

Bringing Back Open-Market Buybacks Through Stock Exchanges Is the Right Decision

SEBI's recent decision to restore the open-market buyback mechanism through stock exchanges is a welcome and pragmatic step. The move reflects regulatory responsiveness, recognises changing market realities.

The debate around share buybacks has always been intense in India. While critics often view buybacks with suspicion, they remain one of the most widely accepted and effective mechanisms of capital management across global markets. At the core, buybacks are a simple concept: when a company generates surplus capital beyond its operational and growth requirements, it can return that capital to its rightful owners—the shareholders. Buybacks are merely one of the several ways through which this can be achieved.

The recent changes in taxation had already altered the economics of buybacks, particularly for promoters. The tax framework has significantly reduced the attractiveness of buybacks as a tool for promoter-level tax planning, which was one of the key concerns often cited. With those concerns substantially addressed through tax policy, there was little justification for continuing restrictions on a legitimate methodology.

Recognizing this reality, SEBI acted swiftly and constructively by bringing back the open-market buyback route through stock exchanges. The speed with which the regulator responded deserves appreciation. In a rapidly evolving market environment, regulatory agility is essential. Markets function best when regulations adapt to changing circumstances rather than remain anchored to concerns that may no longer be relevant.

Globally, buybacks are regarded as a normal and efficient capital management tool. Companies routinely use them to optimize capital structures, improve capital efficiency, and enhance shareholder value. India's capital markets have also matured significantly over the past two decades. The country now has a large universe of well-governed listed companies with strong balance sheets and substantial cash reserves. These companies require a range of capital allocation options, including the flexibility to return excess capital when appropriate.

The regulatory framework governing buybacks is already comprehensive. The Companies Act provides the overarching legal framework, while SEBI prescribes detailed regulations for listed entities. The combination of board oversight, shareholder approvals, disclosure requirements, and market surveillance creates multiple layers of accountability.

Given these safeguards, it may be time to reconsider whether some of the existing restrictions on buybacks remain necessary.

Corporate boards are entrusted with making critical decisions on capital allocation. They determine investment plans, acquisitions, dividend policies, and capital raising exercises. When a company decides to raise capital from the market, boards are generally afforded considerable flexibility regarding the size, timing, and structure of the fundraising exercise. The rationale is straightforward: boards are best placed to assess the capital needs of their businesses.

The same principle should apply when companies seek to return capital to shareholders.

Our Views

Bringing Back Open-Market Buybacks Through Stock Exchanges Is the Right Decision

Today, buybacks are subject to restrictions relating to the quantum of repurchases, limits linked to net worth, and mandatory gaps between successive buyback programs. While some safeguards are reasonable, particularly the restriction that buybacks should not be funded through borrowing, several other limitations appear increasingly artificial.

A company with a strong balance sheet, robust governance standards, and informed shareholders should have greater flexibility in determining how much capital it wishes to return and when. If shareholders trust management and the board to raise capital when needed, they should equally be able to trust them when management believes excess capital should be returned.

Excessive regulatory prescriptions can sometimes create inefficiencies. Capital trapped on corporate balance sheets may not always be deployed productively. Allowing companies greater freedom to distribute surplus capital can improve overall capital allocation across the economy. Shareholders who receive those funds can choose to reinvest them in other businesses, sectors, or opportunities where capital may be more effectively utilized.

This is not an argument for deregulation without safeguards. Transparency, disclosure, governance standards, and protections against market abuse must remain robust. However, regulations should focus on preventing misconduct rather than restricting legitimate business decisions. The objective should be to create a framework that empowers boards and shareholders while ensuring accountability.

As India aspires to become one of the world's leading financial markets, regulators must continue to trust market institutions, corporate boards, and shareholders with greater responsibility. Mature markets are characterized not by excessive restrictions but by strong governance, transparency, and informed decision-making.

The return of open-market buybacks through stock exchanges is therefore not merely a technical regulatory change. It is an affirmation of a broader principle—that capital allocation decisions should, to the greatest extent possible, rest with those who own and manage the capital. For that reason, SEBI's decision is both timely and welcome.

Sunil Sanghai
Founder & CEO
NovaaOne Capital Pvt. Ltd.