IN SEARCH FOR THE DETERMINANTS OF SHARE REPURCHASES POLICIES IN THE ITALIAN EQUITY CAPITAL MARKET: AN EVENT STUDY

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Abstract

In the last decade the number of buyback transactions involving listed companies in the Italian equity capital market has experienced a huge growth. However, no clear understanding of this phenomenon has yet been reached, also because of the limited information available on such financial decisions. The purpose of this paper is to check the main hypotheses behind the determinants of share repurchases, analysing the effect of own share buyback announcements specifically on the performance of the listed companies before and after the discontinuity introduced in Italy through the Reform of the financial markets. The first major outcome coming from the empirical analysis deals with the strong incentive played by the reform mentioned above, which introduced stricter corporate governance criteria, leading to a sharp increase in the volume and frequency of share buyback announcements, as well as in the number of companies getting access to this instrument. Secondly, the analysis strongly supports the replacement hypothesis theory, which states that buybacks have become a better substitute for dividends as a remuneration policy for shareholders.

Keywords: Corporate Governance, Corporate Board, Shareholder, Shares, Buyback

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1. Introduction

In recent decades, in the Italian capital markets and other main industrialised countries, especially the United States, there has been a steady growth of the number of companies which have started to remunerate their shareholders purchasing their own shares (*buybacks* or *share/equity repurchases*), instead of the more traditional form of the distribution of dividends.[2]

As shown in table 1, in the United States stock market, where this phenomenon was first observed, the volume of buybacks has remained consistently above 40% of the total of the dividends distributed since the second half of the 20th century. This percentage rarely exceeded 10% in the previous fifteen years. Furthermore, in recent years buybacks have almost equalled dividends as an instrument for remunerating shareholders.

However, with regard to buybacks, it is important to remember that, despite the framework of progressive legislative harmonisation, there are significant differences in the laws of different countries, and one reason which can explain the increase in buybacks can be found specifically in the opening and the progressive liberalisation of buybacks by different countries.[3]

[2] See Bagwell and Shoven (1989), Fama and French (2001), Grullon and Michaely (2002), Dallocchio and Salvi (2005).
[3] See Grullon and Ikemberry (2000).

Table 1. Shareholder remuneration policies of companies listed on the NYSE in the period 1974-2005: dividends vs. Buybacks

Year	Dividends ($ bln)	Own shares ($ bln)	Own shares/ Dividends
1975	33,0	0,8	2,4%
1980	64,1	6,6	10,3%
1985	97,7	20,3	20,8%
1990	165,6	36,1	21,8%
1995	254,2	99,5	39,1%
2000	379,6	158,1	41,6%
2001	416,6	177,4	42,6%
2002	142,2	106,3	74,8%
2003	158,2	108,7	68,7%
2004	220,1	199,8	90,8%
2005	163,3	348,7	213,5%

Source: Developed by the Authors on Bloomberg data

In some countries, in fact, this operation was banned and has been restored only recently[4], while in countries whose laws made the buybacks legal, deregulation has been introduced in order to encourage companies to use this instrument as an alternative to dividends or as a tool to reduce volatility of stock prices. It should be pointed out that buybacks[5] allow to both maximise equity value to shareholders and to improve its financial performance ratio, thanks to the decrease in the amount of capital invested[6]. A deeper analysis of this phenomenon shows that there isn't a primary reason for companies to buy their own shares; nevertheless, the main explanation given by most experts is that buybacks are often used by managers to send optimistic signals to the market concerning the future outcomes of the company. There are two main reasons in support of this explanation: the first is that the management seeks to transmit its own expectations of future increases in profits and cash flows and that these expectations are not shared by the market; the second, however, sustains that the management does not mean to communicate new information to the market, but expresses its own disagreement with the market's assessment of company's performance. In both cases, the management observes that its own company shares are undervalued.[7] For this reason we decided to conduct an extended research on the behavior of listed Italian companies, which investigates the impact of buyback announcements on the Italian market in the last fifteen years. The effect of the replacement of the dividend policy was also examined, in order to provide a specific assessment of the effects of the innovations introduced by the Draghi law concerning the execution procedures of buyback transactions. Specifically, this law significantly changed the previous regulations and is thought to be the basis of a new perception from the market of the reasons underlying buybacks. The main results of the empirical analysis can be summarised as follows: after the introduction of the Draghi law, the volume and frequency of buyback transactions increased considerably, as did the number of companies which have used this instrument; the typical reaction of the market to buyback transactions, which is reflected in the anomalous yields (calculated in a timeframe of 120 days), was reversed after the Draghi law was enforced: positive returns have replaced negative returns; after the reform of the financial system, a negative correlation has been observed between the dividend policy (payout) and buybacks, providing strong arguments in support of the theory of the replacement hypothesis, on whose basis

[4] Countries like Germany, Austria, Japan, Hong Kong and Taiwan have taken actions in this regard.

[5] For the most widely discussed reasons behind buybacks, see: Wansley *et al*. (1989) according to which the management declares the main reason to be, respectively, the undervaluation of securities and the opportunity of making a convenient investment; the review presented by Weston and Siu (2002), in which it is maintained that there are several reasons for buybacks, which have progressively changed in the last twenty years; Grullon and Ikemberry (2000).

[6] See also Nohel and Vefa (1998), according to whom buybacks are used as an instrument to reduce the size of the company and, therefore, to use the capital more efficiently.

[7] The difference between the two versions depends on the non-coincidence between price and fair value. In the first case, the company is unable, before the buyback, to convincingly communicate its prospects to the market; in the second case the market is inefficient, not succeeding in expressing prices which incorporate all the available information on the company.

buyback operations are becoming the preferred remuneration policy of investors; the empirical analysis of market values and the buyback policy adopted by the sample companies analysed confirms the undervaluation hypothesis, according to which buyback operations are announced only when the market price of the securities does not include their intrinsic value, making the purchase of own shares an excellent solution for remunerating shareholders and creating value at the same time.

2. Reasons in support of buybacks: an analysis of the main theoretical lines of thought

The buyback issue is certainly one of the most studied questions of corporate finance, especially in Anglo-Saxon contexts where, given the efficiency and representative nature of stock markets, valid empirical assessments can be made. There are many theories that, over time, have attempted to identify the reasons for buybacks. In short, these reasons can be identified by considering the different types of strategies and managerial choices listed below: corporate board and financial policy choices; shareholder remuneration policy choices; value creation-distribution choices.
The main theories in support of the above lines of thought are discussed below.

2.1. Buybacks and financial policy choices

It is well known, dealing with the theory of the separation of company ownership from its control,[8] that if, on one hand, rational arguments can be given in favour of the personalisation of the company in the form of the founding shareholders and/or current shareholders, on the other hand, conditions are created for the possibility, which is anything but theoretical, for the management to put its own interests before those of the shareholders. This can also, and above all, occur through the use of the financial resources in non-remunerative activities, aimed at increasing the company's tangible assets and its size, to the detriment of its profitability and value to the shareholders. The costs generated by this conflict between growth and maximising value are known in finance circles as free cash flow costs.[9] To effectively solve this problem, companies which have more liquidity than their financial management needs, in the absence of investment projects with net positive yield, can resort to buyback transactions, distributing value to the shareholders instead of, or in addition to, issuing dividends.[10] In other words, the buyback operation is a way of sending "signals" to the market aimed at reducing agency costs in the case of excess free cash flows, since the company is communicating that it does not intend to invest the excess liquidity simply to increase the size of the company and therefore keep all of its resources under full managerial control.[11] Other papers have attempted to verify whether share buybacks are partly motivated by agency costs. Denis *et al.* (1994) shows the role of debt in adding value by reducing excess investments. In a more recent study, the findings of Lie (2000) indicated that the companies which announce buybacks have higher cash levels than competitors and that the market reaction is directly linked to the company's excess cash. Furthermore, in the case of buybacks on the open market, the market reaction to such events is negatively correlated to the ROI of the company's investments. This demonstrates the favourable market reaction to buyback programmes announced by companies whose investment opportunities seem to have decreased over time. The "*Free Cash Flow Hypothesis*" would therefore explain one of the empirical rules linked to buybacks, which is a positive reaction to the announcement of the operation, with an increase in the value of the securities.[12] The framework of financial policies also includes buyback programmes launched with the aim of changing the company's leverage ratio to a level considered as optimal, in order to maximise the company's market value; in such cases, the buybacks are financed by loans, thus changing the issuing company's debt/equity ratio. According to Grullon and Ikemberry (2000), a similar objective is achieved through buyback operations carried out in the form of repurchase tender offers, in which it is explained to the market that the company's intention is to withdraw a significant part of its own shares in order to increase its leverage. This aim is more or less intrinsic to

[8] See Berle and Means (1932).
[9] See Jensen and Meckling (1976), Jensen (1986).
[10] See Easterbrook (1984); Miller and Rock (1985); Jensen, (1986); Allen and Michaely (2003); Fried (2005).
[11] See Jensen (1986). For interesting empirical evaluations, see also Nohel and Vefa (1998); Macchiati, Providenti and Siciliano (1999); Arosio, Bigelli and Paleari (2000).
[12] In the interviews and in the press releases announcing the buyback programmes, the management states that the purpose is to increase profits per share, and investment bankers and analysts who promote and comment on the buyback operation assuming the so-called "EPS bump", one of the main benefits linked to the buyback, are often on the same wavelength.

purchases carried out in the form of open market repurchases, which – as will be seen in paragraph 3 below - have generally smaller dimensions than public offers. It can also be argued that, given the predominance of open market repurchases compared to other forms of repurchases, this is not one of the main reasons, also because it can be achieved thanks to other policies. It would seem, on the other hand, that companies can carry out operations in order to calibrate their leverage ratio through open market repurchases also to compensate the effect of dilution connected to the implementation of stock option plans reserved to the management.[13] According to the "Leverage Hypothesis", the buyback operation announcement will have a positive effect on market capitalisation if the repurchase is financed by debts.[14] Following this system, the companies obtain tax savings because of the change in the financial structure, reporting expected cash flows to the market which are sufficient to absorb the greater debt level. This decision would, in any case, be based on the management's awareness of the undervaluation of the securities involved and the manoeuvre is therefore a convenient investment for the company. It is worth noting that the leverage ratio, which changes the financial structure, also influences relations between creditors and shareholders. This relationship is explained in the "Bondholder Expropriation Hypothesis", which states that a buyback announcement has a positive impact on prices as a consequence of the transfer of creditors' wealth to company shareholders.[15] In an Italian context, the law allows for a maximum purchase of 10% of own shares, which mitigates the possible link between buybacks and the objective of significant changes to the company's degree of leverage. Again, with regard to financial policies, buyback may be adopted as a manoeuvre intended as a means of defence against hostile takeover attempts.[16] In this respect, the buyback can be carried out in two separate stages: an initial stage aimed at preventing the takeover and a second phase aimed at contrasting it. In the preventive stage, the buyback enables control to be consolidated and, especially, shares to be removed from the market.[17] In the contrast stage, the buyback, through an increase in the market value of the shares, can be interpreted as a real defensive stratagem aimed at increasing the takeover cost and raising doubts as to whether the takeover should be pursued by the raider.[18] In addition, the shares bought back also enable a subsequent exchange of stock, i.e. operations in which the two companies exchange blocks of their own shares held in their respective portfolios. Lastly, the repurchase of own shares can precede future mergers and takeovers carried out as a form of payment, allocating shares of the buyer/incorporating company instead of distributing cash dividends.[19]

2.2. Buybacks and shareholder remuneration policy choices

The dividend policy involves a series of financial decisions adopted in relation to the yield on the share capital: the distribution of profits in the form of dividends, the purchase of own shares, the distribution of company shares or those of its subsidiaries free of charge, the breakdown of the nominal value of the securities and the payment of dividends in kind.[20] In this sense, buybacks can be a wise and valid alternative to the distribution of dividends based, firstly, on the different tax rates applied to dividends and to capital gains. In fact, investors who decide to sell their shares in the case of a buyback are taxed on their capital gains. Shareholders who keep their investment receive a pro-rata increase in the value of the company stock which they hold, without having to pay any immediate tax. Although the benefit of lower tax rates on capital gains compared to those on dividends may vary periodically, it is always positive. It is no coincidence that several papers highlight, on one hand, a positive correlation between the aggregate stock repurchase expense and, on the other hand, the entity of the capital gains tax benefit compared to

[13] See Chan, Ikemberry and Lee (2004).

[14] See Ross (1977); Masulis (1980); De Matos (2001); Bratton (2004).

[15] See De Matos (2001); Allen and Michaely (2003).

[16] On this subject, see Stulz (1988); Bagwell (1991); Dittmar (2000).

[17] Furthermore, if the purchase is financed by debt, an advantage can result from the change in the leverage ratio; in fact, for the raider, generally indebted, the appeal of the target company would decrease, due to both the minor liquidity and to the increased number of creditors who could claim the ownership rights of the target company.

[18] In the same stage, the purchase of own shares within the context of a greenmail programme would allow the majority shareholder of the target company to avoid losing control, albeit at a high cost. In fact, the Greenmail strategy consists of the resale to the issuer of a significant block of shares with a high premium, which allows the latter to avoid being subjected to a hostile takeover. The raider-seller of the shares effectively forces the target company to repurchase its shares, threatening a potential hostile takeover.

[19] With regard to extraordinary financial operations, see Confalonieri (2005), Forestieri (2005).

[20] This is how the most important literature on corporate finance portrays the dividend policy; see, for example, Brealey, Myers , (2003); Cattaneo (1999).

dividends.[21] This differential could be one of the several reasons to explain the increase in buybacks, especially in relative terms, compared to dividends. In literature, is made reference to a "dividend replacement" effect. According to the "Dividend Hypothesis", a buyback announcement would therefore have a positive effect on prices, since the market has a positive opinion of this kind of capital gains, which are taxed much more favourably than dividends.[22] However, according to an alternative hypothesis, the apparent purpose of the buyback would be a one-off distribution of resources rather than an extraordinary dividend, thus enabling a dividend stabilisation policy, i.e. without influencing the normal flow of dividends. In this sense, the buyback would give the market a different signal to that of an increase in dividends. For this reason, it is known that companies prefer to maintain dividends stable over time, changing them only in case of a stable increase in profits, which would make possible a long term stable dividend policy. Extraordinary dividends would not therefore be a correct instrument for distributing temporary excess liquidity to the shareholders, since would be sent a wrong signal to the market. The purchase of own shares, conversely, is a more flexible tool for remunerating shareholders, resulting in a reduction of the share base and improving the economic and financial performance indicators, such as profits per share and unit dividends. On closer consideration, a buyback can be compared to the alternative distribution of a dividend only if the company subsequently voids the shares. In fact, it can be demonstrated that the distribution of a certain sum in the form of dividends, or its use to buy shares, is irrelevant in terms of the generation of economic value for the shareholders.[23] What effectively occurs is a concentration of profits on the shares remaining in circulation, with a benefit that should be exactly the same as the sum which would have been obtained in the case of the distribution of dividends. It should be pointed out that the purchase of own shares is equivalent to the distribution of dividends only in the case of certain expected cash flows; however, if the cash flows are very uncertain, the opportunity of selling the shares to the issuer must be offered to all shareholders, adopting opportune techniques for carrying out such an operation.

2.3. Buybacks and the value creation-distribution choices

For clearly understandable reasons, it can be logically assumed that the management is better informed on the real value of the company than any external shareholders at all times. This asymmetry can lead to situations in which if the share has a price below its intrinsic value, the manager can seek to fill the value gap by informing investors of any "good news" it may have. In practice, through a buyback, the managers can give credible signals of their enthusiasm about future profits by adopting choices which, on closer analysis, restrict the flexibility of the managers themselves. On the contrary, it is less probable that a company which forecasts a reduction in profits will make such a decision, because any distribution to the shareholders could force them to forego remunerative investment opportunities, and it could also place them in a situation of financial stress, because of the minor financial elasticity consequent to a buyback. Therefore, according to the aforementioned theoretical hypothesis – known as the "Signalling Hypothesis" – companies which carry out a buyback will usually have increased profits and cash flows in the future.[24] However, the empirical evidence does not provide unequivocal results. Initial studies on this aspect showed an effective improvement in profits subsequent to buybacks only in fixed price operations.[25] However, this is not the case in open market operations, in which initial research did not uncover any statistically significant cases of increased profits. A later paper, which took into consideration buyback programmes announced between 1980 and 1994, showed a considerable fall in operating profit as a percentage of total investments.[26] The same study also revealed that the analysts forecasts on future profits tend to decrease after the buyback announcements. The results of this study therefore contradict the hypothesis that managers who announce share buyback programmes are providing good news on future profits and cash flows. The other prospective on the reporting hypothesis refers to the undervaluation of the company by the market. In other words, the company thus reports its own disagreement with the market dealing with the assessment of the company. This prospective arises from the consideration that the management is perhaps in a better position to recognise when the market price differs from the company's actual value. It is also consistent with the usual statements according to

[21] See Jagannathan, Stephens and Weisbach (2002); Grullon and Michaely (2002); Lie and Lie (1999).
[22] See Vermaelen (1981).
[23] See Massari (1998).
[24] See Grullon and Ikenberry (2000).
[25] See Dann (1981); Vermaelen (1981); Dann, Masulis and Mayers (1991); Hertzel and Jain (1991); Lie and McConnell (1998); Nohel and Vefa (1998); Allen, Bernardo and Welch (2000); Mitchell *et al*. (2001).
[26] See Grullon and Michaely (2002).

which “the share is undervalued”, is “a good buy”, or “the price does not reflect the company’s real value”, which accompany buyback announcements. But the companies which announce buyback operations do not always actually carry them out. The initial reaction – in terms of increase of stock return - to the announcement of the open market buyback is only 4%, compared to a 15% reaction in the case of a public offer at a fixed price: the 4% reaction would seem a very limited extra yield if the shares to be bought back were actually “a real bargain”! Many companies which announce a buyback, especially with the open market technique, are probably really undervalued; otherwise, one must assume that the market is sceptical in respect of the management’s statements and has a limited reaction to the initial announcement. It is worth pointing out that “market” motivations were at the basis of the buyback programmes to be implemented after listing in the period 1998-2000 by a significant number of newly listed companies, when the IPO operations were being prepared, or immediately after listing. Companies such as CSP, Manuli Rubber, ITR, IRCE, Interpump, Castelgarden, Doria, and IMA announced a buyback plan for the purpose of supporting their securities, and probably also to inform the market of their real value, which was not properly assessed during the listing procedure.[27] Buybacks can therefore also be seen as operations which produce a stabilising effect on the issuer’s shares, and which can thus favour the good performance of future share issues on the part of the company itself. Lastly, buybacks can also have the purpose of favouring the reorganisation of the ownership framework, thus enabling certain shareholders to leave the company – including, for example, merchant banks and closed end funds – and at the same time enabling the distribution of the value created between the entry and exit of the latter.[28]

3. Buyback methods

Buybacks can be carried out in the following ways: open market repurchases, i.e. buybacks on the open market; tender offer repurchases, i.e. public takeover bids; synthetic repurchases, i.e. the issue of transferable put options; target repurchases, i.e. direct purchases from certain shareholder categories.

It is worth noting that in Italy the Civil Code gives the Assembly of Shareholders the power to choose the methods by which a buyback operation must be carried out. Only after the introduction of the Consolidated Finance Act, and specifically art. 132, were indications given in this regard, valid only for listed companies. For the latter, tender offer repurchasing is provided, which companies can derogate at their discretion but in agreement with the company which manages their stock market, rather than the other technical methods listed above. In the open market method, the company announces that it intends to purchase its own shares directly on the market, on the basis of parameters established by the Assembly of Shareholders, such as implementation times, the funds available and the maximum and minimum price at which the transactions will be carried out. The shares are purchased on the market anonymously, through one or more intermediaries.

It can be stated that the announcement of an open market repurchase creates a so-called "exchange option”, which can logically be assessed, enabling the company and the shareholders who do not sell to swap immediate liquidity in exchange for the increase in the market value of their own shares, within the deadline chosen by the management itself. In general, on the various world stock markets, the disclosure level of this operation is reduced.[29] On the Italian stock market, the company is not required to make a public announcement when it makes the purchase, or to obligatorily buy back a given number of shares. In Italy, this technique is the form most commonly used by listed companies for buyback operations, because of the increased flexibility allowed to the management which, after obtaining the approval of the Assembly of Shareholders to repurchase a certain number of shares, has the right to participate in the negotiations for these securities according to the timing and methods deemed most suitable for the achievement of the preset objectives. On the other hand, the main inconvenience of the open market is the market risk, since a possible increase in share prices could lead to an increase in the overall cost of the operation. Furthermore, in the case of this financial manoeuvre, it could take the company a fairly long time to buy a significant number of its own shares, given that open market repurchases depend strictly on the volumes traded daily on the stock market. As already mentioned, the public offer methods of purchase

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[27] See Arosio, Bigelli and Paleari (2000).

[28] This is the case, as will be seen, of the so-called target repurchases.

[29] “*Compared to other corporate activities, one might characterize open market repurchase programs as obscure*”, as stated by Grullon and Ikemberry (2000), page 50. An exception concerning disclosure levels is perhaps represented by the Canadian market, where companies must inform the Authorities which manage the market of the number of shares sold and their price on a daily basis; in this regard, see the interesting research of Ikemberry *at al, op. cit*.

are now fully regulated, following the introduction of the Finance Act, and – as illustrated in the following paragraph – buyback operations must be carried out through a public offer for purchase or exchange unless otherwise agreed. In this case, the offer price and the amount of shares to be purchased are significant elements. This technique enables the full respect of the principle of equal treatment of shareholders, allowing all shareholders to obtain the same information and to pay the same price and, at the same time, to have an equal possibility of selling their own shares. On the other hand, this formula provides less flexibility due to the irrevocable commitment linked to the offer, as well as the difficulty in making use of the best moment at which to buy the shares under the agreed conditions of the public offer. Furthermore, the high management costs, as well as the limited timeframe for carrying out the operation, limit its use exclusively to cases in which the intention is to buy large amounts of shares in a short period of time. In Italy, only four buybacks were carried out through public offers, namely those launched in 1977 by Worthington, in 1982 by Banco di Chiavari, in 1993 by Quaker Chiari & Forti, in 2000 by Telecom Italia on savings shares and in 2001 by Ras. In the first three cases, the buybacks aimed at the constitution of a block of shares to offer in exchange during acquisition operations, while in the case of Telecom Italia, the aim was to withdraw the savings shares. Another alternative buyback method, although not one commonly used in Italy, is the one known as "synthetic repurchase". This approach can vary, depending on whether the company buys call options and/or sells put options on its own shares.[30] This is a fairly singular buyback technique, given that the company which has issued the securities to which the derivative contract refers is a direct counterparty in the transaction. It can be said that the company assumes a dual role; on one hand, it is the contracting party to the derivative contract, whereas on the other, it is the object, being the owner of the product underlying the derivative contract, i.e. its own shares. It is obvious that when the owner of the put option decides to exercise its rights, the company is bound to proceed with a buyback transaction. The disadvantage of this technique thus lies in the fact that the buyback actually takes place solely on the basis of a freely adopted decision on the part of the put owner, which therefore exercises the option when it will be "in the money", which is the case whenever the market value of the shares is lower than the put option price. The last method by which a buyback can be carried out is the above-mentioned target repurchase. In this case, certain well defined categories of shareholders are offered the chance to sell their share packets, in order to simultaneously pursue the objective of reviewing the ownership base.

4. The development of the reference legal framework concerning buybacks on the part of listed companies

Legislation disciplining buybacks has been significantly modified subsequently to the entry into force of Decree Law 58/98 (the Draghi law or Consolidated Financial Act), at least for operations carried out by companies whose shares are listed on regulated markets. Previously, buybacks were disciplined by art. 12, paragraph 1 of Law 149 dated 18 February 1992, which, together with the general legitimacy conditions, contemplated the obligation of carrying out the transaction "on closing call of the stock exchange". In the case of continuous trading through the electronic system, this rule was no longer applicable and a provision was added pursuant to which the purchases had to be made during the continuous negotiating phase (Consob Regulation 10642 dated 16/4/97). This rule, while prescribing the methods and time when the purchase was to be transacted, had the purpose of establishing a mechanism for determining prices which allowed for transparency and verifiability by subjects external to the official market, thus providing greater guarantees regarding possible influences on prices and on equal treatment for all shareholders. The Draghi law introduced another innovation, which was required in order to make the provision more adherent to the new features of the financial markets and respond to an increasingly greater will to protect minorities, thus guaranteeing them the same treatment of the holding company shareholders. In particular, art. 132 of the Draghi law provided that buybacks, carried out according to articles 2357 and 2357-*bis*, paragraph 1 of the Civil Code, had to take place through a public offer of purchase or exchange in compliance with the relevant legislation, or directly on the market in agreement with the market management company, on the basis of methods that could ensure the equal treatment of all shareholders. In the first case, equal treatment is ensured in itself; in the second case, it is pursued by a specific agreement with Borsa Italiana S.p.A., in which the limits and methods of the operation are defined. A similar legal provision is necessary to comply with the principle according to which the transactions must be carried out in a negotiating phase featuring sufficient liquidity to limit its impact on prices and the consequent risk of manipulation. The repurchase of own shares is, in fact, an operation

[30] This method has been used in recent years by many United States companies, together with the implementation of buyback programmes. See Grullon and Ikenberry (2000), page 50.

which in itself could create unequal treatment, as long as the purchasing company could choose only some of the shareholders as its contracting counterparties, and they would be granted the right to sell all or part of their own shares. In order to avoid such disparity, art. 132 rules that buybacks can take place only according to certain negotiating methods, deemed suitable to prevent the inequality inherent to such transactions. This rule is also made more effective by the legislation concerning the concentration of stock exchange transactions. The methods indicated in the provision effectively represent the most suitable instruments to guarantee all shareholders an equal chance of selling their own shares; this is particularly evident in the case of public offers which, by their nature, are addressed under equal conditions to all holders of the financial instruments in question, but it is also a valid principle for open market purchases in which the search for a contractual counterparty and the determination of the price take place on the basis of anonymous mass mechanisms typical of electronic negotiations. Article 132 is also applied when the purchase involves a single category of listed shares, albeit in the presence of several categories of shares. Furthermore, these provisions would also appear to be applicable to the case of a buyback pursuant to a decision for a reduction of capital, to be achieved by the purchase and subsequent void of the shares (pursuant to art. 2357-*bis*, paragraph 1 of the Civil Code). In fact, this is just one of the special cases in which it is necessary to guarantee the equal treatment of shareholders, and therefore requires the application of art. 132 of the Finance Act. [31] The new version of this article, the principle of equal treatment of shareholders always holding firm, grants Consob the power to indicate the methods for the execution of the buyback, compatible with the aforementioned principle. This innovation, on one hand, allows for a more elastic buyback procedure, identifying additional methods of execution to those originally contemplated, possibly standardised with those used in the other European Union countries, and, on the other hand, has regular features aimed at improving shareholders' awareness regarding such transactions by identifying provisions for transparency and the regulation of the approval procedure.[32] In implementation of the power conferred to Consob, operating methods have been identified for buybacks in addition to those already established by article 132 previously in force, and which are, in any case, capable of satisfying the aforementioned needs. In order to ensure the fair treatment contemplated in general by the new art. 132 of the Finance Act, it has therefore been deemed necessary to envisage the conditions concerning three aspects of the buyback programme regarding, respectively, the Assembly of Shareholders decision-making phase authorising the purchase, the type of the operations admitted and market transparency.[33] Deferring detailed analysis of the legal provisions introduced by the Draghi Reform and the relative implementation problems,[34] it is worth underlining that, for the purposes of this work, the legislative text in question represents a considerable breakthrough with the past, since it establishes a clear and precise procedure for buybacks, explicitly aimed at maximum transparency of information and the protection of minority shareholders and, consequently, reduced incentives for speculative behaviour on the part of the companies involved (moral hazard). This provides a significant opportunity for an empirical analysis aimed at assessing the effective impact of the change in legislation

[31] Another issue regarding listed companies is the case in which the reimbursement of the withdrawing shareholders, carried out by the purchase, on the part of the company itself of the shares held by these shareholders in respect of the limits contemplated by art. 2357 of the Civil Code, necessarily involves the application of art. 132 of the Finance Act. It is maintained that this case does not fall within the scope of application of this provision, since in the context of the exercise of the right of withdrawal, the buyback is only one of the methods for reimbursement, alternative to a reduction in capital, which the company would have to decide upon in the case of the annulment of the reimbursed shares.

[32] In these considerations, it can also be understood that the subject in question regards above all corporate aspects in the strict sense which are not connected to the implementation of the directives on market abuse, aimed instead at ensuring market protection. In this regard, it must nevertheless be observed that Directive 2003/6/EC, concerning buybacks, contemplates specific cases of derogation from the ban on abusive insider trading and market rigging for transactions carried out under conditions established by European Union regulations (EC 2273/2003), adopted pursuant to the same directive. These regulations, in listing the operating conditions for buybacks, prescribe specific methods not only for transactions on the market, but also for those outside the market and for purchases carried out by the purchase/sale of derivative financial instruments. This circumstance introduces the problem of evaluating the limits within which it is possible to enable methods of execution for buyback programmes in Italy, possibly allowed in other European Union countries, which can guarantee equal opportunities to Italian issuers compatibly with the need to respect the principle of the equal treatment of shareholders established by the Finance Act.

[33] In drafting the proposal, the indications expressed in a recent IOSCO document have also been taken into account (see Report on "Stock Repurchase Programs" Technical Committee of the International Organization of Securities Commissions, February 2004.

[34] With specific reference to Onada (2004).

concerning this important type of stock market operation, with particular reference - as described in the paragraph below - to the inquiry method known as "event study".

5. The empirical analysis

The general thesis that the following empirical analysis intends to verify is whether a more favourable environment has been created for the execution of such operations on the part of companies, increasing the range of financial policies available to company managers. More specifically, the research programme to which this work refers hinges on the following hypotheses:

HP 1: Following the legislative amendments, the buyback should become an alternative strategy to the dividends policy and, therefore, there should be an increase in buybacks – and in the relevant announcements – both in absolute and relative value, and in the number of operations.

HP 2: In consideration of the statement of hypothesis 1, an increase will also be expected in the number of companies which decide to adopt remuneration strategies based on buybacks.
HP 3: The reaction of the market to buyback announcements should be positive, at least after the amendment of the reference legislative framework, in both the short and long term.

HP 4: The reaction of the market to buyback announcements should be positively linked to the level of the undervaluation of the companies which announce the buybacks.

Specifically to check the validity of the above hypotheses, the analysis was carried out by dividing the chosen time period into two sub-periods: “pre-Draghi” and “post- Draghi”. This gave empirical evidence of unquestionable significance and consistency. The most important result, apart from the increased dimensions of such operations over time, is the confirmed growth, compared to the pre-reform period, of the positive additional yields subsequent to the buyback announcement. This could be the result of the introduction of provisions which give the market the certainty of equal treatment for all shareholders, aided by the implementation of the provision which contemplates the introduction of the concentration of stock exchange transactions. In the following paragraphs, details of the dataset, procedures and results of the aforementioned empirical analysis are given.

5.1. The sample of companies analysed and the initial empirical results

The starting point of the analysis was the construction of a reference database, since there are currently no public information sources which give records of buyback announcements in an organic manner (as in the case for other similar announcements for that matter) concerning Italian listed companies. Therefore, such announcements were sought by the computerised analysis of the main magazines and newspapers specialised in reporting economic-financial information, through a research algorithm based on key words. The analysis focused on the period January 1990 – December 2003, and generated the largest – and in fact the only – database of its kind concerning the Italian market. The database thus composed included 816 operations which, at present, constitutes a reasonable representation of all the buyback announcements made during the period in question. This sample database was then subjected to a “cleaning" and standardisation process involving the exclusion of announcements for which the economic-financial information on the relevant companies, or detailed information on the operation itself, was incomplete. The final sample was composed of 602 operations over a 13 year period.

The descriptive statistics given in table 2 show that the introduction of the new market regulations have produced certain particularly significant effects, described below, confirming hypotheses 1 and 2 of the research programme.

The average number of buyback announcements for each year increased by 37.4%, from a mean value of 51.4 in 1990 to 70.6 in 2003, suggesting growth in the use of such forms for the distribution of profits to shareholders by managers. The average number of companies which issued buyback announcements increased by 63.9%, reaching the significant number of 46.4 companies, compared to 28.3 previously, again confirming that the strategy has become much more common than it was in the past. It must also be considered that the average figure after the introduction of the Finance Act represents about one third of the total number of listed companies (excluding double listings and direct shareholdings), demonstrating the fact that the phenomenon in question has acquired a dimension that cannot be explained simply by the

growth registered by the Italian stock market during the same period. The average number of companies which announced only one buyback in the two time periods analysed increased from 51.2% to 61.8%. Also taking into due account the size of the sample, this increase is significant and can be interpreted as an indication of the strategic use of buybacks in the case of the undervaluation of a company, rather than an alternative to the distribution of liquidity.

Table 2. Detailed data on buybacks announced by large companies listed on the Italian stock market in the period 1990-2003

Year	# buybacks	# companies announcing buybacks	% companies with more than 1 buyback	% companies with more than 2 buybacks	Shares bought back: % ordinary shares	Shares bought back: % non-ordinary shares
Before Draghi reform (Legislative Decree 58/98)						
1990	41	23	60,9%	39,1%	68,3%	31,7%
1991	43	25	64,0%	36,0%	74,4%	25,6%
1992	56	24	29,2%	70,8%	71,4%	28,6%
1993	40	25	64,0%	36,0%	70,0%	30,0%
1994	32	19	47,4%	52,6%	65,6%	34,4%
1995	56	26	30,8%	69,2%	69,6%	30,4%
1996	60	32	53,1%	46,9%	81,7%	18,3%
1997	65	39	59,0%	41,0%	70,8%	29,2%
1998	70	42	52,4%	47,6%	80,0%	20,0%
Sub-total (a)	463		-	-	-	-
average	51,4	28,3	51,2%	48,8%	72,4%	27,6%
After Draghi reform (Legislative Decree 58/98)						
1999	77	42	54,8%	45,2%	64,9%	35,1%
2000	82	55	56,4%	43,6%	78,0%	22,0%
2001	61	38	57,9%	42,1%	88,5%	11,5%
2002	66	47	70,2%	29,8%	90,9%	9,1%
2003	67	50	70,0%	30,0%	85,1%	14,9%
Sub-total (b)	353		-	-	-	-
average	70,6	46,4	61,8%	38,2%	81,5%	18,5%
Total (a+b)	816	0				
average	58,3	34,8	55,0%	45,0%	75,7%	24,3%

Source: developed by Authors

The database was further expanded with the economic-financial data of each company at the time of each buyback announcement. More specifically, information was extracted from the Thomson Financial-Datastream concerning ROE, net profits, dividend yield, dimension (total invested capital), financial leverage level, price-to-book ratio and beta for the entire period of the sampling.

The figures in table 3 show that the reform has had an impact not only on the apparent reasons underlying the buyback announcements, but also on the specific features of the companies: the median size of the companies increased from 1.4 billion Euros during the first sub-period (1990-1998) to 2.5 during the second (1999-2003). The surge in terms of income ratios, such as the ROE and the P/BV, are even more significant, apparently indicating an increase in the intrinsic value of the companies which then announce a buyback, thus confirming the undervaluation hypothesis. This is confirmed by the intrinsic risk assessment measured in terms of beta for the individual companies, for which no significant reduction occurred with the change in legislation and the increase in buybacks. In other words, for each given risk level, the companies which have announced buybacks seem to have improved their own income situation. On the other hand, an apparently different indication is given by the reduction in the Dividend Yield rates, possibly confirming the hypothesis of replacement (hypotheses 1 and 2), or the use of the buyback as a form for the distribution of liquidity alternative to the dividend method.

5.2. Analysis through event study

As mentioned above, to study the impact of the buybacks on the value of companies listed on the Italian stock market, the tried and tested "event study" method was used (Fama *et al.*, 1969; Campbell, Lo and MacKinlay, 1997; Ikenberry, Lakonishok and Vermaelen, 1995 and 2000; Loughran and Ritter, 1995; Mitchell and Stafford, 1997). In particular, anomalous returns (AR) on "n" shares, which represented the selected sample, were calculated and, according to that dictated by the financial theory on asset pricing models, the standard regression was calculated on the basis of the following equation:

$$ar_{i,t} = c_{i,t} + b_{i,t} \times mr_{m,t} + ee_{i,t}$$

where:

$ar_{i,t}$ = the return of the ith security in the period t;

$c_{i,t}$ = the regression coefficient, which estimates the level of the guaranteed minimum return in the case of zero risk on the ith security;

$b_{i,t}$ = regression coefficient, giving a measure of the sensitivity of the return of the ith share in respect of the market return in the period t;

$mr_{m,t}$ = market return in the period t;

$ee_{i,t}$ = estimation error.

Table 3. Market and accounting figures of the sample companies

	Dividend Yield	Net profit	Total assets	Leverage	ROE (%)	P/BV (%)	Beta (%)
				Before Draghi reform (Lgs. Decree 58/98)			
Median	3,45	119.890,20	11.425.331,22	27,76	1,48	1,80	0,80
Standard deviation	5,16	312.389,76	22.567.925,55	23,37	8,86	2,56	0,30
Median	2,22	21.920,00	1.462.970,00	23,35	1,01	1,21	0,81
Mean first quartile	3,80	73.663,30	7.960.485,00	43,58	2,36	1,88	1,03
Mean last quartile	1,23	4.556,05	471.746,00	6,37	0,34	0,75	0,60
				After Draghi reform (Lgs. Decree 58/98)			
Median	2,85	197.157,50	24.155.098,81	31,00	2,96	2,06	0,79
Standard deviation	3,99	1.057.241,23	48.531.662,55	26,29	12,77	2,31	0,33
Median	2,09	22.395,00	2.468.019,00	25,97	1,52	1,38	0,78
Mean first quartile	3,66	127.692,00	20.439.025,51	53,69	4,42	2,23	0,98
Mean last quartile	1,19	3.842,00	574.202,50	5,02	0,41	1,05	0,55

Source: developed by Authors on Thomson Financial Datastream data

Following the paper of Elton and Gruber (1995), were calculated the abnormal returns (Abnormal Returns, or AR), represented by the difference between the returns observed *ex-post* and those foreseen *ex-ante* on the basis of the standard regression indicated above. After calculating the abnormal returns, were estimated the accumulated abnormal returns (Cumulative Abnormal Returns, or CAR), applying the known Fama ratio,[35] on the basis of two different timeframes: the first, for a period of 5 days, from the 3rd day prior to the 2nd day after the announcement, and the second for a duration of 120 days, from the 3rd day prior to the 117th day after the announcement. After calculating the Cumulative Abnormal Returns for the two periods of 5 and 120 days respectively, the standard statistical tests were applied to check the plausibility of the results; the results were then analysed together with the main economic and financial indicators calculated from the financial statements of the companies in the sample analysed. It must be noted that the analysis of the cumulative data for specific periods helps to examine the phenomenon being investigated more accurately, isolating the effects on the share trends registered during various time intervals. More specifically, the observation of the CARs in the period preceding the event enables the assessment of the extent to which the investors have been able to foresee the operation and, if necessary, to ascertain the existence of insider trading. The study of abnormal returns within a limited period of time during which the transaction takes place (the so-called *Announcement to Date Abnormal Returns* or AAR), enables the assessment of not only the dimension of the impact but also the speed of the price adjustment consequent to the new information. This process, in the case of an efficient market, must be extremely fast without allowing for the possibility of gaining extra profit by opportune arbitration. Lastly, the analysis of the CAR in the period following the event has the specific purpose of confirming whether the reaction to the trend persists or not and whether there is a time delay in the adjustment of the prices to the new information available.

5.3. The results of the event study analysis: the reasons for the announcements

The first aspect examined through empirical analysis concerns the reasons for the buyback announcements to the market, in order to ascertain which of the various theoretical lines previously

[35] See Fama *et al*. (1969).

examined offers an explanation which can give a better interpretation of Italian companies. In this regard, the data emerging from the analysis shows that, before the introduction of the capital market reform, the effect of the announcement, measured by the abnormal returns, is not far removed from zero (see figure 1 and table 4). However, taking into consideration the 5-day period within which the buyback announcement is made, a cumulative abnormal return of about 1% is found, while the same parameter is negative if calculated for the 120-day period. In practice it appears, on one hand, that the market reacts immediately - and positively - to the buyback announcement but, on the other hand, that the announcement is associated with a future negative performance - albeit not in the very immediate future - witnessed by a relevant and negative cumulative abnormal return in the long term (-2.331%). Conversely, after the capital market report, there is a deep change in the situation, not in terms of abnormal return consequent to the announcement, which shows substantially the same averages and variability as the pre-reform values, but in terms of cumulative abnormal returns: the companies which announced buyback operations after the reform show a positive cumulative return amounting, on average, to 2.5%, over a time period of 120 days, thus also supporting hypothesis 3. To be precise, it may be noted that after the Draghi Report, buybacks have assumed major significance in the financial policies of listed companies. The number of companies which make use of this possibility has increased and there is a corresponding decrease in the number of announcements per company. For this reason, the phenomenon concerns the larger companies more than in the past, as shown by the table (4) of the total invested capital of the sample companies.

Table 4. Reaction of the Italian stock market to buybacks in the period 2000-2003: abnormal returns (AR) and cumulative abnormal returns (CAR)

Before Draghi reform (Legislative Decree 58/98)										
Year	*# buybacks*	*# companies announcing buybacks*	*Dimension (tot assets)*	*Beta*	*AR*	*Std. Dev.*	*CAR 5 days*	*Std. Dev.*	*CAR 120 days*	*Std. Dev.*
1990	20	13	€ 62.384.321	0,98	-0,077%	1,75%	0,458%	3,11%	4,525%	16,49%
1991	29	21	€ 101.427.381	1,07	-0,496%	2,25%	0,099%	3,68%	-5,661%	23,96%
1992	33	20	€ 92.535.067	1,00	0,561%	2,00%	1,199%	4,80%	-13,671%	22,08%
1993	28	21	€ 261.877.890	0,79	0,086%	2,12%	-0,645%	5,12%	-1,180%	23,12%
1994	22	16	€ 36.962.279	0,61	1,037%	1,18%	2,621%	5,61%	-1,303%	17,34%
1995	38	25	€ 391.912.662	0,71	-0,202%	2,10%	0,032%	5,24%	3,226%	22,40%
1996	39	26	€ 500.445.388	0,70	0,522%	2,77%	3,926%	12,06%	6,210%	20,83%
1997	55	37	€ 537.719.721	0,70	0,366%	2,55%	0,948%	5,32%	3,739%	20,62%
1998	51	37	€ 496.248.409	0,69	-1,249%	2,76%	0,514%	7,11%	-14,081%	23,91%
Sub-total (a)	315	216	€ 2.481.513.120	-	-		-	-	-	-
average	35,0	24,0	€ 275.723.680	0,74	-0,010%	2,40%	1,028%	6,63%	-2,331%	22,77%
After Draghi reform (Legislative Decree 58/98)										
1999	65	40	€ 491.696.071	1,03	0,738%	3,03%	1,171%	6,96%	0,141%	28,71%
2000	65	51	€ 753.615.357	0,79	1,052%	2,66%	1,117%	6,04%	10,591%	25,07%
2001	46	36	€ 419.366.783	0,73	0,799%	6,99%	-1,233%	15,35%	-5,707%	34,73%
2002	53	44	€ 459.441.251	0,89	-0,455%	1,99%	1,294%	5,09%	-4,121%	30,65%
2003	58	45	€ 472.008.770	0,92	-0,164%	3,07%	-1,159%	12,08%	2,396%	31,18%
Sub-total (b)	287	216	€ 2.596.128.232	-	-		-	-	-	-
average	57,4	43,2	€ 519.225.646	0,87	0,416%	3,78%	0,326%	9,55%	2,543%	30,21%
Total (a+b)	**602**	**432**	**€ 5.077.641.352**	-	-		-	-	-	-
average	**43,0**	**30,9**	**€ 362.688.668**	**0,81**	**0,193%**	**3,14%**	**0,693%**	**8,16%**	**-0,629%**	**26,62%**

Source: developed by Authors

Going on to analyse the main business fundamentals of the companies that have announced buybacks before and after the reform, and taking as reference in particular the figure of the trend of the Dividend Yield quotient, which registers a negative trend for both the ROE and the Price to Book Value ratio (B/BV), the undervaluation hypothesis (hypothesis 4) seems to be confirmed. For companies whose securities are undervalued, and whose market prices therefore do not include the respective intrinsic value, a buyback creates value for the shareholders, maintaining the company's buyback strategy unaltered (see table 5).[36] However, the liquidity is distributed to the shareholders in the form of dividends only if there is no undervaluation by the market.

[36] It must be noted that the data in table 5 – and in table 4 - represent average annual values, calculated with reference to the sample companies which have announced buyback operations during a specific year. This generates an undoubted lack of uniformity which must induce caution when comparing the data for the different periods, since the companies announcing buybacks are not the same from one year to another. However, this framework is important for reasoning at an aggregate level and for examining the systematic impact of the Draghi Reform on the financial

Table 5. Market yield and accounting ratios of companies listed on the Italian stock market which announced buybacks in the period 1990-2003

Before Draghi reform (Legislative Decree 58/98)										
Year Anno	# buybacks	# companies announcing buybacks	CAR 120 (120 days)	Std. Dev.	Dividend Yield	Std. Dev.	ROE	Std. Dev.	P/BV	Std. Dev.
1990	20	13	4,525%	16,49%	5,51%	9,04%	1,84%	11,94%	2,06	1,06%
1991	29	21	-5,661%	23,96%	4,31%	4,18%	3,31%	6,14%	1,19	0,51%
1992	33	20	-13,671%	22,08%	4,71%	2,02%	1,76%	2,50%	0,73	0,38%
1993	28	21	-1,180%	23,12%	3,99%	2,80%	-0,85%	8,08%	0,97	0,49%
1994	22	16	-1,303%	17,34%	1,35%	1,18%	-3,10%	16,53%	1,17	0,45%
1995	38	25	3,226%	22,40%	1,92%	2,09%	2,18%	5,05%	1,38	1,13%
1996	39	26	6,210%	20,83%	4,03%	8,24%	3,58%	6,07%	1,89	2,24%
1997	55	37	3,739%	20,62%	3,94%	6,96%	0,03%	10,65%	1,78	2,41%
1998	51	37	-14,081%	23,91%	2,09%	1,07%	2,45%	9,60%	3,62	4,80%
Average (a)	35,0	24,0	-2,331%	22,77%	3,45%	5,17%	1,48%	8,88%	1,80	2,56%
After Draghi reform (Legislative Decree 58/98)										
1999	65	40	0,141%	28,71%	1,99%	1,08%	3,17%	3,06%	2,31	2,65%
2000	65	51	10,591%	25,07%	3,31%	5,27%	6,54%	17,45%	2,67	3,34%
2001	46	36	-5,707%	34,73%	2,32%	2,34%	2,76%	15,82%	2,31	2,18%
2002	53	44	-4,121%	30,65%	2,75%	2,13%	-0,42%	14,85%	1,39	0,85%
2003	58	45	2,396%	31,18%	3,88%	6,18%	2,08%	6,73%	1,51	0,87%
Average (b)	57,4	43,2	2,543%	30,21%	2,85%	4,00%	2,96%	12,79%	2,06	2,32%
Total average (a + b)	**43,0**	**30,9**	**-0,629%**	**26,62%**	**3,16%**	**4,65%**	**2,18%**	**10,91%**	**1,93**	**2,45%**

Source: developed by Authors

Table 5 also shows that buybacks are increasingly used as a remuneration strategy alternative to the dividend method. During the period 1999-2003, the sample companies, on one hand, have had better average performance levels (the mean ROE has more or less doubled compared to the period 1990-1998 and the P/BV quotient has increased by almost 15%) while, on the other hand, they have distributed value mainly due to the effect of the share price trend consequent to the buyback announcements, rather than by the distribution of dividends, as shown by the reduction of over 17% in the Dividend Yield quotient.

6. Conclusions and developments for future research

In this work we tried to investigate the determinants of stock repurchases' announcements declared by Italian companies listed on the equity capital market, in order to empirically test the validity of the hypothesis proposed by academic literature to explain such a phenomenon.

To enter into details, the main purpose of the article was to investigate which theories can best explain the sharp increase in buybacks announced by companies listed on the Italian stock exchange over the last decade. One major reason explaining the originality of our contributions lies behind the specificity of the Italian context, owed to the existence of a significant "legislative discontinuity" taking place in 1998 thanks to the introduction of the reform of the financial markets which, among other provisions, taxed dividends and capital gains in the same way, and which also introduced new and more severe criteria concerning corporate governance and transparency – also in the case of buyback operations – in the obligatory financial reporting produced by the companies. For these reasons, an original dataset was created, allowing to carry on an empirical analysis, aimed at checking the main theories for the explanation of buyback decisions. The results obtained clearly indicated, firstly, a significant evidence in favor of the undervaluation hypothesis which, we would recall, interprets the buyback decision as an indication of stock undervaluation. Secondly, evidence also emerged in support of the replacement hypothesis, which interprets buybacks as a strategy for remunerating shareholders as an alternative to the distribution of dividends, with the advantage of maintaining the company's standard dividend policy unaltered. This is also shown by the fact that, in situations of positive average performance – and increased one compared to that emerging in the pre-Draghi reform – the dividend distribution rate decreased considerably after the introduction of the reform. Lastly, it seems clear that after the innovation in execution procedures introduced by the Consolidated Finance Act, the share repurchase has become an effective decision-making lever for the management of Italian companies, with the capacity, regardless of the specific underlying reasons, to achieve significant effects on the trends of the price of listed shares. This is shown by the fact that the volume and frequency of the buyback operations has increased considerably since 1999, as has the number of companies which have used this instrument. Unfortunately,

policy choices of companies listed on the Italian stock market.

because of the structure of the financial report of companies on the Italian market, it is not possible to include in the dataset information on the effective buybacks subsequent to the announcements. Similarly, it was not possible to cross-check this data with share performance in the long term, in order to further support the results emerged from this empirical analysis.

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