



# CMA Publishes Draft Guidelines on Share Repurchase

The Capital Markets Authority (CMA) has published draft guidelines that will enable listed firms to buy back their shares from next year. The CMA is now inviting stakeholders and the general public to submit comments on the draft guidelines by July 31, 2020.

The Companies Act, 2015 (the Companies Act) brought in a substantive change to company law in Kenya by providing for share buybacks by companies in Kenya. The Companies Act initially permitted such repurchase of shares by both private and public companies. However, concerns were raised by the Nairobi Securities Exchange (NSE) and the Capital Markets Authority (CMA) and share buybacks for listed companies were put on hold.

Share buybacks are a useful mechanism to return surplus cash to shareholders and listed globally companies often use this mechanism where they believe that their shares are undervalued. By reducing the number of shares in the market, and hence the supply of traded shares, listed companies are able to boost their share price and therefore provide long term shareholder value. Shareholders who retain their shares in a buyback effectively take a long term view in the hope of benefitting from a higher share price in the future. The repurchase of shares in listed companies is common in the UK and the USA; however, they have also been mired in controversy with buyback being claimed to artificially lift the value of the shares without any underlying value creation and hence no increase in actual value and potentially masking underlying financial problems of the company. In addition, the buyback route means that less capital is retained in the company for the development and expansion of the business. Share buybacks by listed companies can, therefore, open the door to potential abuse and caution should be exercised before this route is explored.

The share buyback draft guidelines are available [here](#). Comments should be addressed to the Chief Executive Officer of the CMA. To find out more or should you have any queries on share buybacks, please do not hesitate to contact Rosa Nduati-Mutero, Dominic Rebelo or Charlotte Patrick-Patel.