



**University of
Zurich^{UZH}**

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MOTIVES BEHIND SHARE REPURCHASES -
AN ANALYSIS OF FINANCIAL INSTITUTIONS
IN GERMANY AND SWITZERLAND

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Executive Summary

Introduction

Three decades ago, share repurchases were almost inexistent in Germany and Switzerland and were found almost exclusively in the United States of America (US) (Vermaelen, 2005). Most of the existing literature regarding share repurchases focuses on the US market. However, since the late 1990s, share repurchases gained an increasing popularity in Europe as changes in regulations have liberalized the use of these (Eije & Megginson, 2008; Manconi, Peyer, & Vermaelen, 2019). On the one hand, the application of share repurchases as a payout option has attracted significant attention over the last few decades, while dividend distributions, on the other hand, have lost popularity (Grullon & Ikenberry, 2000; Grullon & Michaely, 2002; Pradhan & Kasilingam, 2018). The literature offers various explanations for this preference, indicating that the most common motives include market undervaluation signaling (Adams, Brau, & Holmes, 2007; Firth, Leung, & Rui, 2010; Grullon & Ikenberry, 2000; Niu, 2015; Ota, Kawase, & Lau, 2019; Pradhan & Kasilingam, 2018; Vermaelen, 1981; Wang & DeGennaro, 2019; Yook, 2010), capital structure adjustments (Baker & Wurgler, 2002; Grullon & Ikenberry, 2000; Hirtle, 2004; Howe & Jain, 2006; Niu, 2015), dividend substitution (Firth et al., 2010; Grullon & Ikenberry, 2000; Haw, Ho, Hu, & Zhang, 2011; Jagannathan, Stephens, & Weisbach, 2000; Wesson, Smit, Kidd, & Hamman, 2018) and market deflation (Louis & White, 2007).

The motives behind share repurchase programs by banks may differ from other industries due to the strict regulatory framework that governs the banking sector (Niu, 2015). Banks are regulated by the central bank to maintain an adequate capital ratio. Banking institutions can fulfil these requirements either by issuing new shares or by repurchasing their own shares. Banks often prefer share repurchases over dividends to maintain an adequate capital ratio and to attain the optimal capital structure (Howe & Jain, 2006).

In this context, this study aims at identifying the motives of share repurchases for financial institutions. The financial institutions in question are banks and insurance companies that are registered in the Frankfurt Stock Exchange and the SIX Swiss Exchange. Therefore, this study investigates the role that the above-mentioned four major motives played in financial institutions' decision to repurchase their shares.