News story: Government to research whether companies buy back their own shares to inflate executive pay

- New research to address concerns companies may be repurchasing shares to artificially inflate executive pay
- Study forms part of the Government's corporate governance reforms and wider Industrial Strategy
- Announcement helps maintain the public's trust in big business and corporate standards

New research into whether some companies are repurchasing their own shares to artificially inflate executive pay has been announced today by the Government.

A share buyback is where a company buys back its own shares from the market, often to reduce the number of available shares in order to increase their value. While there are a number of valid reasons why a company would use these schemes, there are concerns that a minority of companies are using them to inflate executive pay and that they can crowd out investment.

This new research will help to understand how companies use share buybacks and whether any further action is needed to prevent them from being misused.

This review is part of the broader package of corporate governance reforms announced in August 2017 to address concerns that executive pay can sometimes be disconnected from company performance.

The Government has appointed consultants PwC to undertake the research into share buybacks and will be supported by Professor Alex Edmans, a leading academic at the London Business School. The findings will be published later this year.

Business Secretary Greg Clark said:

> The UK is rightly recognised as having a world-leading business environment and responsible business practices – a key part of our Industrial Strategy.
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> But there are concerns that some companies may be trying to artificially inflate executive pay by buying back their own shares.
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> This review will examine how share buyback schemes are used and whether any action is required to prevent them from being abused.

As the part of last year's corporate governance reforms, the Government announced it would:

- support the Investment Association’s world-first public register of FTSE-listed companies where more than one fifth of shareholders have opposed resolutions on executive pay packages and other issues;
- introduce new legislation this year requiring companies to annually report and explain the pay ratio between chief executives and their UK employees;
- ask the Financial Reporting Council to find new ways for companies to engage with their employees as part of the revised UK corporate governance code;
- appoint a Chair of a group to draw up the first-ever corporate governance principles for large private companies – the Chair will be announced shortly.