

# Stages of Development of the Stock Market of Uzbekistan

Mekhmonov Sultonali Umaraliyevich,  
Abdullaev Utkur Azimovich, Juraev Isroil Ibrokhimovich and  
Razzokov Khabibullokh Ravshan Ugli

**Abstract---** *This article details in detail the stages of development of the stock market of the Republic of Uzbekistan and the effective work in this direction, the important decisions of the President of the country.*

**Keywords---** *Stock Exchange, Private Stock Exchange, Open Stock Exchanges, Stock Exchanges in Mixed Ownership, Joint-stock Companies.*

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## I. INTRODUCTION

The securities market is an important component of the market economy, and the stock exchange is a necessary part of the market economy. The Tashkent Republican Stock Exchange is the infrastructure for servicing the securities market (Central Depository, Clearing House, Second-tier Deposits, Brokerage Offices) with the aim of improving the trading process of the stock market is an organized and constantly functioning securities market that provides free access to investment resources for entities. The Tashkent Republican Stock Exchange was established in accordance with the Decree of the President of the Republic of Uzbekistan dated 21 January 1994 "On measures to further deepen economic reforms, protect the interests of private property and develop entrepreneurship". actively participates in the formation and development of the securities market, one of the main prerequisites. This institution creates the necessary conditions for the primary placement of securities of joint-stock companies and their free circulation on the secondary market, as well as for investors to conduct securities trading.

Different sectors of the economy in the form of joint-stock companies created through stock trades, can attract real owners and, consequently, large funds for large-scale structural changes and modernization, and newly created joint stock companies. They have additional sources of funding for their investment projects.

## II. MATERIALS AND METHODS

Joint-stock companies can attract unlimited investment resources from the internal and external capital markets for the development of the enterprise through the issuance of their securities and placement at the Republican Stock Exchange "Tashkent". The activity of the Tashkent Republican Stock Exchange in the formation of the securities market in our country can be assessed, as a result of its creation and implementation of trade deals on the basis of modern technologies, all investors have an opportunity to participate in the securities market. Economic literature includes the term "stock market" and "securities market." We will try to clarify these terms. The securities market has a broader meaning than the stock market. Because the securities market includes both the stock market and the

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*Mekhmonov Sultonali Umaraliyevich, Professor, Doctor of Economic Sciences, Tashkent Institute of Finance.  
Abdullaev Utkur Azimovich, Associate Professor, Candidate of Economic Sciences, Tashkent Institute of Finance.  
Juraev Isroil Ibrokhimovich, PhD, Senior Lecturer, Tashkent Institute of Finance.  
Razzokov Khabibullokh Ravshan Ugli, Student of Department of Finance, Tashkent Institute of Finance.*

over-the-counter market. The political structure of the countries, the level of economic development and the absence of operating constraints on existing investment institutions affect the ownership and operation of stock exchanges in selected countries. We can see the types of legal formation of stock exchanges in the following drawing:

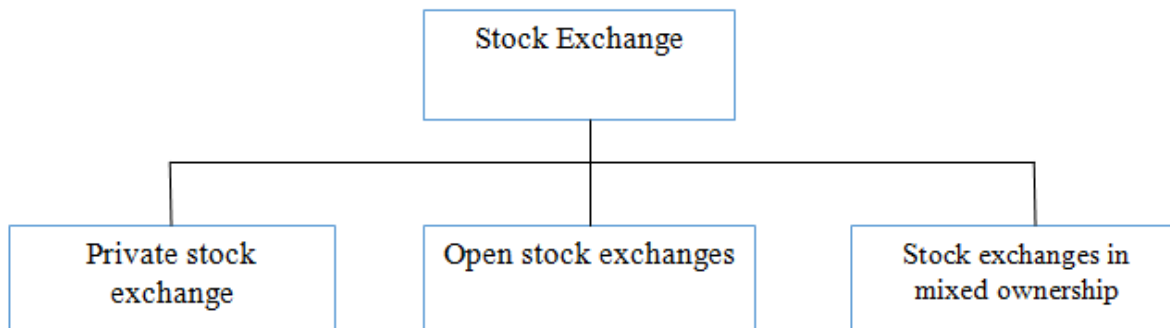


Figure 1: Types of Stock Exchanges

As can be seen from the above diagram, in international practice stock exchanges can be formed in different forms of ownership.

In international practice, private stock exchanges are created in the form of joint-stock companies. The shareholders of these companies are private companies. Stock markets of this type of ownership are independent in organizing exchange trades with securities. Exchange trades are organized and conducted in accordance with the current legislation of the country. For violation of applicable law, it is liable for legal liability. In the countries where private stock exchanges operate, the government does not assume any liability for exchange trades or trade risks. These types of stock exchanges are formed in the United States, such as the New York Stock Exchange and the Bubk London Stock Exchange (London Stock Exchange).

The stock market includes trading in securities on the stock exchanges of that country. Over-the-counter markets include securities trading outside the stock exchange.

In the following line, we see the composition of the securities market.

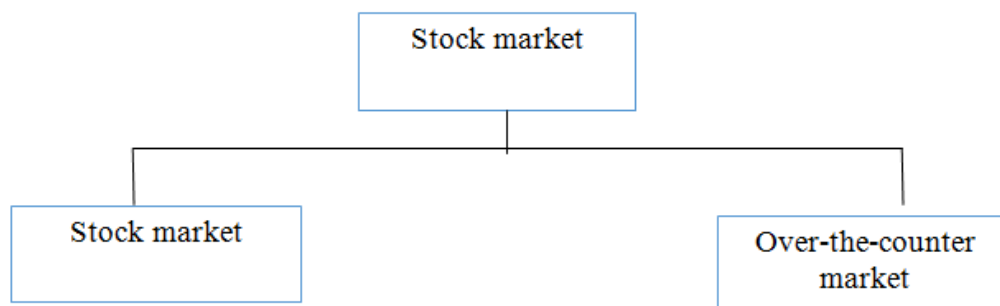


Figure 2: The Structure of the Stock Market

As can be seen from the chart above, there is an over-the-counter securities market outside the stock market. Certificates of deposit, promissory notes, certificates of deposit are sold in this market. We will cover the stock market of the Republic on the basis of the stage of development of the Republican Stock Exchange "Tashkent".

In international practice, open legal stock exchanges operate as a state organization and are constantly monitored by the competent authorities of the state.

In countries where such exchanges operate, the competent authorities of the state participate in the development of the procedure for trading in securities, which coordinates and monitors the implementation of this procedure., The stock exchange appoints exchange brokers to operate, dismissals and so on. Such forms of stock exchanges are the Frankfurter Wertpapier Bourse in Germany, the Deutsche Term Borse in Germany, and the Paris Bourse in France.[7]

Joint-stock stock exchanges are organized in the form of joint-stock companies, but at least 50% of the charter capital belongs to the state, and the rest belongs to legal entities and individuals. Such forms of stock exchanges are the Zurich Stock Exchange in Switzerland, the Milan Stock Exchange in Italy (Borsa Valori di Milano), and the stock exchanges in Austria and Sweden. Stock market economies are also important in independent countries that are transitioning to market relations.

The stock market of our country emerged in the early 90s after the independence of the Republic of Uzbekistan. Due to the lack of knowledge and experience necessary for the formation of the stock market and the organization of its activities in our country, it is necessary to conduct a thorough study of international experience in the development of the stock market and generalize the emerging domestic practices of management. demanded. The International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development, the International Finance Corporation, the Group of Thirty (an international organization that recommends a common approach and rules to all countries that are beginning to organize their stock markets) were taken into account.

In the spring of 1991, the Government of the Republic of Uzbekistan established the first Tashkent Commodity Exchange of the Republic of Uzbekistan in the recent history of the country. The rapid growth of exchange trades in the summer of this year necessitated an increase in the authorized capital of the exchange, the expansion of its membership. In August 1991, the Uzbek Commodity Exchange Limited Liability Company Tashkent Republican Universal Commodity Exchange (abbreviated name Tashkent Fund) stock exchange) and opened the stock department, the first organization of the stock market. The department of the fund is responsible for the organization of the Republican market of securities (organization of exchange trades with the stock), the placement of the exchange in order to form the authorized capital of the exchange.[2]

In January 1992, the Stock Department of the Tashkent Stock Exchange was the first in the Republic of Uzbekistan to conduct regular securities trading. In 1992, the turnover of the stock department of the Tashkent Stock Exchange on securities transactions amounted to 26.0 million rubles. This figure was comparable to similar figures on the Russian stock exchanges. The stock department, which is the first large institution in the stock market in the country, attracted the attention not only of the first issuers and investors, but also the Ministry of Finance of the Republic of Uzbekistan. At that time, the Ministry of Finance of the Republic of Uzbekistan had just begun to define and regulate relations with the stock market.

The Republic of Uzbekistan has done a great job of forming qualified participants of the stock market. Because of this purpose, qualified national participants of the national stock market have been formed in the country and they are currently operating in the stock market.

As a result of the steady increase in the volume of securities trading in the Republic of Uzbekistan, the Law on Securities and Stock Exchange was adopted on September 2, 1993. Article 17 of this law describes the stock exchange concept for the first time. It provides that "the stock exchange must provide the necessary conditions for the circulation of securities, determine their market value (the prices reflecting the equilibrium between the demand and supply of securities) and the necessary information on them." distribution is a special field of activity of securities market participants to maintain a high level of professionalism". [1]

The stock exchange in its activities is guided by the legislation of the Republic of Uzbekistan, the charter of the exchange and internal rules of rendering services related to securities.

In order to implement this law in our country the Decree of the President of the Republic of Uzbekistan "On Measures for Further Deepening Economic Reforms, Ensuring Protection of Private Property and Developing the Securities Market Infrastructure" was adopted on April 8, 1994. According to these legislative acts, its name, the previous official designation in the form of a closed joint-stock company, which retains the tradition of following the rules of carrying out transactions based on the classic principles of the operation of stock exchanges (symbol of endurance and endurance).

Republican Stock Exchange "Tashkent" was established. From the very first days of its activity, the Republican Stock Exchange "Tashkent" started active work on creation of electronic trading system, as well as promotion of stock and stock trading, with the involvement of specialized organizations in the development of network software.

As with all stock exchanges, the Republican Stock Exchange "Tashkent" is permitted only to members of the stock exchange licensed by the Ministry of Finance of the Republic of Uzbekistan for the right to conduct securities operations. In the first year of its operation, the Republican Stock Exchange "Tashkent" has united over 250 members, almost a quarter of which are private. The terms of joining the stock market included the purchase of brokerage sites and regular membership fees.

Ensures proper functioning of the existing securities trading system, oversees its functioning and works on its improvement. The development of the exchange trading systems began from the initial stage of the Exchange's activity (at that time trades were carried out by one voice (1994-1995)), the intermediate stage (where trades were carried out by "voice", but with the seer) starting with the addition of regional subdivisions of the exchange (1995-1996) and up to the present time (it has an electronic trading system, functioning of modern equipment and means of communication, including provides a single shopping mall equipped with a peer connection).

### **III. RESULT AND DISCUSSION**

Currently, the Republican Stock Exchange "Tashkent" is one of the fastest growing financial institutions in the country and has had a significant impact on the stock market volatility. It should be noted that due to the active position of the Republican Stock Exchange "Tashkent" the organizational, technical and legal and economic basis of

the securities trading system developed in the short term. Currently, the exchange has branches in all regions of the Republic of Uzbekistan.

In international practice, the connection to a single international trading system plays a special role in the development of major foreign exchanges. The Tashkent Republican Stock Exchange is also working to integrate into the global securities market. In 1995, it joined the Eurasian Federation (FEAS), headquartered in Istanbul. In September 1999, an agreement was signed with the Frankfurt Stock Exchange on cooperation and data exchange. On July 23, 2004, the Republican Stock Exchange "Tashkent" and the London Stock Exchange signed an agreement on cooperation. In addition, negotiations are underway with the Republican Stock Exchange "Tashkent" and the Department of Kuwait Automated Trading System.[5]

The Republican Stock Exchange is organized as an open joint stock company and its management bodies have a specific nature. The Supervisory Board is responsible for the management of the stock exchange, and the Board of Directors is elected by the General Meeting of Shareholders. The General Meeting of Shareholders shall not have the right to approve the Annual Report of the Board of Directors without its conclusions. We will try to analyze the structure, operation and turnover of the stock exchange. We will try to cover the stages of formation and development of the stock exchange in our country.[6]

Regulation of securities transactions in the territory of the Republic of Uzbekistan is subject to pre-sale transactions on stock exchanges and over-the-counter, as well as other actions leading to gift, inheritance, inclusion in the charter capital and change of their property applied.[2]

Investment institutions can make transactions at the expense of clients only on the basis of assignment agreements or brokerage fees in the form prescribed by law, in strict compliance with all the necessary conditions specified in them.

Professional activity in the securities market is carried out on the basis of a special permit-license issued by a state authorized body. The licensing authority monitors the activities of investment institutions and decides to revoke the license in case of violation of the law.

In order to ensure the necessary professional activity with securities, the authorized body of the state shall: meet the qualification requirements for individuals (employees of investment institutions and stock exchanges) to obtain a certificate of qualification of a securities market specialist; sets mandatory standards for the adequacy of its own funds and other indicators that limit the risk of transactions with securities. Banks carry out professional activities in the securities market in the manner prescribed by law for investment institutions.[9]

Prohibited activities include:

- Issue securities without state registration or disclosure of information related to securities;
- Operating in the securities market without a license;
- Manipulation of the securities market through fraudulent transactions, mutual settlement of claims, implementation of short-term artificial transactions;
- Illegal use of important information;

- Dividing the stock market according to certain characteristics in order to create an advantage in the position of individual participants;
- Carrying out other actions contrary to the basic principles of trading in the securities market established by law.

The extreme complexity and rapid volatility of the stock market, the large number and diversity of participants, the execution of large contracts and transactions, the execution of different types of information, the availability and exchange of different types of information, etc. factors can lead to various illegal activities in the securities market.[10]

Such a situation could violate the interests and rights of investors, reduce their confidence in the stock market, and ultimately reduce the market's prestige.

Therefore, the securities market is controlled and regulated by the competent authorities.

Table 1: Dynamics of the Structure of Professional Participants of the Securities Market in the Republic of Uzbekistan in 1998-2013<sup>1</sup>

№	Types of activities	01.07. 1998	01.01. 2000	01.01. 2005	01.01. 2008	01.01. 2012	01.01. 2014
1	Investment intermediaries	192	134	109	94	36	41
2	Investment company	47	22	12	12	-	-
3	Investment Advisor	26	29	26	23	20	31
4	Depository	16	21	35	40	32	31
5	Registrar	38	56	54	46	-	-
6	Privatized investment funds	85	61	8	2	2	-
7	Management companies	82	46	59	54	-	-
8	Investment fund	3	4	18	11	7	9
9	Securities are nominal holders	4	6	16	17	-	-
10	Clearing House	1	2	1	2	2	2
11	Organizing over-the-counter trades	-	-	-	2	2	2
12	trust managers of investment assets	-	-	-	-	25	28
13	Transfer agents	-	-	-	-	4	3
	total	494	381	338	303	130	147

Table 4 above shows the dynamics of the structure of professional participants in the securities market in the Republic of Uzbekistan in 1998-2013. According to this table, the number of investment intermediaries has decreased significantly in recent years.[3]

That is, there were 192 investment intermediaries as of July 1, 1998, and 41 as of January 1, 2014. As of July 1, 1998, there were 26 investment advisers, and as of January 1, 2014, there were 31. investment funds were 3 as of July 1, 1998 and 9 as of January 1, 2014.

<sup>1</sup> Taken from the presentation materials of Prof. Butikov, who spoke at a scientific seminar organized by TMI and TSU on 29.05.2014

#### IV. CONCLUSION

Modernization of the economy of our country, ensuring its rapid development is one of the main and priority measures, which can be implemented in several key areas. In particular, comprehensive freedom to use such factors as stabilization of economic growth and strengthening the private sector, which directly serves to increase the socio-economic potential of the country, creating favorable financial conditions for business entities, increasing real incomes is given. In this regard, the factor of modernization of the economy through the financial market is of particular importance.[4]

The current stage of transition to market relations is determined by the openness of our economy, the growing attraction of foreign investment, the intensification of privatization and denationalization. At the same time, conditions are being created for the development of the financial system, because without an advanced financial system, the economic system cannot function successfully. In this regard, we found it necessary to draw the following conclusions.[11]

First, in order to intensify the activities of banks in the stock market, it is necessary to restructure their capital, sell the state share in the charter funds to private investors, further liberalize the activities of banks as investors.

Second, the bank forms the bank's debt capital along with the equity capital through the issuance of bonds. The increase in capital will lead to the growth of private funds, their share in the total capital of the bank, which, in turn, will serve to strengthen its stability, reliability and improve financial performance.

Third, the accumulation of funds of legal entities and individuals through the issuance of bonds by commercial banks, investing them in priority sectors of the economy, creates the basis for the development of the stock market - resulting in the following economic benefits [12]:

- Determines the reduction of the taxable base. Interest paid on bonds is included in "transaction costs" and reduces the bank's tax base;
- Has certain advantages over the issue of shares in the issuance of bonds. If the share represents a share relationship, the bond represents a debt relationship and the sale of bonds does not require the issuing bank to open a special savings account, which in turn allows the proceeds from the sale to be used in banking activities;
- Commercial banks are also a leading professional dealer in the placement of government bonds. Banks are free from mandatory reserves through the issuance of bonds, they do not require the creation of mandatory reserves for borrowed funds, the process is based on the availability of financial resources in the bank. serves as a determinant. [13]

In conclusion, it should be noted that the financial market in our country makes a worthy contribution to the provision of all sectors of the economy with constant active financial resources and the development of society. Therefore, if the scientific and theoretical proposals and recommendations given by us are put into practice, it would be a positive impetus for a more effective organization of the ongoing activities. This, in turn, will contribute to the development of the financial market in the country, as well as the adaptation of the country's commercial banks to international capital markets through the financial market.

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