



THEORETICAL BASIS OF PARTICIPATION OF COMMERCIAL BANKS IN CORPORATE SECURITIES OPERATIONS IN CAPITAL MARKET

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ABSTRACT.

This article studies theoretical basis of participation of commercial banks in corporate securities operations in capital market. Moreover, types and forms of intermediary activities of commercial banks in capital market and consistency of practices of commercial banks related to securities issuance are analyzed in detail. Scientific conclusions and recommendations are presented on organization and regulation of corporate securities operations in capital market in Uzbekistan.

KEYWORDS: *Capital, Capital Market, Securities, Corporate Securities, Corporate Securities Operations, Participants of Capital Market.*

INTRODUCTION

It is known to most of us that in the conditions of the market economy, commercial banks, as an important financial institution, play an important role in financing economic sectors by attracting free funds under certain conditions, making mutual settlements between entities, and increasing the income of the population. In this case, the effective organization of the activities of commercial banks in the stock market is important for the full functioning of the above-mentioned aspects. From this point of view, first of all, we will dwell on the theoretical aspects of the activity of commercial banks in the stock market.

Literature Review

I.R.Baybekov conducted research on issues of formation of bond portfolio through the activities of commercial banks in the stock market. In this case, the main attention is paid to the method of quality assessment of bond issuers while diversifying the bond portfolio from the point of view of diversifying the bank's income [1].



Commercial banks in the US can raise capital by placing their stocks, bonds and certificates of deposit on the stock market, directing funds mainly to federal, state or local bonds in terms of investment activities in the stock market. This aspect can be explained by the fact that due to the Great Depression of 1929-1933, commercial banks were prohibited from investing in high-risk securities. Banks are prohibited from owning high-risk securities such as stocks or corporate bonds. There are no restrictions on the purchase of Treasury securities due to their low risk and high liquidity [2]. In the US, commercial banks are also not allowed to engage in financial intermediation activities related to securities. It can be seen from the above that certain limits can also be established for the stock market of banks.

N.N.Martynenko, O.M.Markova, O.S.Rudakova, N.V.Sergeeva also paid attention to this issue and discussed the activities of banks in the securities market, their role and types, issuance and placement of securities by banks, securities investment activity of banks in the market, activity of banks as a professional participant of the securities market, in particular, dealer, brokerage, trust management and depository activities were studied [3]. The same aspect is noted in the textbook headed by V.A. Borovkovoy [4]. This can be explained by the fact that both economic literatures are written on the basis of Russian experience and practice.

“In the USA, even investment banks are prohibited from investing in corporate securities and mediating their placement. On the other hand, in Europe, on the contrary, restrictions on the activities of universal banks in the securities market are not put forward in the legislation. And on this basis, attention is paid to business development” [5].

“Participation of banks in the bond market had a positive effect on the activity of banks by improving the structure of the banks' portfolio and reducing the risks of the banks” [6]. These aspects reveal the advantages of banks' participation in the stock market.

A number of scientists have emphasized the importance of the role of banks and stock markets in the development of the economy and the development of banks' activities in the stock markets. In the process of economic development, the role of banks and securities market is developing. As countries develop economically, the size of both banks and stock markets increases relative to the size of the economy [7]. As a result, the participation of banks in the stock market will also expand.

Sh.Abdullaeva and A.Omonov pointed out that the transactions of stocks issued by banks in the secondary stock market are insufficient [8]. According to M.Sultanov, "...banks can engage in the type of activity of mutual investment funds when attracting public funds in the securities market. Since mutual investment funds are not legal entities, commercial banks can collect the funds of depositors (investors) with the same goal (desire) in one place (fund) and perform professional activities as a fiduciary manager in the management of their investment assets in the stock market. These aspects help to expand the participation of commercial banks in the stock market [9]. These aspects help to expand the participation of commercial banks in the stock market.



Kh.S.Tillaev paid attention to the need to take into account the level of inflation in the activities of commercial banks in the securities market. In particular, participation of commercial banks as issuers, investors or intermediaries in the securities market is directly affected by the level of inflation in the economy, and banks should take into account the inflation rate when participating as issuers in the securities market [10].

Sh.N. Sulonov stated that with the help of the stock market, the mobility of capital (industrial enterprises and bank capital) increases, it allows to quickly attract funds, including personal savings of households, to various sectors of the economy for investment [11].

The main indicator of increasing the competitiveness of the stock market of our republic is the level of development of the secondary market. Commercial banks, investors and various business entities, especially large companies, play an important role in the development of this market [12].

Research methodology

While learning theoretical basis of participation of commercial banks in corporate securities operations in capital market, there are used some research methods such as induction, deduction, analysis, comparison and others in this article.

Analysis and results

In international practice, banks can provide brokerage services as well as participating in the stock market as issuers and investors. In this case, banks can provide the following a number of services (Figure 1):

1. Consultant.

Advising on the size and value of the offer for securities in the issuance and placement of corporate bonds or stocks;

2. Underwriter.

Underwriting the price of the securities offered by the issuers, either individually or jointly with several different investment banks, by forming a syndicate for the issuance;

3. Sales assistant.

To assist in the sale of issued securities to potential investors [13].

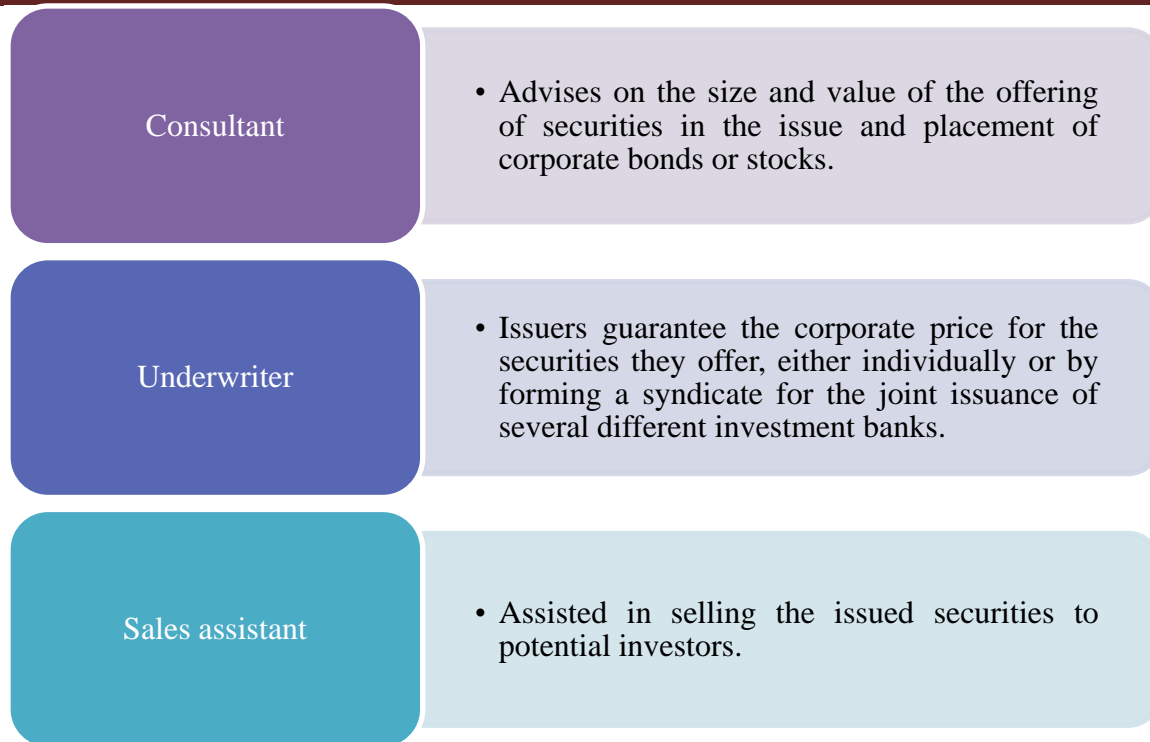


Figure 1. Types of intermediary activities of commercial banks in capital market [13]

In the international stock market, commercial banks offer various services (Figure 2). Through an underwriting service, it mediates between companies and investors seeking to raise capital through the public offering process. Manages mergers and acquisitions (M&A) processes and acts as an advisor to participants in the process. In addition, it participates in the trading of securities in the secondary market and assists investors participating in securities trading in making investment decisions. It also serves as an asset manager in managing investments for a wide range of investors, including institutions and individuals.

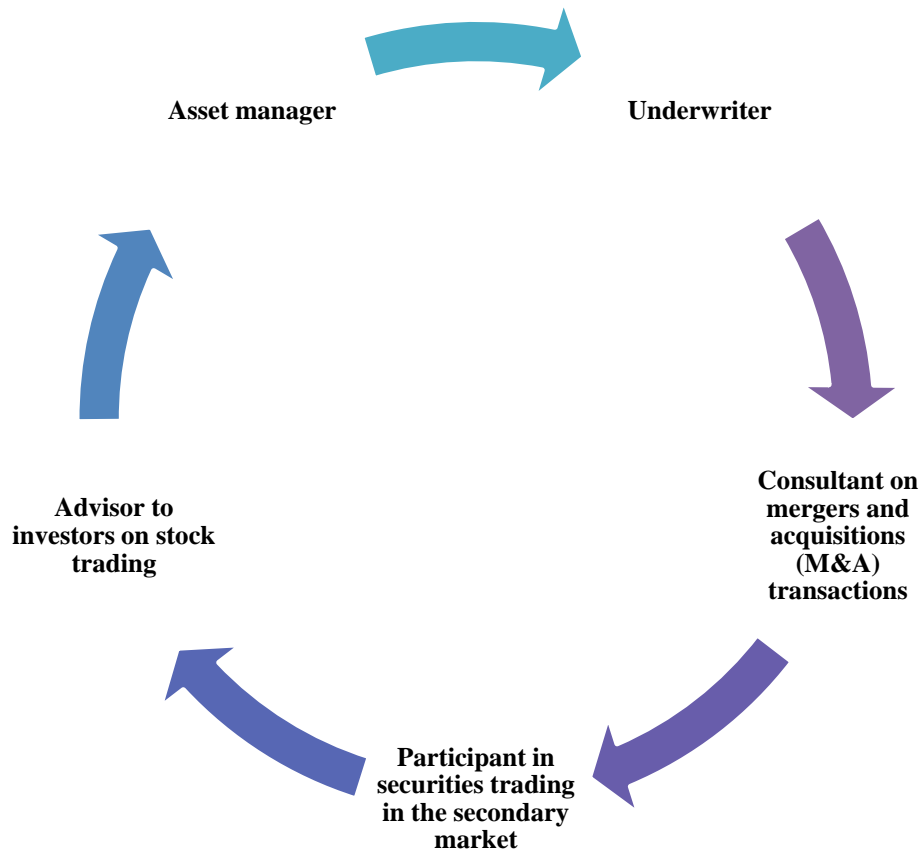


Figure 2. Forms of intermediary activities of commercial banks in capital market [14]

In general, we will conduct a more detailed theoretical analysis in the following table in order to study the characteristics of the activities of commercial banks in the securities market in exactly three directions (Table 1). Based on the data of Table 1, we should note that the basis of the activity of commercial banks is the issue of stocks. Because it is required to form the authorized capital during the start of commercial banks. It should be noted that the authorized capital is formed by issuing stocks and placing them among the founders. Commercial banks can offer intermediary services such as underwriter, depository, trust manager, investment consultant, clearing, dealer, broker through intermediary activity.



Table 1Activities of commercial banks in capital market¹

No	Field of activity	Activity tool	Purpose of activity	The final result
1.	Emission activity	Stock Corporate bond Deposit certificate Eurobond International stock	Formation and increase of authorized capital and attracting debt capital	Financial resources are provided
2.	Mediation activity	Underwriter Depository A reliable manager Investment advisor Clearing Dealer Broker	Gaining a source of income as an additional activity and increasing the experience of placing one's own securities	As a professional participant in the stock market, he earns and trades his securities based on market analysis.
3.	Investment activity	Stock portfolio Corporate bond portfolio Portfolio of government securities etc	Diversification of sources of income through active operations	Earnings from non-loan investment activities.

Corporate bonds are issued and placed in circulation by commercial banks in order to attract additional debt capital and diversify the debt capital to be attracted. Because in most cases, we can see that the issuance of deposit certificates, the attraction of savings and deposits serve as the main financial resources of banks. In such conditions, the issuance of corporate bonds also serves to optimize the capital structure. On the other hand, the successful placement and timely servicing of corporate bonds is also important to the success of future additional stock issuance.

From the second half of the 20th century, the international bond market, including the Eurobond market, began to develop rapidly in the global financial market. Eurobonds are divided into corporate and sovereign Eurobonds, issued in a foreign currency, for example, in US dollars, outside the country where the issuer operates. During the past period, commercial banks have been giving priority to attracting capital through the circulation of corporate Eurobonds, and in this regard, entering the international stock market. In this regard, commercial banks in our republic have started practical work.

On the other hand, there is an aspiration towards international stock exchanges in the matter of issuing and placing international stocks in commercial banks, attracting foreign capital through

¹Done by the author.



depository receipts. In this regard, we can witness that the issue of attracting foreign direct investment by conducting IPO and SPO operations by banks is highlighted as one of the strategic financial goals.

In general, the activity of commercial banks in the stock market through the issuance of securities is based on clear integration (Figure 3).

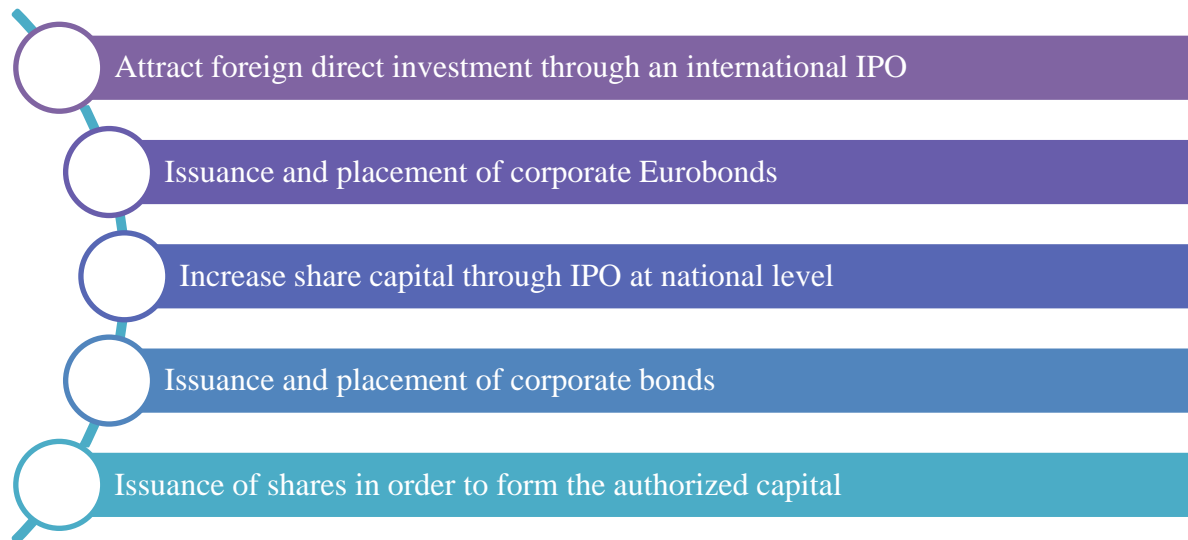


Figure 3. Consistency of practices of commercial banks related to securities issuance²

There are special conditions for issuing stocks and corporate bonds by commercial banks as issuers.

Intermediary activities of commercial banks in the stock market are carried out on the basis of the legislation of the stock market and banking activities, with certain exceptions. In this case, it may be allowed to mediate transactions related to securities on behalf and on behalf of the client, on behalf and on behalf of the bank.

CONCLUSIONS

Investments in securities of commercial banks can be directed to securities representing a debt relationship, securities representing an equity relationship. Investments in stocks representing share relations can be directed in the order of ownership of the control package, for the purpose of obtaining dividends and for the purpose of obtaining income based on the difference in exchange rates, and portfolios can be formed on this basis. However, we would like to emphasize

²Done by the author.



once again that in some countries there are restrictions on the ownership of the control package of stocks. On the other hand, commercial banks and investment banks may have separate procedures for investments in stocks.

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