Redemption of Preference Shares
1.	Any shares can be bought back.	Only Preference shares can be redeemed.
2.	Buy back date is not known on date of issue.	Redemption date is known at the time of issue of preference shares, itself.
3.	Buy Back is subject to rules of SEBI.	Redemption is not subject to rules of SEBI.
4.	Buy back can be out of free reserves + securities premium.	Redemption of preference shares can be out of only divisible profits.
5.	Buy back is governed by S.68 of the Companies Act, 2013.	Redemption of Preference shares is governed by S. 55 of the Companies Act, 2013.

Legal Framework for Buy back of Shares



Companies Act, 2013



Companies (Share Capital and Debentures) Rules, 2014



Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998 and Securities and Exchange Board of India (Buy-back of Securities) (Amendment) Regulations, 2013

Provisions Governing Buy back of shares under Companies Act, 2013

❖ Sources of Buy back



Free Reserves

- General Reserve
- P&L A/c

Securities Premium

Proceeds from Fresh Issue

- Preference Shares
- Equity shares

❖ ***Conditions for Buy back***

- Articles must authorize.
- Buy back must be approved by Special Resolution passed in the general meeting of the company.
- If buy back is 10% or less of the total paid up capital and free reserves of the company, such buy back may be made if authorized by the board of directors at resolution passed at meeting.
- No offer of buy back shall be made within a period of 365 days reckoned from the date of preceding offer of buyback if any.
- Buy back should be 25% or less than the total paid up capital and free reserves.

Cont..

- If shares or securities are listed, buyback will be in accordance with the regulations made by the SEBI.
- The buyback in respect of unlisted shares or other securities is in accordance with Share Capital and Debentures Rules, 2014.
- The notice of the meeting at which the special resolution is proposed to be passed shall be accompanied by an explanatory statement.
 - Time Limit
 - Options for buyback
 - Solvency Declaration
 - Punishment for any Default
 - Register to be maintained
 - Return of buy back & Declaration

SEBI Guidelines

- No offer of buy back for 15% or more of paid up capital & free reserves of company shall be made from open market.
- No offer of buy back shall be made within a period of 365 days reckoned from the date of preceding offer of buyback if any.
- Ensure that at least 50% amount earmarked for buyback is utilized for buying back of shares.
- Submit information regarding shares to stock exchange on a daily basis.
- Upload information regarding shares bought back on its website on daily basis.
- Buy back offer shall open not later than 7 working days from date of public announcement & shall close within 6 months form date of opening of offer.

Methods of Buy back

Methods of Buyback of Listed Companies

Tender Offer
Method

Through
Open
Market

From Odd
Lot Holders

Stock
Exchange

Book
Building
Process

Thank You