



Proposed Recommendations Document:

1.32 Recording of share buybacks

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals: Recommendations to Resolve Minor Action Points (B.2) GN F.2 Asymmetric treatment of retained earnings Draft 2025 SNA and Draft BPM7 ¹	
Global Consultation(s):	BP Consultations: June 2021 SNA Consultations: November 2021
Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):	AEG: March 2023 BOPCOM: June 2021
Discussions at GFSAC Meeting(s):	To be determined
Summary of Proposed Recommendations: <p>The proposed recommendation is to update the <i>GFSM 2014</i> by clarifying that share buybacks are treated as purely financial transactions, aligning with the <i>draft 2025 SNA</i> and <i>BPM7</i>. Despite discussions on alternative approaches, such as imputing dividends and reinvestments, the decision, as per SNA Action Point B.2 and the March 2023 AEG meeting, was to not implement this recording. Instead, the <i>draft 2025 SNA</i> explicitly states that share buybacks are treated as financial transactions and not as distribution of dividends.</p>	

Background and Issues

1. Share buybacks occur when companies repurchase their own shares on the market and may serve several purposes. For instance, share buybacks can be used to return capital to shareholders, acting as a substitute for, or addition to, regular dividend payments or distribution of profits accumulated in the past. Annex 1 of the Guidance Note (GN) F.2 on *Asymmetric Treatment of Reinvested Earnings* questioned the appropriateness of the current recording of share buybacks. This question becomes even

¹ Links are to the “white cover” versions of the *2025 SNA* and *BPM7*. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

more relevant given the increasing tendency to not distribute profits in the form of dividends, but to have share buyback programs instead.

2. Although the *GFSM 2014* and *2008 SNA* do not provide explicit guidance on these buyback programs, one may assume that share buybacks are currently recorded as purely financial transactions: the disposal of shares by the holders of the relevant equity, with a counterparty transaction essentially liquidating share liabilities in the books of the relevant company.

3. An alternative recording was discussed in Annex 1 of GN F.2, which proposed imputing a distribution of dividends with a transaction in equity as its counterpart, similar to the recording of reinvested earnings for foreign direct investment enterprises. This imputation would be made in addition to the financial transaction involving the company and the shareholder selling the shares, described above. The GN noted that such an alternative recording of share buybacks may provide incentives for manipulating primary income, by allowing, for example, governments to generate revenue at will by merely reselling shares (purchased in advance on the market) to the company during its buyback program at a moment that is convenient. Although Annex 1 of GN F.2 proposes a solution to these problems, its theoretical and practical implications (requiring inter alia that the imputed dividends related to share buybacks are “super dividend” tested) required further investigation.

4. The *Recommendations to Resolve Minor Action Points (B.2)* discussed the issue further and recommended not to change the current recording of share buybacks (i.e., a purely financial transaction, without the imputation of a distribution of dividends in combination with a reinvestment of these dividends). The draft *2025 SNA* (para. 8.135) included explicit guidance that share buybacks should not be treated as distribution of dividends, but as financial transactions.

Proposed Recommendations

5. To clarify the treatment of share buybacks (at market prices) as financial transactions, without recording an imputed distribution of dividends.

Rationale for Proposed Recommendations

6. The proposed recommendations aim to harmonize the updated *GFSM* with the *2025 SNA* and *BPM7*, a key objective of the *GFSM 2014* update process. Given that the *SNA* recommendation does not change the current recording of share buybacks (i.e., a purely financial transaction, without the imputation of a distribution of dividends in combination with a reinvestment of these dividends), it will therefore have no implication on the implied recording of share buybacks in the *GFSM* conceptual framework—however the additional text will make the guidance on the topic more explicit.

Proposed Text for GFSM Update

7. The updated *GFSM* should include text based on the draft *2025 SNA* (paras. 8.135 and 8.125) which are reproduced below.

8.135 Share buybacks are not treated as the distribution of dividends. They are recorded as financial transactions, in these cases the purchases of own shares by the relevant corporations. For the treatment of dividends under reverse transactions, see paragraph 8.125.

8.125 In the case the legal ownership of securities changes under a reverse transaction, the economic owner of securities continues recording the accrual of interest and dividends on the securities, including

when the security is further on-sold to a third party. If the reverse transaction covers the period when interest and dividends are payable, and during that period the taker has on-sold the asset, then the security taker (borrower) is typically obliged to compensate the security provider (lender). In such cases, it is recommended to record positive credit in interest, or dividends, for the security lender, and negative credit in interest, or dividends, for the security borrower,