BUSINESS PANEL

OUR EXPERTS SHARE THE KNOWLEDGE...

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Shareholders usually win from buybacks

SHARE buybacks; what are they and how do they benefit investors?
Fallon Ephgrave, trader and market maker at Ravenscroft, replies:

ON 24 APRIL, Apple Inc. released an update detailing its Q2 earnings while also announcing a $100bn capital return programme or 'share buyback'. This subsequently prompted a 4% jump in the share price during after-hours trading.

Share buybacks are a widely acknowledged method used by companies to return value to shareholders, but how do they work and what benefit do they have?

A share buyback programme is a strategy used by a company when the board thinks that its shares are undervalued and it has excess cash available. This is typically a sign of management confidence in the shares.

The shares are purchased directly from the market, although on occasion there is an option for shareholders to tender shares back to the company at a fixed price by way of a corporate action.

This is likely not to carry the same dealing charges as a sale in the market for the shareholder.

Once shares have been bought back by the company, the shares are either held in treasury or cancelled and are then no longer in issue.

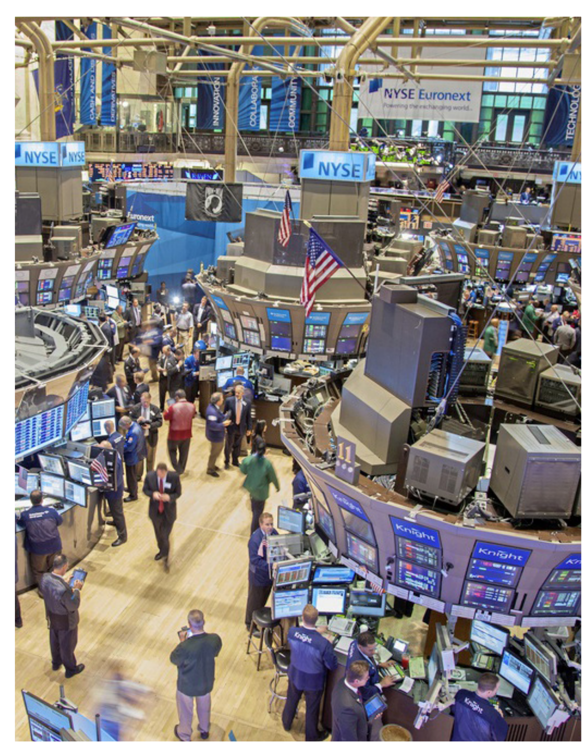
Reducing the number of shares in issue leads to an increase in earnings per share, heightening the market value of the remaining shares. This benefits the shareholder twofold, with an increase in value and increased ownership in the company.

The alternative way a company can return money to shareholders is through payment of dividends. However, the tax consequences of doing so can be less favourable for both the company and the shareholder.

In most regions, the capital gains associated with share buybacks are taxed more favourably than the income attributable to dividend payments.

Buybacks are generally considered an appropriate use of capital, so long as the company can demonstrate it is not overpaying for its shares.

A common criticism of buybacks is that they can be a sign of a company running out of steam. A strong management team will recognise this and strike a balance between retaining enough capital to fund future growth opportunities and returning excess cash to shareholders.



The New York Stock Exchange. The Apple share price jumped by 4% in after-hours trading after it announced a share buyback scheme in April.

Unlawful use of land will be regularised by certificate

LAST WEEK you mentioned that the Development & Planning Authority cannot issue a compliance notice after certain periods. What is the impact of a failure to do so?
Rachel Jones, senior associate at Carey Olsen, replies:

TO RECAP, the Development & Planning Authority cannot issue a compliance notice for a breach of the planning laws after (1) four years of the date of the alleged breach or 10 years in respect of a material change of use, or (2) in either case, four years from the date that the DPA became aware of the breach, whichever is the sooner.

In cases where the DPA cannot issue a compliance notice because the time limit has expired, any unauthorised development may remain or the change of use may continue but for planning purposes, they are still categorised as unlawful.

Whilst helpful for the existing owner, the unlawful development or an unlawful change of use may cause problems when the property is sold and if future development is proposed.

For example, if a building classified for industrial use was instead used for retail, without the required planning permission authorising the change of use, but the retail operation has continued for more than 10 years, the DPA would not now be able to issue a compliance notice.

Consequently, the retail use will be allowed to continue but in planning terms will remain unlawful.

If a future application was submitted in respect of the building, it would be assessed against the policies relevant to the industrial use, not the unlawful retail use.

Currently, the only way to regularise the unauthorised development or change of use is to obtain retrospective planning permission.

This situation is set to change in respect of an unauthorised change of use.

Last June the States resolved to introduce a 'certificate of lawful use' regime, which will allow applications to be made to regularise unlawful changes of use that have been ongoing for more than 10 years.

This will be provided for by a new ordinance which is in the process of being prepared. If a 'certificate of lawful use' is granted, it will go further than the example above by certifying that the existing use of land is lawful for planning purposes, effectively changing the use classification of the land.

Secondary pension awaiting the details

I PROVIDE my 10 local employees with a multi-member retirement annuity trust scheme, to which we contribute on their behalf. I've read that there is a new 'secondary pension' scheme being introduced.
Will I be required to close down the Rats and switch all my employees across?
Sean Gillease, business development manager, Sovereign Trust (Channel Islands) Ltd, replies:

THE introduction of the secondary pension scheme is at proposal stage and it is currently impossible to answer this definitively, with much of the detail yet unknown.

The earliest date for the introduction of the secondary pension is 2020 and, therefore, the details should become clearer within the next 12-18 months.

The States has published information on https://bit.ly/2jL3WVT, including a number of useful FAQs.

One such question refers to anyone with an existing Rat. The States has advised that 'as long as the scheme you already contribute to is recognised by the States of Guernsey as an eligible scheme, then you will not have to contribute to the new scheme as well. The qualification criteria for eligible schemes have not yet been specified'.

Therefore, until the qualification criteria for an 'eligible scheme' is determined it cannot be confirmed whether your existing Rat will meet the criteria and be accepted as an eligible scheme.

According to the States, the primary objective of the proposed secondary pension scheme 'is to encourage people of working age to save more for their retirement so that they won't have to rely solely on the States old age pension and tax-funded welfare benefits later in life'.

As you are making private pension savings on behalf of your employees, it might be fair to say that the proposals are more for those who currently do not have access to any form of private pension.

However, certain adjustments may need to be made to ensure your Rat is eligible, for example, the levels of contribution etc. may need to be adjusted to be consistent with the secondary pension requirements.

We hope that more information will be available in the coming months, which should enable you to review your existing scheme with your financial adviser and make any necessary adjustments.

Secure gateway needed to keep data protected

MY STAFF need remote access to our corporate data. What can I do to ensure that this is secure?
Jason Connolly, director at NGIT, replies:

IN RECENT YEARS many local businesses have attempted to diversify their customer base and business offerings.

Technology is a key enabler in this expansion, allowing businesses to keep control of data and applications locally while providing remote access across the globe. In addition, the use of personal tablets, laptops and smartphones has grown.

However, companies need to understand the risks. Corporate data can be sensitive and in the wrong hands can prove dangerous, resulting in legislative and reputational threats.

Mobile devices are also easily lost or stolen and therefore, full disk encryption, central administration of access and the ability to remotely wipe devices when lost are critical.

Leaders in remote access technology offer corporate solutions that address these issues by providing a secure gateway from the 'open' internet into the secure corporate network.

Businesses protect and maintain control of their data by keeping sensitive data locally and allowing remote staff to access virtual desktop sessions securely.

No data is transmitted to the remote device and security controls, such as two factor authentication, guard the gateway against unauthorised access.