

IMPROVEMENT OF THE MECHANISM FOR IMPLEMENTING SECURITIES TRANSACTIONS BY COMMERCIAL BANKS

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Abstract

This article examines the theoretical aspects of securities transactions of commercial banks, mechanisms for their improvement. The article also studies the organizational, legal and operational mechanisms for conducting securities transactions in banks, examines the problems that hinder their development, and formulates conclusions on the further development of the activities of commercial banks in the securities market.

Keywords: Commercial banks, securities, securities of commercial banks, stock market, diversification, bond, eurobond.

Introduction

Under market economy conditions, the securities market is one of the key mechanisms for the efficient allocation of financial resources, the attraction of investments, and the promotion of economic growth. In this market, commercial banks actively participate not only as financial intermediaries but also as major institutional investors and professional participants, thereby exerting a significant influence on the development of the capital market. In particular, the conduct of securities operations by banks plays an important role in diversifying income sources, managing liquidity, and strengthening financial stability.

In recent years, the Republic of Uzbekistan has been implementing large-scale institutional and regulatory reforms aimed at developing the financial market, including the securities market. In this process, one of the urgent tasks is to expand the operations of commercial banks in the securities market, activate their professional participation and increase the availability of modern financial instruments. Also, improving the mechanism for conducting securities transactions by commercial banks on the basis of an integrated approach, namely, optimizing the organizational structure, strengthening the risk management system, digitizing operational processes, and increasing transparency and openness of information, is of great scientific and practical importance.

Literature Review

Many foreign and Uzbek economists have conducted scientific research on the participation and importance of commercial banks in the capital market, in particular the bond market.

In particular, in the research of Frederic S. Mishkin, commercial banks are interpreted as financial intermediaries, the main institution that directs savings to investment through securities¹.

Economist A. Saunders argues that “allowing banks to act as underwriters in corporate securities has important social implications. Initially, this would lead to the entry of smaller firms into the stock market, and then, in the face of intense competition, would lead to a reduction in underwriting fees”. The scientist focused primarily on the role of banks as professional participants in the securities market..

One of our country's scientists, Professor Sh. A. Toshmatov, conducted research on the activities of commercial banks in the international bond market and the possibilities of attracting sufficient resources through this².

Professor Sh. Abdullaeva analyzed the activities of commercial banks in her research and also studied their activities in the securities market³.

Research Methodology

The methods of comparison and scientific abstraction were used to analyze the activities of commercial banks in the securities market. The current state of the participation of commercial banks in the securities market in our republic was studied using methods such as comparative analysis and statistical analysis.

Analysis and Result

The high profitability of banks is directly related, first of all, to the rational and thorough banking policy pursued by them, in particular, to the level of attraction of financial resources. Although the main task of banks in the economic system is to provide the real sector and other economic entities with the necessary financial resources, the banks themselves also need external financing sources for their continuous operation.

Therefore, banks constantly use various financing mechanisms to expand their resource base. The most common sources in practice include loans attracted based on the Central Bank's refinancing rate, accepting deposits from individuals and legal entities, as well as issuing shares, corporate and international bonds.

This situation is primarily due to the relatively strict requirements imposed by commercial banks in the process of issuing securities, the long issuance time, and the fact that this process requires a significant amount of financial resources, which significantly affects the activities of commercial banks in the securities market.

At the same time, one of the factors that should be given special attention in this process is the high level of state participation in the activities of commercial banks. In particular, one of the main reasons for this situation is the consistent increase in the state share in the authorized capital of banks. As a result of the funds allocated to the authorized capital within the

¹ Frederic S. Mishkin. The Economics of Money, Banking, and Financial Markets. Addison-Wesley, 2009. 664

² I.f.d. professor Toshmatov Sh.A. O'zbekiston xalqaro obligatsiyalarining jahon moliyaviy bozorlarida joylashtirilishi: risk-va prognozlar. <https://review.uz/oz/post/zbekiston-xalaro-obligatsiyalarining-jaon-moliyaviy-bozorlarida-joylashtirilishi-risk-va>

³ Abdullaeva Sh.Z. Pul, kredit va banklar. // Toshkent. «Moliya», nashriyoti, 2000 yil. - 229-230

framework of financing state programs, a control package in the shares of many commercial banks is currently under the control of the Fund for Reconstruction and Development of the Republic of Uzbekistan.

1-Table Bonds of commercial banks available on the "Main Board" trading floor of the Tashkent Republican Stock Exchange at the end of 2023 ⁴

Issuer	Issuance and maturity	Coupon rate	1 bond price (sum)	Issued bonds quantity
"Asia Alliance Bank" JSC	15.07.2019-15.07.2026	CB base rate +4%	1 000 000,00	50 000
"Kapitalbank" JSC	13.05.2020-21.05.2027	CB base rate +5%	1 000 000,00	50 000

As of 2023, the Tashkent RSE exchange quotation list includes 2 commercial bank bonds, the coupon rate of which is tied to the key rate of the Central Bank and is issued for a period of 7 years.

The following indicators also indicate that the bond market in our country is not sufficiently developed; in Figure 1, we can see the indicators for the last 3 years.

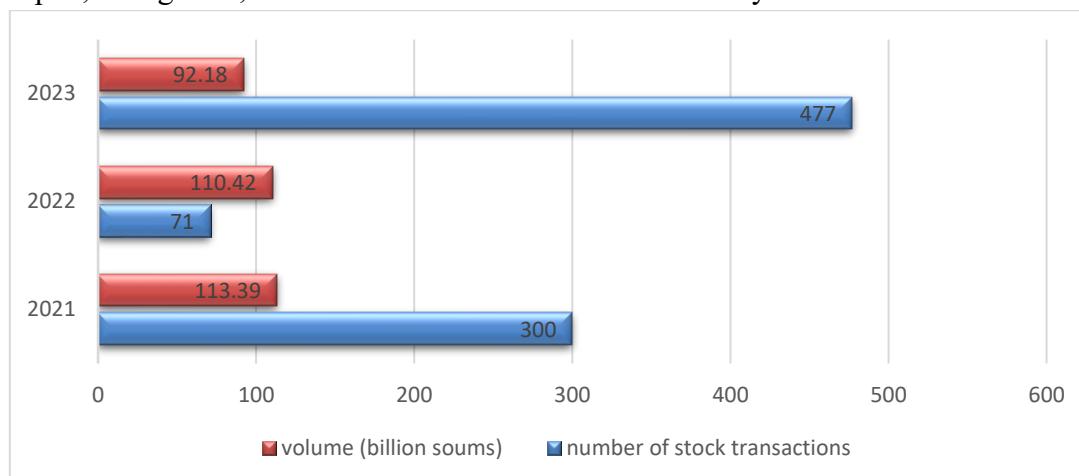


Figure 1. Number and volume of exchange transactions on bonds ⁵

As we can see from the data presented in Figure 1, the number of stock market transactions has increased over the past three years, but their volume has decreased in quantitative terms. This indicates the need to create conditions for further expansion of the bond market, since the bond market is one of the most important sources of financial debt for the state and the real sector of the economy.

⁴ Tashkent Republican Stock Exchange. Stock analysis – 2023 yil

⁵ Prepared by the author based on data from the Tashkent Republican Stock Exchange

2-table Placement of Eurobonds by joint-stock commercial banks⁶

No	Issuer	Quantity	Maturity	Coupon rate	Issuance date
1	“O’zsanoatqurilishbank” JSC	300 million US dollars	5 yil	5,75%	02.12.2019
2	“Milliy bank” JSC	300 million US dollars	5 yil	4,85%	14.10.2020
3	“Ipoteka bank” JSC	300 million US dollars	5 yil	5,50%	19.11.2020
		785 billion soums (75 million US dollars)	3 yil	16,0%	16.04.2021
		1,4 trillion soums	3 yil	20,5 %	25.04.2024

Analysis of the data in Table 2 shows that the practice of placing Eurobonds by joint-stock commercial banks in Uzbekistan is gradually expanding, and the volume of funds raised and the variety of instruments are increasing. In particular, the Eurobonds placed by Uzsanoatqurilishbank JSCB and Milliy Bank JSCB in 2019–2020 in the amount of 300 million US dollars for a 5-year term and with relatively low coupon rates (4.85–5.75%) demonstrate the formation of creditworthiness and investor confidence of banks in international financial markets. At the same time, in the case of Ipoteka Bank JSCB, it is observed that bond issues have diversified by currency and term, that is, issues have been made in the national currency along with the US dollar. In this case, the relatively high coupon rates (16–20.5%) on bonds in the national currency are explained by inflation and currency risks.

Conclusion

Our analysis shows that the activities of commercial banks in the securities market are of great importance in ensuring their financial stability, diversifying their resource base, and increasing profitability. Transactions with securities carried out by banks serve the development of the capital market not only as a source of investment income, but also as a means of long-term financing. Therefore, the effective organization of these transactions is one of the factors determining the overall level of development of the banking system.

In this regard, when improving the mechanism for conducting securities transactions by commercial banks, it is necessary, first of all, to optimize the organizational structure, strengthen the risk management system, and digitize operational processes.

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⁶ <https://www.sqb.uz>, <https://nbu.uz>, <https://www.ipotekabank.uz> prepared by the author based on the sites.

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5. <https://www.uzse.uz>
6. <https://sqb.uz>
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