

Share repurchases in the South African mining sector

M. Vermeulen *

Department of Accountancy, Bosman Street, Stellenbosch University,
Private Bag X1, Stellenbosch 7600, South Africa
vrmeulen@sun.ac.za

The purpose of this study was to obtain an overview of the share repurchase activities of companies listed in the mining sector of the JSE, and to determine the extent to which detail information of these share repurchases are available on public data sources such as SENS (Securities Exchange News Service - the office of the JSE that distributes all relevant company information electronically). The study focused on a period of 11 years, from July 1999 until the 2010 financial year-end. The annual reports of a sample of companies were analysed to determine the number of shares, as well as the monetary value of the shares that were repurchased. The SENS announcements were then scrutinised to determine the number of share repurchases recorded in the annual reports that were announced to shareholders. From a total of 55 share repurchase transactions, only 23 transactions were announced on SENS. The repurchase transactions were then further analysed in terms of the method used (general or specific repurchase), the repurchasing entity (company, subsidiary or share trust) and the subsequent sale of treasury shares from the subsidiary to the holding company. It was concluded that the majority of share repurchases are announced. However, if only companies with primary listings on the JSE are considered, 60% of share repurchases are not announced. The use of the general and specific methods are more or less equal for companies with primary listings on the JSE, but for companies with secondary listings on the JSE, 98% of repurchases are general. Of the specific share repurchases of companies with primary listings about 46% are not announced, but of the general share repurchases about 77% are not announced. Since share repurchases made by companies with secondary listings on the JSE were significant in terms of numbers and value, it changed the total statistics substantially from what it would be if only companies with primary listing on the JSE were considered. Even though about 85% of total share repurchases are announced, studies on share repurchases cannot rely on SENS announcements only, since this would exclude a significant portion of the repurchase activities of companies with primary listings on the JSE (60%), and therefore lead to unreliable results.

*To whom all correspondence should be addressed.

Introduction

In terms of the Companies Act 61 of 1973 (RSA, 1973) South African companies were not allowed to repurchase their own shares. This changed on 1 July 1999 with the promulgation of the Companies Amendment Act 37 of 1999 (RSA, 1999), henceforth allowing companies to repurchase their own shares. Companies now have another method, except dividends, to distribute cash to their shareholders. The use of share repurchases in South Africa got off to a slow start after 1999, in part due to uncertainty about the tax treatment of these transactions. However, once these were clarified, the use of share repurchases gained some momentum.

Why use share repurchases?

Excess cash in a company may either be retained for ongoing business operations, new investments, or paid out to shareholders in the form of dividends or share repurchases. Companies usually set a target dividend payout ratio (Baker & Smith, 2006; Baker, Veit & Powell, 2001; Marsh & Merton, 1986; Lintner, 1956), which is not changed unless a higher dividend can be sustained in future. Dividends will therefore usually not be increased when there is excess cash available over the short term, since a possible

dividend decrease in any subsequent year could signal a negative message to the market. Share repurchases are considered a much more flexible method to distribute excess cash to shareholders (Bhargava, 2010; Brav, Graham, Harvey & Michaely, 2005; Jagannathan, Stephens & Weisbach, 2000).

When distributable cash levels changes, it is easier to adjust this via share repurchases than via adjustments in dividend payments. Managers prefer avoiding to have to cut dividends and therefore increases in the dividend payout ratio are only considered after sufficient funds have been set aside for investment and liquidity requirements. The decision to repurchase shares will therefore only be considered once the investment and dividend decisions have been made (Firer, Gilbert & Maytham, 2008; Brav *et al.*, 2005). Share repurchases are financed from temporary cash flows while dividends are paid from sustainable cash flows (Jagannathan *et al.*, 2000). Share repurchases are clearly more susceptible to the current financial situation of a company, and will take place on an *ad hoc* basis.

Companies are more likely to repurchase their own shares at times when it is difficult to find good investments (Brav *et al.*, 2005; Grullon & Michaely, 2004). If cash is returned to shareholders by means of share repurchases, the

management of the company is effectively saying that it could not find a better investment opportunity for the money than that offered by the company itself (Ikenberry, Lakonishok & Vermaelen, 1995).

Where managers believe their companies are undervalued, they may use share repurchases to increase its share prices (Brav *et al.*, 2005; Dittmar, 2000). Share repurchases are also used as a signaling instrument, to convey to the market that managers believe the company is undervalued (Crotty, 2012a). In an efficient market, prices will adjust accordingly and this adjusted price should reflect the correct value of the company (Ikenberry *et al.*, 1995). This market reaction, however, can only be achieved if the market is aware of the repurchase transaction. In South Africa this may prove to be a problem since not all share repurchase transactions are announced to the market.

Depending on the number of shares repurchased, the transaction can have a significant positive effect on financial ratios such as earnings per share (EPS), price-earnings ratio (P/E), return on assets (ROA), and return on equity (ROE). Managers will be totally aware of the influence of a share repurchase transaction on earnings per share (Bens, Nagar, Skinner & Wong, 2003), since this ratio is widely used by investors to value and compare different investment options. The repurchase decision is therefore much more complicated than a mere decision to distribute extra cash flow, and managers should consider the effect it could have on the share price and relevant other financial ratios. It is clear that share repurchases are an important instrument available to managers to effectively manage cash flow and also financial performance of a company.

Research on share repurchases can provide much needed information to guide future repurchase decisions. Extensive research has been done on share repurchases internationally but not so in the South African financial environment. This study therefore aims to increase the body of knowledge available on South African share repurchases, as well as to serve as a basis for future research relating to this subject. Research on share repurchases in South Africa cannot be done without considering the legal framework within which these transactions take place. This determines the method used for repurchasing as well as whether these transactions are announced through SENS or not. The main source of information for this research will be the companies' annual reports and therefore a thorough understanding of the accounting treatment of these transactions is needed. The next section will give an overview of the legal environment, JSE requirements, relevant tax issues and accounting standards relating to share repurchases in South Africa, thereby setting the scene for the discussion of the current research on this topic.

South African legal environment

The Companies Amendment Act 37 of 1999 (RSA, 1999) allowed companies to repurchase their own shares as from 1 July 1999. A new act, the Companies Act 71 of 2008 (RSA,

2008), which simplifies this repurchase process substantially, was introduced recently. However, the period covered in this article (1999-2010), was still governed by the Companies Amendment Act 37 of 1999 and it will therefore be discussed firstly. Thereafter a short discussion of the relevant sections of the new act will follow.

Sections 85 to 90 of the Amendment Act determine the specific requirements for share repurchases, with the main aim of ensuring liquidity and solvency after the share repurchases have been made (Section 85(4)). There are two methods available for South African companies to repurchase shares. The first is a general repurchase, which is similar to an open market share repurchase transaction in the United States of America (USA). This method is by far the most popular in the USA, accounting for about 90% of all share repurchases (Kahle, Dyl & Banyai, 2005). The second method is a specific repurchase and this method may be split between specific offers and *pro rata* offers. With a specific offer the company purchases shares from specific shareholders at a specific agreed upon price, whereas in the case of a *pro rata* offer, shares are bought back from all shareholders *pro rata* to their current shareholding. A *pro rata* offer may include an election option or it may be compulsory.

No share repurchases may be made without the consent of the shareholders. A special resolution (carried with a 75% majority of votes) is required to approve the repurchase of shares under a general or a specific authority (Section 85(1)). The general authority to repurchase shares is valid until the next general meeting (Section 85(3)), whereas the specific authority is only valid for the specific transaction for which it was acquired.

Repurchased shares must be cancelled by the company and it will therefore reduce the issued share capital. Such shares are then restored to authorised share capital (Section 85(8)). Subsidiaries are allowed to purchase shares in their holding companies (Section 89), but these purchases are limited to a maximum of 10% of the number of issued shares. These shares are not cancelled as issued shares by the holding company since they are held by another legal entity in the group of companies.

In terms of the new Companies Act 71 of 2008 (RSA, 2008), which came into effect on 1 May 2011, the repurchase of company shares falls within the definition of a "distribution" in Section 1. The board of directors has the sole authority to decide on such distributions, thus rendering the need for shareholder approval for share repurchases unnecessary. All distributions must comply with Section 46, which requires that the company shall pass the solvency and liquidity test, as set out in Section 4.

Section 48 contains the procedures for a company to reacquire its own shares, and describes the requirements that must be met before any repurchases may be made, as follows:

- The board of directors must approve the repurchase (Section 48(2)(a)).
- The company must pass the solvency and liquidity test.
- After the repurchase, the issued capital may not be held by subsidiaries only and may not consist of only convertible or redeemable shares (Section 48(3)).
- Repurchased shares are cancelled and restored to authorised share capital (Section 35(5)).

Section 48 also allows a subsidiary to acquire shares in its holding company, limited to 10% in total (held by all subsidiaries) of each class of shares. This provision is essentially the same as that which appeared in the 1999 Act.

JSE requirements

The listing requirements of the JSE (JSE, 2010) prescribe additional requirements that must be met before companies are allowed to repurchase their own shares. A few of the more important requirements are listed below. Those pertaining to documents which have to be submitted to the JSE will not be discussed since they have no impact on the outcome of this study.

General repurchases

- A company's articles must allow for general repurchases and also that a special resolution from the shareholders is required (Section 5.72(b,c)).
- The general authority to repurchase shares, granted by shareholders at the annual general meeting, will only be valid until the company's next annual general meeting or for 15 months from the date the authority was granted, whichever period is shorter (Section 5.67(b)).
- A company may not repurchase more than a total of 20% of any class of its issued share capital in any one financial year (Section 5.68).
- The maximum price at which a company may repurchase shares is 10% above the weighted average of the market value of the share for the five business days prior to the repurchase date (Section 5.72(d)).
- As soon as a company has cumulatively repurchased 3% of the original number of shares in issue at the time that the general authority from shareholders was granted, and for each 3% in aggregate of the original number of shares acquired after the first 3%, it must make a SENS announcement regarding the prescribed holdings.

Specific repurchases

The following requirements for making specific repurchases pertain to both specific offers (shareholders specifically identified) and *pro rata* offers (to all shareholders *pro rata* according to their existing shareholding):

- A company's articles must allow such a repurchase and also that a special resolution from the shareholders is required (Section 5.69).

- The specific authority to repurchase shares, granted by shareholders at a general meeting, will only be valid until it is amended or revoked by means of a special resolution (Section 5.67(a)).
- As soon as a company has determined the terms of a repurchase, it should make a SENS announcement accordingly.
- A company must pursue the proposal to repurchase its shares after the announcement has been made, unless permission is granted by the JSE not to do so (Section 5.69(g)).

The requirement to announce repurchases over 3% has generally been interpreted as 3% per year (Crotty, 2012b), with the effect that companies could repurchase just below 3% each year without having to announce the repurchase transaction.

Tax issues

In terms of the Income Tax Act 58 of 1962, a dividend is any amount paid by a company to its shareholders. Secondary tax on companies (STC) is payable by the company on its declared dividend, (RSA, 1962; Stiglingh, Koekemoer, Van Schalkwyk, Wilcocks, De Swardt & Jordaan, 2011) for the period covered by this study. If shares are repurchased by a company in terms of section 85 of the Companies Act 61 of 1973, the amount above the nominal value of the shares is considered to be a dividend. A reduction in the nominal value of shares is not a dividend, unless there are profits capitalised into equity. In this case, the profits will constitute a dividend. If the same amount is therefore to be returned to shareholders as either a dividend or a share repurchase, the STC expense on the dividend will be higher than in the case of a share repurchase.

Taxes are however of secondary importance for management in the decision-making process of whether to increase dividends or to distribute excess cash in the form of share repurchases (Firer *et al.*, 2008).

Accounting standards

The two accounting standards dealing with the disclosure of repurchased shares, are IAS 1 Presentation of financial statements (IASB, 2009a) and IAS 32 Financial instruments: Presentation (IASB, 2009b). There are a few sections in these standards that need some clarification and these are subsequently discussed below.

IAS 1

In terms of paragraph 79(a)(iv) of IAS 1, financial statements must contain a reconciliation of the opening and closing balances of the number of shares for every class of share capital. It is not clear whether this paragraph refers to the number of company shares, group shares or both (Hamman & Wesson, 2011).

IAS 1 paragraph 79(a)(vi) requires the disclosure of shares in the company that are held by the company itself, subsidiaries or associates, i.e. treasury shares. It is not clear whether this paragraph implies that paragraph 79(a)(iv) should be applied to treasury shares also, and therefore whether the movement in the number of treasury shares should be disclosed. It is also not clear if a distinction should be made between shares held by subsidiaries and shares held by share trusts (Hamman & Wesson, 2011).

IAS 32

In terms of paragraph 33 of IAS 32, equity instruments that are reacquired by an entity itself, subsidiaries or any other entity in the group (called treasury shares), must be deducted from equity. The reference to other entities in the group would therefore include share trusts in the South African context. Although share repurchases by share trusts are not specifically addressed in the Companies Act or the JSE listing requirements, these repurchases constitutes a substantial portion of the total repurchase activities in South Africa. Before 2004 it was not clear how share trusts should be treated in a consolidation, since none of the Companies Act, JSE listing requirements or accounting standards made direct mention of share trusts explicitly. The consolidation principles in IAS 27 Consolidated and separate financial statements should however have led to the consolidation of share trusts, even though they were not specifically mentioned (Wainer, 2004). In 2004 the JSE cleared up this uncertainty by issuing a notice requiring all listed companies to consolidate the share trusts over which they had control for financial periods ending on or after 31 March 2004.

IAS 32 paragraph 34 refers back to IAS 1 paragraph 79(a)(vi) and requires the 'amount' of treasury shares to be disclosed in the statement of financial position or in the notes to the financial statements. IAS 1 paragraph 79(a)(vi) does not specify whether the word 'amount' refers to the number of shares, the rand amount of the shares, or both. IAS 32 paragraph 34, however, makes it clear that the rand amount of the shares should be disclosed. This raises the question whether IAS 1 paragraph 79(a)(vi) then only requires disclosure of the rand amount, or does the word 'amount' implies that the number of treasury shares should also be disclosed (Hamman & Wesson, 2011)?

International Financial Reporting Standards (IFRS) are used in South Africa and set by the International Accounting Standards Board (IASB) in the United Kingdom (UK). In the UK, shares repurchased by the company itself do not have to be cancelled, and can be kept as treasury shares to be reissued at a later stage (Cassim, 2003). Subsidiaries and share trusts are not allowed to purchase shares in their holding companies (Bhana, 2006). In South Africa, however, subsidiaries and share trusts are allowed to purchase shares in their holding companies. Also, shares repurchased by the company itself must be cancelled, delisted and restored to authorised capital (RSA, 1999, Section 85(8)). Therefore, treasury shares in the UK refer to shares repurchased by the holding company, whereas in

South Africa treasury shares refer to shares in the holding company held by subsidiaries and share trusts in the group. Since the accounting standards were set with the UK version of treasury shares in mind, they do not address all the issues regarding the disclosure of treasury shares in South Africa, especially with regard to share incentive trusts. The result of this is that share trust transactions in South Africa are generally not disclosed in detail, making it impossible to identify the specific transactions that took place during the year. The only available information therefore is the net movement in shares held by share trusts from year to year. In most cases this movement is not even disclosed, and should be calculated by hand from the financial statements, making research on these share trust transactions almost impossible.

Literature review

The first research on share repurchases in South Africa was done by Daly (2002). He investigated repurchase activities between July 1999 and September 2001, but only included announced, general repurchases. This excluded all purchases that did not exceed the 3% cumulative threshold, as well as any specific repurchases during this period. He found that there was some uncertainty regarding the tax treatment of share repurchases since it was a new concept in South Africa at the time. Once these uncertainties were clarified, many companies introduced this method to distribute cash to their shareholders. The total value of share repurchases during this time amounted to R6.3 billion. These repurchases were made by 45 different companies via 88 SENS announcements, but this could be significantly understated, since it only included the announced, general repurchases.

Further research on South African share repurchases was published by Bhana (2007), but, again, this study only included announced, general repurchases. This research covered the period from October 2000 to March 2003 and found that 117 announcements were made. However, the sample consisted of announcements of intention to repurchase, and with general repurchases there is no obligation to actually make the repurchase. It is therefore difficult to estimate the value of actual share repurchases made during this period, based on Bhana's sample.

Bester (2008) found that there were 312 announcements made for share repurchases worth R47.2 billion from July 1999 to June 2007. This indicates that repurchase activity in South Africa gained some momentum after the initial slow start. Bester's research was an improvement on the previous research since he included specific repurchases. He, however, in turn excluded share trust repurchases and shares purchased by holding companies from their subsidiaries.

Chivaka, Siddle, Bayne, Cairney and Shev (2009) used a sample of 55 specific repurchase announcements to determine the reasons for these repurchases, as stated by the directors. The announcements were made between July 1999 and the end of 2004. They found that the three main reasons cited by directors were: enhancement of

shareholder value, changes in shareholding, and control and administrative issues. They concluded that for all factual reasons given, practice is in line with theory.

Bester, Wesson and Hamman (2010) identified as a major problem the fact that most research omits unannounced share repurchases, since this excludes a potentially very large portion of repurchase activities. To determine the implication of this omission, they used a sample of 33 JSE-listed companies for the period from July 1999 to the 2008 financial year-end to analyse all share repurchases made. They found that 59% of the total number of shares repurchased with a general authority were not announced via SENS. This amounted to 49.3% of the value of the total number of share repurchases. This effectively means that previous research dealt with only about half of the total share repurchases in South Africa. It will be difficult to do further research on share repurchases in South Africa since existing data sources do not include unannounced share repurchases.

Furthermore, general repurchases account for 47.9% of the total number of shares repurchased and roughly 60.5% of the total value thereof. This will lead to a material understatement of the total share repurchases if specific repurchases are not taken into account (Bester *et al.*, 2010). Their study also analysed the number of shares repurchased based on the repurchasing entity and found the following: 26.1% are repurchased by the company, not including treasury shares purchased from a subsidiary (17.1%), and 56.8% are repurchased by subsidiaries (these figures exclude purchases by share trusts).

Research on share repurchases in South Africa is further complicated by the fact that the company itself, its subsidiaries or share incentive trusts, are allowed to repurchase shares. Treasury shares may also be sold back to the holding company at a later stage, or to any other party within or outside the group. The effect of treasury shares should therefore be considered in all share repurchase research.

With regard to the disclosure of share repurchases in South Africa, Hamman and Wesson (2011) found that JSE-listed companies interpret the disclosure requirements significantly differently. The number of group shares is not applied in the same way by all companies as a result of the uncertainties surrounding the requirements of IAS 1. The number of group shares is used in performance calculations such as earnings per share, net asset value per share and market capitalisation and should therefore be calculated and disclosed in the same way by all listed companies. This is important to protect the users of financial statements. Treasury shares held by subsidiaries and share trusts are also not disclosed consistently in company financial statements, making it extremely difficult to calculate the number of group shares for some companies (Bester *et al.*, 2010). These issues should be addressed by financial managers when preparing financial statements. Better disclosure of the movement in company, group and trust shares could lead to

better research in this field, providing valuable information for better decision-making.

No previous research has been done specifically on the mining sector in South Africa. In South Africa mining companies are a major contributor to economic activity. Companies listed in the mining sector constitute roughly 17% of the total number of listed companies on the JSE. In terms of size, measured by market capitalisation, companies in the mining sector constitute roughly 27% of the total market capitalisation of the JSE (calculated from a list of the market capitalisations of all listed companies on 7 October 2011 – requested by the authors from the JSE directly). Current research on share repurchases in South Africa therefore excludes a significant portion of the market, and thus could also be excluding a large proportion of repurchase activities.

Research objective

The aim of this research is to determine the extent of share repurchases of JSE-listed South African companies in the mining sector, taking cognisance of the above mentioned constraints. This research will also attempt to determine if SENS announcements only are a reliable source for studies on share repurchases. The data gathered on share repurchases in the mining sector will then be available for use in future research on share repurchases such as buy-and-hold and event studies. By including share repurchases, specifically from the mining sector, in future research will lead to more representative samples and a more complete picture of repurchase activities in South Africa.

Research methodology

None of the financial data sources in South Africa (McGregor BFA, I-Net Bridge and Reuters) has detailed records available on share repurchases. It is therefore impossible to use these sources to obtain a complete picture of the repurchase activities for mining companies in South Africa. It was decided to use the same labour-intensive approach adopted by Bester *et al.* (2010), which involved analysing the annual reports for all companies in the sample from 1999 to 2010 and investigating all changes in the issued share capital. This approach identifies company share repurchases and cancellation of shares, share repurchases and subsequent sales by subsidiaries, as well as share transactions with consolidated share trusts, using directors' reports, statements of financial position, statements of changes in equity and share capital notes as the main sources of information.

Furthermore, the SENS announcements of companies' repurchase activities were also obtained from the McGregor BFA news service. All JSE SENS announcements are stored in this database and can be retrieved using a keyword search. The keywords used were: "repurchase", "buy-back", "buy back", "buyback" and "treasury". These announcements were compared with the repurchase information obtained from the annual reports. Since SENS

announcements only need to be made for specific repurchases and general repurchases exceeding 3% of the issued shares, the data obtained from SENS announcements only represent a portion of the total repurchase activities.

The information gathered from SENS and the annual reports was used to determine the extent of share repurchases in the mining sector. Share repurchases were analysed according to the repurchasing entity, being either the company itself, subsidiaries or share trusts. Share repurchases by the company were split between purchases from subsidiaries and from other shareholders. Treasury shares subsequently sold by subsidiaries (to either the holding company or other shareholders) were also noted. For all repurchase transactions, the number of shares as well as the monetary values were obtained from the data sources.

The data was analysed and compared to the results of the Bester *et al.* (2010) study, in order to determine the extent and nature of share repurchase transactions in the mining sector, compared to the rest of the market.

Sample selection

The sample includes all companies listed in the *mining sector* on 31 December 2010. Companies with secondary listings on the JSE were included in the sample even though they are not subjected to the JSE listing requirements. Their results were summarised separately since they are allowed to hold their own shares as treasury shares (Cassim, 2003), which is not allowed for South African companies. Three companies (Sephaku Holdings Ltd; Trans Hex Group Ltd; White Water Resources Ltd) were excluded from the sample because of improper disclosure in their financial statements which made it impossible to determine the number and/or value of share repurchases. Randgold and Exploration Company Ltd has a primary listing on the JSE, but was left out of the sample because it incorrectly treated its share buyback according to the listing requirements of the Nasdaq Stock Market, where it has its secondary listing. The market capitalisation of the four companies that were excluded from the sample constitute less than 0.02% of the total market capitalisation at the time of sample selection. Please refer to Appendix A for a list of the companies which were included in the sample.

Results

For the period under review (July 1999 until financial year-end 2010), Table 1 illustrates that 13 companies made 23 repurchase announcements via SENS. These announcements include 17 general and six specific repurchases. For the purposes of this tabulation, all the share repurchases made during a particular financial year were counted as one repurchase activity.

It was found that in total 19 companies undertook 55 repurchasing activities during the period under review. The above mentioned number includes both announced and unannounced repurchases. Of these repurchases 44 were

general and 11 were specific repurchases. It is therefore clear that general repurchases are favoured above specific repurchases, and that approximately 60% (in terms of number of transactions) of repurchase activities were not announced via SENS. These 55 repurchase activities were consequently analysed further in terms of number of shares as well as monetary value to provide a clearer picture of the total repurchase activity.

Tables 2 to 6 show the repurchase activities of companies with primary and secondary listings on the JSE separately, as well as the total repurchase activities for all companies. The companies with secondary listings that repurchased shares during the period under review are Anglo American Plc, Aquarius Platinum Ltd, BHP Billiton Plc and Lonmin Plc. The financial statements of the above mentioned companies are presented in US Dollar. Where the exact date of the repurchase was reported, the exchange rate on that day was used to convert the value of the transaction to SA Rand. In all other cases the exchange rate at year end was used.

Table 2 shows the total general repurchases, split between announced and unannounced repurchases in terms of the number of shares as well as the monetary values.

A total of 87.9 million shares were repurchased under general authority by companies with a primary listing. This represents a total value of R3.3 billion. In comparison, companies with a secondary listing repurchased 958.9 million shares for a total value of R170.7 billion.

In respect of the companies with a primary listing, approximately three quarters (76.6%) of the total repurchase transactions under general authority were not announced via SENS, but in value terms they represent only 41.7% of the total amount. These general repurchases were made by 14 of the 15 repurchasing companies. The 15th company made only a specific repurchase during the target period.

In respect of the companies with a secondary listing, only 5.8% of general repurchases were not announced, representing only 0.5% of the value of general repurchases. It is clear that the companies with listings on international stock exchanges are more inclined to announce their repurchase transactions.

In terms of number of shares the percentage of announced repurchases increases from 23.4% for primary listings only, to a total of 88.3% when the secondary listings are taken into account. Of the total value of R174 billion worth of general repurchases, 98.7% were announced.

Table 3 compares the general repurchases to the specific repurchases. It also indicates how much of the specific repurchases were treasury shares repurchased by the holding companies from subsidiaries.

Table 1: Companies included in study

No.	Company name	SENS Announcements			Repurchases (annual)		
		Total	General	Specific	Total	General	Specific
1	African Rainbow Minerals Ltd	0	0	0	0	0	0
2	Anglo American Plc *	3	3	0	3	3	0
3	Anglo Platinum Ltd	2	2	0	2	2	0
4	Anglogold Ashanti Ltd	0	0	0	0	0	0
5	Anooraq Resources Corporation	0	0	0	0	0	0
6	Aquarius Platinum Ltd *	1	0	1	2	1	1
7	Assore Ltd	1	0	1	8	5	3
8	Bauba Platinum Ltd	0	0	0	0	0	0
9	BHP Billiton Plc *	6	6	0	8	8	0
10	BRC Diamond Core Ltd *	0	0	0	0	0	0
11	Central Rand Gold Ltd *	0	0	0	0	0	0
12	Chrometco Ltd	1	0	1	2	1	1
13	Coal of Africa Ltd *	0	0	0	0	0	0
14	Diamondcorp Plc *	0	0	0	0	0	0
15	Drdgold Ltd	0	0	0	0	0	0
16	Eastern Platinum Ltd *	0	0	0	0	0	0
17	Exxaro Resources Ltd	2	0	2	3	1	2
18	Firestone Energy Ltd	0	0	0	0	0	0
19	Gold Fields Ltd	0	0	0	1	1	0
20	Gold One International Ltd *	0	0	0	0	0	0
21	Great Basin Gold Ltd *	0	0	0	0	0	0
22	Harmony Gold Mining Company Ltd	0	0	0	0	0	0
23	Hwange Colliery Company Ltd *	0	0	0	0	0	0
24	Impala Platinum Holdings Ltd	1	1	0	3	3	0
25	Infrasors Holdings Ltd	1	1	0	3	3	0
26	JCI Ltd	0	0	0	3	3	0
27	Jubilee Platinum Plc	0	0	0	0	0	0
28	Keaton Energy Holdings Ltd	0	0	0	0	0	0
29	Lonmin Plc *	2	2	0	2	2	0
30	Merafe Resources Ltd	0	0	0	0	0	0
31	Miranda Mineral Holdings Ltd	1	1	0	1	1	0
32	Mvelaphanda Resources Ltd	0	0	0	1	1	0
33	Northam Platinum Ltd	0	0	0	0	0	0
34	Optimum Coal Holdings Ltd	0	0	0	0	0	0
35	Pamodzi Gold Ltd	0	0	0	0	0	0
36	Pan African Resources Plc *	0	0	0	0	0	0
37	Petmin Ltd	0	0	0	5	3	2
38	Platfields Ltd	0	0	0	0	0	0
39	Platmin Ltd *	0	0	0	0	0	0
40	Resources Generation Ltd *	0	0	0	0	0	0
41	Rockwell Diamonds Incorporated *	0	0	0	0	0	0
42	Royal Bafokeng Platinum Ltd	0	0	0	0	0	0
43	Sallies Ltd	0	0	0	0	0	0
44	Sentula Mining Ltd	1	0	1	5	4	1
45	Simmer and Jack Mines Ltd	0	0	0	0	0	0
46	South African Coal Mining Holdings Ltd	0	0	0	1	0	1
47	Tawana Resources NI *	0	0	0	0	0	0
48	Thabex Ltd	0	0	0	1	1	0
49	Uranium One Inc *	0	0	0	0	0	0
50	Village Main Reef Gold Min Comp Ltd	0	0	0	0	0	0
51	Wescoal Holdings Ltd	1	1	0	1	1	0
52	Wesizwe Platinum Ltd	0	0	0	0	0	0
53	Witwatersrand Cons Gold Resources	0	0	0	0	0	0
	<i>* Secondary listing on JSE</i>	23	17	6	55	44	11

Table 2: Share purchases under general authority

TOTAL	Number	%	Rand	%
Announced buy-backs	923 780 193	88.3	171 827 674 347	98.7
Unannounced buy-backs	122 984 681	11.7	2 178 814 162	1.3
Total buy-backs under general authority	<u>1 046 764 874</u>	100	<u>174 006 488 509</u>	100
RSA – Primary listings	Number	%	Rand	%
Announced buy-backs	20 584 200	23.4	1 932 924 921	58.3
Unannounced buy-backs	67 300 504	76.6	1 383 404 612	41.7
Total buy-backs under general authority	<u>87 884 704</u>	100	<u>3 316 329 533</u>	100
RSA – Secondary listings	Number	%	Rand	%
Announced buy-backs	903 195 993	94.2	169 894 749 426	99.5
Unannounced buy-backs	55 684 177	5.8	795 409 550	0.5
Total buy-backs under general authority	<u>958 880 170</u>	100	<u>170 690 158 976</u>	100

Table 3: Share buy backs: Specific versus general authority

TOTAL	Number	%	Rand	%
Buy-backs under specific authority	123 401 076	10.5	7 617 980 342	4.2
Treasury shares purchased from subsidiary	21 687 765		778 677 686	
Other	101 713 311		6 839 302 656	
Buy-backs under general authority	1 046 764 874	89.5	174 006 488 509	95.8
Total share buy-backs	<u>1 170 165 950</u>	100	<u>181 624 468 851</u>	100
RSA – Primary listings	Number	%	Rand	%
Buy-backs under specific authority	101 975 178	53.7	5 362 848 873	61.8
Treasury shares purchased from subsidiary	21 687 765		778 677 686	
Other	80 287 413		4 584 171 187	
Buy-backs under general authority	87 884 704	46.3	3 316 329 533	38.2
Total share buy-backs	<u>189 859 882</u>	100	<u>8 679 178 406</u>	100
RSA – Secondary listings	Number	%	Rand	%
Buy-backs under specific authority	21 425 898	2.2	2 255 131 469	1.3
Treasury shares purchased from subsidiary	21 425 898		2 255 131 469	
Other				
Buy-backs under general authority	958 880 170	97.8	170 690 158 976	98.7
Total share buy-backs	<u>980 306 068</u>	100	<u>172 945 290 445</u>	100

Table 3 shows that 189.9 million shares, with a total value of R8.7 billion, were repurchased by the 15 companies with primary listings during the period under review. The four companies with secondary listings repurchased 980.3 million shares, with a total value of R172.9 billion. This brings the total repurchases to 1.2 billion shares with a value of R181.6 billion.

Of these shares, 89.5% were repurchased under general authority in terms of number of shares, which represented 95.8% in value. The remaining 10.5% of the total number of shares repurchased, representing 4.2% of the total value,

were repurchased under specific authority. The fact that almost 90% of repurchases were under general authority can be largely attributed to the fact that the companies with secondary listings used general repurchases to distribute cash to their shareholders. Of the 15 repurchase transactions by companies with secondary listings, only 1 was a specific repurchase – representing only 1.3% of the total value of repurchases made.

Table 4 shows the total number of actual shares that were repurchased according to the repurchasing entity.

Table 4: Share buy backs by repurchasing entity

TOTAL	Number	%	Rand	%	Number
Company own shares repurchased and cancelled	839 233 018	57.9	71.7	95 781 515 673	52.7
Company own shares repurchased and held as treasury	55 959 430	3.9	4.8	35 356 910 000	19.5
Subsidiary purchases	253 285 737	17.5	21.6	49 707 365 492	27.4
Subtotal	1 148 478 185	79.3	98.1	180 845 791 165	99.6
Company repurchases shares from subsidiary	21 687 765	1.5	1.9	778 677 686	0.4
Repurchases excluding share trusts	1 170 165 950	80.8	100	181 624 468 851	100
Share trusts consolidated	278 544 777	19.2			
Total share buy-backs	1 448 710 727	100			

RSA – Primary listings	Number	%	Rand	%	Number
Company own shares repurchased	86 760 686	18.6	45.7	3 143 834 778	36.2
Subsidiary purchases	81 411 431	17.4	42.9	4 756 665 942	54.8
Subtotal	168 172 117	36.0	88.6	7 900 500 720	91.0
Company repurchases shares from subsidiary	21 687 765	4.6	11.4	778 677 686	9.0
Repurchases excluding share trusts	189 859 882	40.6	100	8 679 178 406	100
Share trusts consolidated	277 303 858	59.4			
Total share buy-backs	467 163 740	100			

RSA – Secondary listings	Number	%	Rand	%	Number
Company own shares repurchased and cancelled	752 472 332	76.7	76.8	92 637 680 895	53.6
Company own shares repurchased and held as treasury	55 959 430	5.7	5.7	35 356 910 000	20.4
Subsidiary purchases	171 874 306	17.5	17.5	44 950 699 550	26.0
Repurchases excluding share trusts	980 306 068	99.9	100	172 945 290 445	100
Share trusts consolidated	1 240 919	0.1			
Total share buy-backs	981 546 987	100			

For the companies with primary listings on the JSE, more than half of the total share repurchases (59.4%) represent share trust consolidations. In total, 467 million shares, including share trust consolidations, were repurchased, of which 18.6% were initially repurchased by the company and 17.4% by subsidiaries of the parent company. Subsequently, the company repurchased 4.6% from the subsidiaries. When the share trust consolidations are excluded from the buyback activities, it shows that only 189.9 million shares were repurchased, which can further be explained as follows: 45.7% of the shares were initially repurchased by the company, 42.9% represents shares repurchased by subsidiaries, and 11.4% were subsequently repurchased by the company from the subsidiary. When expressed in terms of value, these repurchases represent an amount of R8.7 billion, which comprises 36.2%, 54.8% and 9.0% of the repurchasing entities, respectively. Repurchases by share trusts were excluded from further analysis owing to lack of proper disclosure of share transactions with share trusts (refer to the section on accounting standards).

The repurchasing companies with secondary listings on the JSE have their primary listings in the UK and Australia. In these countries companies are allowed to repurchase their own shares and keep them as treasury shares. These shares

may then be reissued by the company, or cancelled at a later stage. The number of such shares repurchased and held by the company during the period under review is 55.9 million with a total value of R35.3 billion, constituting 20.4% of the value of all repurchases made.

The majority of all share repurchase are made by the company itself, with the shares subsequently being cancelled (71.7% when not taking into account share trust transactions). When excluding companies with secondary listings from this figure, the repurchases are more evenly spread between the company itself and its subsidiaries.

Table 5 shows that of the total share repurchases of 189.9 million shares, by the companies with primary listings, 39.7% (79.5% in terms of value) were announced via SENS and 60.3% (20.5% in terms of value) were unannounced. For the 980.3 million shares repurchased by the companies with secondary listings, 94.3% (99.5% in terms of value) were announced via SENS and only 5.7% (0.5% in terms of value) were unannounced. The difference is quite significant, with the internationally listed companies being much more transparent regarding their share transactions.

Table 5: Share buy backs: Announced versus unannounced

TOTAL	Number	%	Rand	%
Buy-backs under specific authority	123 401 076		7 617 980 342	
Announced	76 172 512		7 223 908 119	
Unannounced	47 228 564		394 072 223	
Buy-backs under general authority	1 046 764 874		174 006 488 509	
Announced	923 780 193		171 827 674 347	
Unannounced	122 984 681		2 178 814 162	
Total share buy-backs	1 170 165 950	100	181 624 468 851	100
Announced	999 952 705	85.5	179 051 582 466	98.6
Unannounced	170 213 245	14.5	2 572 886 385	1.4

RSA – Primary listings	Number	%	Rand	%
Buy-backs under specific authority	101 975 178		5 362 848 873	
Announced	54 746 614		4 968 776 650	
Unannounced	47 228 564		394 072 223	
Buy-backs under general authority	87 884 704		3 316 329 533	
Announced	20 584 200		1 932 924 921	
Unannounced	67 300 504		1 383 404 612	
Total share buy-backs	189 859 882	100	8 679 178 406	100
Announced	75 330 814	39.7	6 901 701 571	79.5
Unannounced	114 529 068	60.3	1 777 476 835	20.5

RSA – Secondary listings	Number	%	Rand	%
Buy-backs under specific authority	21 425 898		2 255 131 469	
Announced	21 425 898		2 255 131 469	
Unannounced				
Buy-backs under general authority	958 880 170		170 690 158 976	
Announced	903 195 993		169 894 749 426	
Unannounced	55 684 177		795 409 550	
Total share buy-backs	980 306 068	100	172 945 290 445	100
Announced	924 621 891	94.3	172 149 880 895	99.5
Unannounced	55 684 177	5.7	795 409 550	0.5

The above findings confirm the problem noted by Bester *et al.* (2010) that research on share repurchases in South Africa cannot be done using only the current available data sources, since they exclude unannounced share repurchases (60.3%), which is a significant portion of total repurchase activities.

Table 6 shows that of the total number of 1.2 billion shares repurchased by the companies during the target period,

21.7 million shares were subsequently sold by the subsidiaries to their holding companies and 76.8 million shares were sold to entities not within the group. In terms of number of shares, 8.4% of the initial share repurchases were therefore subsequently sold. When looking only at the

companies with primary listings, 23.5% of the treasury shares were subsequently sold.

Table 7 reveals the actual number of shares repurchased by the companies per year during the target period. From the results, it is clear that the share repurchase activities varied on a yearly basis. The highest share repurchase activity, as seen in Table 7, was 34% in 2007, with the lowest repurchase activity in 2004 (0.4%). In terms of value, the highest share repurchase activity was also in 2007 (46.1%), and the lowest in 2000 and 2004 (0%). The reasons for the variations in repurchase activities from year to year were not within the scope of this study.

Table 6: Share buy backs: Purchases and sales

TOTAL	Number	%	Rand	%
Repurchases	1 170 165 950	100	181 624 468 851	100
Company own shares repurchased	895 192 448		131 138 425 673	
Subsidiary purchases	253 285 737		49 707 365 492	
Company repurchases from subsidiary	21 687 765		778 677 686	
Sales	-98 475 060	8.4	-2 366 251 612	1.3
Subsidiary sells to company	-21 687 765		-778 677 686	
Subsidiary sells to external parties	-76 787 295		-1 587 573 926	
Net figure for share buy-backs, excluding share trust consolidations	<u>1 071 690 890</u>	<u>91.6</u>	<u>179 258 217 239</u>	<u>98.7</u>
RSA – Primary listings	Number	%	Rand	%
Repurchases	189 859 882	100	8 679 178 406	100
Company own shares repurchased	86 760 686		3 143 834 778	
Subsidiary purchases	81 411 431		4 756 665 942	
Company repurchases from subsidiary	21 687 765		778 677 686	
Sales	-44 590 658	23.5	-806 491 612	9.3
Subsidiary sells to company	-21 687 765		-778 677 686	
Subsidiary sells to external parties	-22 902 893		-27 813 926	
Net figure for share buy-backs, excluding share trust consolidations	<u>145 269 224</u>	<u>76.5</u>	<u>7 872 686 794</u>	<u>90.7</u>
RSA – Secondary listings	Number	%	Rand	%
Repurchases	980 306 068	100	172 945 290 445	100
Company own shares repurchased	808 431 762		127 994 590 895	
Subsidiary purchases	171 874 306		44 950 699 550	
Company repurchases from subsidiary	0		0	
Sales	-53 884 402	5.5	-1 559 760 000	0.9
Subsidiary sells to company	0		0	
Subsidiary sells to external parties	-53 884 402		-1 559 760 000	
Net figure for share buy-backs, excluding share trust consolidations	<u>926 421 666</u>	<u>94.5</u>	<u>171 385 530 445</u>	<u>99.1</u>

Table 7: Share buy back activities – All companies

Year	Number	%	Rand	%
1999	53 298 029	4.6	699 480 000	0.4
2000	14 694 110	1.3	25 947 000	0.0
2001	15 662 230	1.3	1 371 537 407	0.8
2002	32 815 571	2.8	1 896 451 267	1.0
2003	10 060 048	0.9	150 371 000	0.1
2004	4 177 306	0.4	2 961 924	0.0
2005	207 709 089	17.8	12 559 207 169	6.9
2006	248 855 396	21.3	44 257 964 678	24.4
2007	397 937 960	34.0	83 668 556 000	46.1
2008	136 743 102	11.7	35 633 462 160	19.6
2009	32 013 230	2.7	1 024 369 776	0.6
2010	16 199 879	1.4	334 160 470	0.2
Total share buy-backs	<u>1 170 165 950</u>	<u>100</u>	<u>181 624 468 851</u>	<u>100</u>

Conclusion

Research was conducted to investigate share repurchase activities of a sample of JSE-listed companies in the mining sector over 11 years from July 1999 until financial year-end in 2010. Initially all the companies in the mining sector were considered. Some companies were excluded from this study for the reason that there were improper disclosures in the financial statements regarding repurchases and one

company was excluded due to the incorrect treatment of share repurchases. The sample eventually consisted of 53 companies, of which 19 companies undertook share repurchases based on a detailed analysis of their financial statements. Of these, only 13 companies reported their share repurchase transactions via SENS.

For the target period in the mining sector, it was found that 89.5% of the total number of shares repurchased were under

general authority, and 10.5% of the total number of shares repurchased were under specific authority. When compared to the findings of the study by Bester *et al.* (2010), it was concluded that, in terms of number of shares, the split between general and specific share repurchases were significantly different. In Bester's study 47.9% of repurchases were general and 52.1% were specific. The main cause for the difference is the repurchases made by companies with secondary listings, of which only 2.2% were specific.

However, the total number of shares repurchased that were announced via SENS in this study amounted to 85.5%, which is a higher percentage than the 69.1% found in the study by Bester *et al.* (2010). However, the companies with primary listings on the JSE announced only 39.7% of their total repurchases, much less than the 69.1% found by Bester *et al.* (2010). It is therefore evident that any research relating to share repurchase activities in South Africa, will be totally inaccurate and not a true reflection of actual events if it is only based on information announced via SENS.

Although no definite trends were identified in share repurchases on a year-to-year basis, the highest percentages of share repurchases in this study were recorded in the 2007 financial year, namely 34% (46.1% in terms of value). In the study by Bester *et al.* (2010), the highest percentage of share repurchases were recorded in the 2006 financial year (27.6%).

Compared to repurchase activities in the rest of the market, the repurchases of mining companies with primary listing on the JSE are relatively low, in terms of number of transactions, number of shares as well as in the monetary value of shares. However, if the repurchase activities of companies with secondary listings on the JSE are added, the number of shares repurchased increase from 190 million to 1.2 billion, and the monetary value of these transactions increase from R8.7 billion to R181.6 billion. The total number of shares repurchased noted by Bester *et al.* (2010) was 2.3 billion, with a total value of R52.1 billion. Share repurchases in the mining sector is therefore more than triple the value of share repurchase in the rest of the market, and can therefore not be ignored in studies regarding share repurchase activities.

Managerial implications and recommendations for future research

Share repurchases are an effective method to distribute cash to shareholders and could have a significant impact on the financial performance of a company. The repurchase transaction could also be used to signal information to the market, but then these repurchases should be announced. If a company is undervalued and managers elect to repurchase shares, but the transaction is not announced, the positive effect it could have on the share price is diminished. Also, if shareholders are not aware of a share repurchases program, they are making decisions about their investment without

having all the necessary information. From this research it is clear that a significant portion of repurchases in South Africa is not announced. Most companies are therefore not using repurchases to its full potential in terms of the effect on share price and valuation models. Much more could be gained from repurchase transactions if the effect thereof in the South African market is better researched and documented. This is indeed a dynamic management and financial mechanism and further research is imperative for the investment environment. Proper research however, demands much more detailed disclosures from the respective companies. Recently the JSE released a proposal to require better disclosure of share repurchases in annual reports, which has been welcomed by investors and academics alike (Crotty, 2012b). This should lead to better disclosure in future, creating many opportunities for value-adding research. In depth studies and focused research will empower researchers to provide useful and valuable results to the management structures of the companies involved.

Future studies can also investigate the impact that share repurchases have on the trend of dividend payout ratios, if any. Buy-and-hold analyses could also be undertaken to determine the long term effect of a repurchase transaction on the relevant company's share price.

As noted before, the legal requirements for share repurchases were simplified with the new Companies Act. It will be interesting to note whether the simplified requirements will indeed lead to an increase in share repurchases in South Africa over the next few years. This is also a valuable research item for future legislative adjustments in this dynamic financial arena.

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Appendix A

Companies included in the sample:

Primary listing on JSE (35):

African Rainbow Minerals Ltd
Anglo Platinum Ltd
Anglogold Ashanti Ltd
Anooraq Resources Corporation
Assore Ltd
Bauba Platinum Ltd
Chrometco Ltd
Drdgold Ltd
Exxaro Resources Ltd
Firestone Energy Ltd
Gold Fields Ltd
Harmony Gold Mining Company Ltd
Impala Platinum Holdings Ltd
Infrasors Holdings Ltd
JCI Ltd
Jubilee Platinum Plc
Keaton Energy Holdings Ltd
Merafe Resources Ltd
Miranda Mineral Holdings Ltd
Mvelaphanda Resources Ltd
Northam Platinum Ltd
Optimum Coal Holdings Ltd
Pamodzi Gold Ltd
Petmin Ltd
Platfields Ltd
Royal Bafokeng Platinum Ltd
Sallies Ltd
Sentula Mining Ltd
Simmer And Jack Mines Ltd
South African Coal Mining Hldgs Ltd
Thabex Ltd
Village Main Reef Gold Min Comp Ltd
Wescoal Holdings Ltd
Wesizwe Platinum Ltd
Witwatersrand Cons Gold Resources

Secondary listing on JSE (18):

Anglo American Plc
Aquarius Platinum Ltd
Bhp Billiton Plc
Brc Diamondcore Ltd
Central Rand Gold Ltd
Coal Of Africa Ltd
Diamondcorp Plc
Eastern Platinum Ltd
Gold One International Ltd
Great Basin Gold Ltd
Hwange Colliery Company Ltd
Lonmin Plc
Pan African Resources Plc
Platmin Ltd
Resource Generation Ltd
Rockwell Diamonds Incorporated
Tawana Resources NI
Uranium One Inc