CII Statement on Share Buybacks


Tying companies’ hands on capital allocation could lead executives to pour money into wasteful businesses that falter or fail to create additional jobs. Lawmakers should be cautious on making it too difficult for companies to recycle excess cash back to investors. In many cases, that will be the optimal capital allocation decision. Those shareholders, after all, generally reinvest the cash in companies they believe hold promise, helping to fuel the growth of companies that are powering the U.S. economy.

There is no indication that companies that repurchase their own shares fail to invest in research, development, human capital or equipment. An August study by index provider MSCI Inc. of companies doing buybacks concluded, “We did not find any compelling evidence to indicate that these companies elected to buy back shares to the exclusion of investing in their own futures.”

In fact, S&P 500 R&D spending as a percentage of sales is the highest since 1990. R&D spending as a percentage of gross domestic product (GDP) is the highest since the U.S. government began tracking it in 1959.

Some buybacks are not appropriate. Companies should not repurchase their own shares to boost the stock price in the short-term—especially if CEO pay is linked to earnings per share or measures of capital efficiency, such as return on equity or return on assets, which are also are lifted when equity is reduced.

That is why CII advocates robust disclosure about the rationale for buybacks. The board of directors should discuss in the company’s proxy statement its review and approval process for share repurchase programs with creating long-term value in mind. We also think management should disclose how buybacks affect performance metrics, perhaps in a table showing how the company would have performed absent a change in the number of shares outstanding.

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