

**OPINION**

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# Treasury Stock Disclosure System for Listed Companies in Korea and Relevant Improvements

The role of treasury shares is becoming increasingly important for shareholder returns in the Korean stock market. The number of companies engaging in the repurchase and cancellation of treasury shares has been steadily rising, and investors' interest in stable returns is also growing as the population ages. In addition, government policy support, such as the Corporate Value-Up Program, is encouraging companies to establish value enhancement and shareholder return plans and to voluntarily disclose these plans to the market.

Disclosure serves as a critical tool for reducing information asymmetries between companies and investors and transparently conveying a company's key policies and plans. In this respect, the current disclosure system regarding treasury shares has limitations in accurately communicating the policy and status of treasury shares, which requires improvement. First, since a share repurchase trust contract can be extended for a prolonged period, it is necessary to regularly disclose treasury stock changes until the contract is terminated, and to specify the reasons for the extension and the repurchase rate. Second, comprehensive information should be provided to enable investors to understand the status of disposal and net purchases, as well as the repurchase and cancellation of treasury shares. Third, as voluntary disclosures by companies are increasingly required and emphasized, it is advisable for companies to explain in detail the appropriate size of treasury shares and the relevant rationale, the reasons for choosing between direct and indirect repurchases, and the cancellation plan and its expected effects. These improvements will be essential for companies not only to fulfill their disclosure obligation but also to effectively communicate corporate value and enhance relationships with shareholders.

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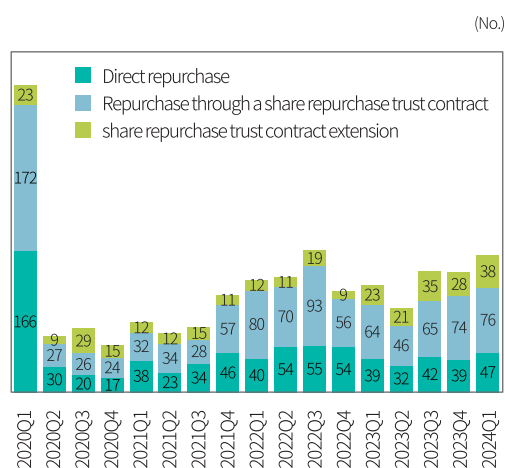
\* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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### Treasury stock trends and importance of disclosure

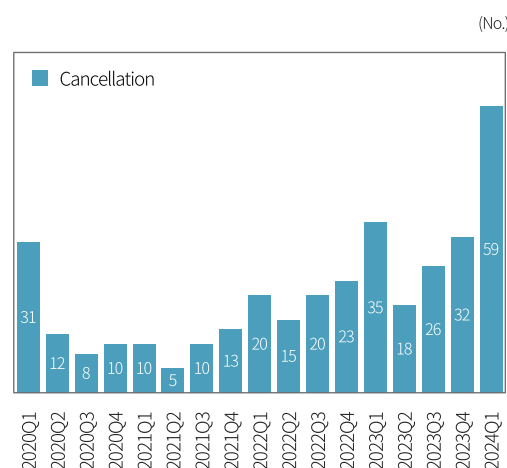
Recently, the use of treasury shares for shareholder returns has become increasingly important in the Korean stock market. Particularly, this trend has become more prominent since the outbreak of Covid-19 in 2020. The number of companies directly or indirectly buying back treasury shares has been gradually rising, reaching 161 in the first quarter of 2024. Moreover, during the same period, 59 companies disclosed the cancellation of treasury shares, more than 3.7 times the quarterly average of 16 companies over the past four years.

**Figure 1. Treasury stock repurchase by listed companies**



Source: DART

**Figure 2. Treasury stock cancellation by listed companies**



Source: DART

The utilization of treasury shares by companies is recognized as a crucial strategic tool to optimize corporate financial structures and provide additional value to shareholders. It is also evaluated as an effective strategy for signaling a company’s endeavors to enhance its value for investors. In the Korean regulatory environment where repurchased shares can be disposed of, the increase in the number of companies opting to repurchase and cancel such shares instead of disposing of them indicates a strong commitment to shareholder return policies and the intention to boost shareholder value over the long term.

From an investor’s perspective, a company’s treasury stock policy and relevant changes hold significant importance. When a company buys back treasury shares, it reduces the number of outstanding shares in the market, which can contribute to stabilizing the stock price in the event of a stock market crash. Moreover, a reduction in the supply of shares can increase

earnings per share (EPS) and dividends per share, thereby bolstering shareholder value. This becomes even more important as more investors seek stable returns as they age.

Additionally, governmental policy support has led to growing interest of companies in the use of treasury shares and shareholder returns. In response to government policies such as the Corporate Value-Up Program, companies need to establish plans for value enhancement and shareholder returns and actively disclose them to the market. This approach will strengthen trust and communication between companies and investors, and play a pivotal role in improving the Korean investment environment.

A company's utilization of treasury shares and shareholder return policy serve as crucial information for both companies and investors, and their importance is expected to grow in the future. Disclosure is a vital means of transparently communicating a company's key policies and plans to investors. In this regard, it is essential to examine whether the status of treasury shares is properly disclosed.

### **Status of the disclosure system for treasury stock**

Treasury stock repurchase can be categorized into direct repurchases and indirect repurchases through a share repurchase trust contract. The direct repurchase refers to a company's acquisition of treasury shares directly through an exchange, while the repurchase through a share repurchase trust contract involves a trustee buying or disposing of treasury shares according to a specific monetary share repurchase trust contract. Since treasury shares can be disposed of, disclosures regarding treasury stock changes can be broadly classified into the direct repurchase, indirect repurchase, direct disposal, and cancellation.

It is mandatory to disclose resolutions or transactions related to the repurchase or disposal of treasury shares. When a resolution for direct repurchases or disposal is made, the relevant matters must be disclosed within one day. Similarly, if a resolution to sign a share repurchase trust contract is passed, disclosure must also be conducted within one day. If treasury stock repurchases or disposal are completed or the period expires, the "report on the result of treasury stock repurchase" or "report on the result of treasury share disposal" must be submitted. In the event where a company decides to terminate a share repurchase trust contract, it must disclose the "decision to terminate the share repurchase trust contract for

repurchasing treasury stock” and submit the “report on the result of share repurchase trust contract termination”. These reports include information such as the daily or monthly volumes of treasury shares repurchased or disposed of and the size of treasury stock holdings.

The period for direct repurchases and disposal of treasury shares is predetermined and the result report is published immediately after the end of the period. Therefore, changes in treasury shares are disclosed within a relatively short timeframe. However, unlike direct repurchases, a treasury stock repurchase through a trust contract can be extended without specific regulations on the extension period. The status of repurchases and disposal through a share repurchase trust contract is disclosed once in three months after the initial signing of the trust contract, and further updates are not provided until the trust contract is terminated. Consequently, if the share repurchase trust contract period is prolonged due to repeated extensions, it becomes difficult to track changes in treasury shares.

**Table 1. Type and content of disclosure for treasury share repurchase, disposal, and cancellation**

Classification	Procedures	Disclosure type	Type of statement	Content
Direct repurchase	Resolution	Reporting key matters	Decision to repurchase treasury shares	No. of shares to be repurchased, repurchase amount, expected repurchase period, expected holding period, repurchase purpose, repurchase method, status of holdings before repurchases, repurchase amount limit, board resolution, etc.
	Reporting results	Other disclosures	Report on the result of treasury stock repurchase	repurchase decision date, No./price/amount of shares repurchased per day, whether the repurchase plan matches the repurchase status and the rationale for repurchases, post-repurchase share holdings, changes in shares held by the largest shareholder before and after the repurchase, etc.
Direct disposal	Resolution	Reporting key matters	Decision to dispose of treasury shares	No. of shares to be disposed of, disposal amount, expected disposal period, disposal purpose, disposal method, status of holdings before disposal, board resolution, etc.
	Reporting results	Other disclosures	Report on the result of treasury stock disposal	disposal decision date, No./price/amount of shares disposed of per day, whether the disposal plan matches the disposal status and the rationale for disposal, post-disposal share holdings, etc.

Classification	Procedures	Disclosure type	Type of statement	Content
Repurchase through a share repurchase trust contract	Resolution for contract signing	Reporting key matters	Decision to enter into a share repurchase trust contract	contract amount, duration, purpose, contracting institution, expected date for share repurchase trust contract signing, holdings prior to share repurchase trust contract signing, repurchase amount limit
	Extension	Reporting key matters	[Extension Decision] Decision to enter into a share repurchase trust contract	date of first filing, amendments, repurchase amount limit, holdings prior to share repurchase trust contract signing, etc.
	Interim reporting	Other disclosures	Report on shares repurchased through a share repurchase trust contract	date of share repurchase trust contract signing, daily and monthly No./price/amount of shares repurchased and disposed of, post-repurchase share holdings, changes in shares held by the largest shareholder before and after the repurchase, etc.
	Resolution for termination	Reporting key matters	Decision to terminate a share repurchase trust contract	contract termination amount, contract period, purpose, method of returning trust property, holdings before termination, board resolution, etc.
	Reporting results	Other disclosures	Report on the result of share repurchase trust contract termination <sup>*)</sup>	termination date, termination amount, status of repurchases/disposal through a share repurchase trust contract, post-termination holdings, etc.
Cancellation	Resolution	Exchange disclosures	Decision to cancel shares	No. of shares cancelled, total No. of shares outstanding, amount of shares to be cancelled, repurchase method of shares to be cancelled, date of cancellation, board resolution, etc.
Repurchase/ Disposal	Status of holdings	Periodic reporting	Business report/ semi-annual report	status of repurchases and disposal, current holdings compared to the previous quarter, etc.
Repurchase/ Disposal	-	Exchange disclosures	Prior disclosure of next-day orders	categorization by report, filing, and execution history, date, name of stock, period (for filing), quantity, quantity/amount, quantity of transactions executed on the day and execution rates (transaction details)

Note: \*) To be submitted within 5 days after 3 months pass following execution

Source: Related regulations

However, in the case of on-exchange trading, some information can be obtained from exchange disclosures. Given that treasury share repurchases and disposal often occur in large volumes, they can potentially distort market prices. To minimize such distortions, the orders scheduled for execution on the next trading day are disclosed in advance to enable investors to anticipate future stock price movements. Following the execution of the transaction, details such as order volumes and execution rates are made available.

These exchange disclosures are provided separately for the direct repurchase, indirect repurchase through a share repurchase trust contract, direct disposal, and indirect disposal through a share repurchase trust contract. Direct repurchases and disposal, which are not subject to multiple resolutions, can be easily tracked through exchanges disclosures. However, since share repurchase trust contracts can involve several trustees and extensions, there may be multiple trust contracts at any given time. Each trust contract may have a distinct purpose for treasury stock repurchases, making it challenging to differentiate between them. Hence, it is difficult to identify how many treasury shares have been repurchased and disposed of under a specific share repurchase trust contract.

### **How to improve treasury stock disclosure**

The disclosure system for treasury stock repurchases and disposal provides important information to investors and the market, playing a key role in enhancing corporate financial soundness and shareholder value. However, the current regulatory framework presents challenges for investors in accurately understanding the overall treasury stock policy and status. To foster transparent and effective disclosures, this article suggests the following measures.

First, while relevant information is promptly provided through direct repurchase or disposal disclosures, investors may encounter difficulties in obtaining sufficient details solely from disclosures regarding treasury share transactions executed through share repurchase trust contracts. Currently, the status of repurchases or disposal under share repurchase trust contracts is only unveiled for the first three months after such contracts are entered into, with no subsequent disclosures made until the termination. Consequently, a long-term share repurchase trust contract may impede the tracking of treasury stock changes. Therefore, there is a need to mandate regular disclosures of treasury stock changes even after the initial three-month period.

In addition, in the case of share repurchase trust contract extensions, it is necessary to disclose the reasons for the extension, the status of treasury stock holdings, and the repurchase rate.

Second, it is essential to furnish information that allows for a comprehensive understanding of treasury stock changes. A company's repurchase or cancellation of treasury shares is relatively well-publicized in the market as a positive development in terms of shareholder returns, while the disposal of treasury shares is relatively less known to the public. Therefore, the disposal status may be easily overlooked unless investors closely monitor disposal activities. It is notable that treasury shares are disposed of not only on exchanges but also over-the-counter. If the scope is narrowed down to on-exchange transactions that directly affect the number of shares outstanding, numerous cases arise where repurchases and disposal occur simultaneously in a given year. As illustrated in Table 2, a total of 234 stocks underwent on-exchange disposal of treasury shares between 2020 and 2023. Among them, 62 stocks experienced both repurchases and disposal in the same year. As for more than half of these cases, or 36 stocks, the disposal volume exceeded the repurchase volume. Looking at the entire IPO market, there was net disposal of treasury shares in 2020 and 2021, resulting in an increase in the number of shares outstanding.<sup>1)</sup> This necessitates regular disclosures of comprehensive information on the repurchase and disposal plans and status at each point of time, thereby informing investors of both repurchases and disposal of treasury shares. This information should also include the status of treasury stock cancellation, given its permanent impact on the number of shares outstanding.

**Table 2. Size of on-exchange disposal of treasury shares**

Type	Classification	2020	2021	2022	2023
Disposal	No. of stocks	77	79	38	40
	No. of shares	47,813,795	43,330,071	27,861,909	19,854,985
Repurchase · Disposal	No. of stocks	28	14	12	8
	No. of net disposal stocks	15	11	7	3
	No. of net disposal shares	5,475,891	5,562,313	-46,942,572	-4,889,490

1) The actual net disposal size is expected to be larger because the Commercial Act permits the issuance of treasury shares in consideration of mergers, mergers after division, and share exchanges, in addition to on-exchange disposal.

Third, voluntary disclosures by companies have become more crucial due to the implementation of Corporate Value-Up Programs and growing demand from investors. This trend indicates that investors seek specific information and need transparent criteria for their investment decisions. To meet this demand, companies should clarify the rationale and strategies behind their treasury stock-related activities to facilitate investors' understanding and build trust. It is also necessary to explain underlying factors behind the repurchase and disposal decisions, including the appropriate size and rationale for dividends and treasury stock repurchases. Given that a majority of treasury stock disclosures state the purpose of stabilizing stock price and increasing shareholder returns, it is crucial to establish measures for predicting the effects of such repurchases and conducting follow-up monitoring. This would ensure that the stated purpose of treasury share repurchases aligns with the actual substance, thereby providing investors with meaningful information. On top of that, the reason for choosing between the direct repurchase and the repurchase through a share repurchase trust contract should be disclosed in a transparent manner. It is also essential to explain treasury share cancellation plans and the rationale behind cancellation decisions, the financial effects of cancellation, and the impact on shareholder value.

These disclosure improvements will serve as a crucial tool for companies not only to fulfill their disclosure obligation but also to communicate corporate value and enhance the relationship with shareholders. If companies could present not only the expected economic effects from each stage of treasury stock-related activities but also how such a decision benefits shareholders, they will build trust with investors and enable investors to make more informed decisions.