Session IV
Presentation by Mr. Bakhodir Atakhanov
Regulation of the securities market in Uzbekistan

From the first days of independence of the Republic of Uzbekistan, major direction of economic reforms became preservation of the existing industrial infrastructure, by not allowing it to merge deeper into economic decline and ensure its stable growth.

Priorities for achieving this purpose were system transformations, denationalization and privatization, development of private sector and formation of multi-structure economy.

Foundation of Committee on state property and support of entrepreneurship (State property committee) has allowed to gradually carrying out privatization process of state property by creating necessary conditions for potential investors.

Realization of privatization and denationalization of state owned enterprises by allocating shares of joint-stock companies created on the basis of former state enterprises has resulted in establishment of the market, which would correspond to national interests and traditions, be integrated to global securities market, be organized and predictable, operating under uniform provisions and standards.

Feature of securities market is that the securities represent the set of rights and do not exist in separation from normative legal base provided with the state legal system.

Thus, the state functions as system creating body, which continuously establishes itself according to tasks facing it on maintaining national interests.

State creates market regulation system and provides its functioning. Regulation of the securities market covers all kinds of activities and operations on it, and is carried out by bodies or organizations authorized to perform regulating functions.

Concrete purposes of regulation of the securities market are always determined by the current economic and budget policies, conditions of economic growth and number of other factors.

According to the Law of the Republic of Uzbekistan «On mechanism of functioning of the securities market», state regulation of the securities market is carried out by means of:

- registration of securities issue and emission prospectuses, control of observance by the emitters of terms and obligations stipulated in them;
- maintenance of securities information disclosure by emitters and participants of securities market according to legislation of Uzbekistan;
- certification of specialists, licensing and control of activities of investment institutes;
- consideration of appeals of investors and other participants of securities market and submit conclusions, instructions, obligatory for execution by participants of the securities market.

The form of expression of state regulation of the securities market, first of all, is the normative-legal acts, with the help of which the regulation is carried out. The area of the legislation gives in to influence of the state market much easier than other components of the securities. Hence, with the help of the reasonable laws it is possible to ensure the strongest influence with the purpose of acceleration of process of developing of the securities market.

Taking into account all above said, I would like to add that a number of normative-legal acts, regulating the securities market, consisting of 5 basic laws, 7 decrees and orders, more than 30 resolutions of the Cabinet of Ministers, 68 provisions, instructions and other legal acts have already been adopted.

One of the first steps on the way towards creation of securities market is the Law of Uzbekistan «On securities and stock exchange», adopted by Oliy Majlis (parliament) of the Republic of Uzbekistan on September 2, 1993 and acting since January 1, 1994.

The given Law defines conditions and order of issue and circulation of securities, regulation of activities of securities market participants, and also principles of organization and activity of stock exchanges.

The next step in this direction was adoption by Oliy Majlis both the Law «On the mechanism of functioning of securities market» from April 25, 1996, which defines relations regarding to functioning and regulation of securities market and the Law «On joint-stock companies and protection of rights of shareholders» from April 26, 1996.
Tasks regarding establishment, activity and liquidation of joint-stock companies and protection of shareholder’s rights are defined by the above mentioned Law «On joint-stock companies and protection of shareholder’s rights» and other acts of legislation of Uzbekistan.

It is especially necessary to note the Law of Uzbekistan «On protection of investor’s rights in securities market» from August 30, 2001, adoption of which confirms that protection of investor’s rights is one of the priorities of socio-economic policy of the Republic of Uzbekistan. The law states the rights and responsibilities of securities market participants, requirement on disclosure of information by investment institutions, emitters and authorized state body, several restrictions directed on maintenance of protection of investor’s rights. This lets to effectively protect the rights and interests of investors and, by that, to create favorable conditions for attraction of investments into national economy.

The last year was very fruitful for the securities market which is supported by statistical data and in many respects it is all due to the accepted new decisions of the government, brought changes in the previous acts and new provisions developed by the Center, together with other bodies of the state.

For the past period of 2003, 5 provisions, concerning securities market regulation, were developed by the Center and registered in the Ministry of Justice:

1. Provision «On affiliated persons, the order of conducting their account and information disclosure in joint-stock companies» from 29.01.2003 г. №1212.

The given provision was developed according to the Law «On joint-stock companies and protection of the rights of shareholders» and also defines concept of affiliated persons, establishment of order of conducting their account, and disclosing of the information about affiliated persons in joint-stock companies.

2. Provision «On the order of emission, state registration, cancellation of emission of securities by commercial banks» from 12.02.03 № 1216

3. Provision «On licensing professional activity in the securities market (activity of investment institutes on securities market)» authorized by Decision of the Cabinet of Ministers from 9.07.03 г. №308

This given provision was adopted with the purposes of ordering licensing of different kinds of professional activities in the securities market, where the license requirements and conditions, and also order of the control behind observance of the license requirements are determined.

It is necessary to emphasize, that the order of licensing of activity of professional participants of the securities market, before acceptance of the above given provision, was adjusted by the law «On licensing separate kinds of activities», and also provision «On licensing activity of investment institutes on a securities market» from 13.01.99 г. №593. Previous provision did not take into account many features of activity of professional participants and a number of the adopted new normative acts of the legislation, concerning to the securities market.


The present Provision is developed according to the Law of Republic of Uzbekistan «On mechanism of functioning of the securities market», Decision of Cabinet of Ministers «About measures on the further development of the securities market» and other normative-legal acts about the securities market with the purposes of definition about conducting the registration book of transactions made on the unorganized off exchange market by investment institutes.

5. Provision «On economic specifications of activity of investment institutes» from 30.09.03 г. №1280, where the minimal requirements to the size of own means of investment institutes are established.

Written above acts define a legal basis of formation and further development of the securities market and its infrastructure, realization of operations with securities, protection of the rights and interests of the participants of the securities market, and also regulation of their activity etc.
Furthermore, with a view of the further deepening of process of privatization, the maximal reduction of a share of the state in authorized capitals of the enterprises, increases of investment attractiveness of objects, and also wide attraction of foreign investors, on April, 17, 2003, Cabinet of Ministers signed the decision «On the program of privatization and privatization the enterprises for 2003-2004», in which following lists are authorized:

- the privatized enterprises in which the state shares in the authorized capital and not placed actives completely are subject to realization in 2003-2004 on exchange and off exchange markets;
- the state enterprises and objects which are completely realized on exchange and off exchange markets;
- the enterprises in which authorized capital is kept from 25 up to 51 percent of shares in the property of the state;
- the enterprises having strategic value in which authorized capital is kept 51 and more percent of shares in the property of the state.

Acceptance of the aforesaid decision has led to activation of the securities market as a whole and to increase in inflows of investments to the national economy and as result; within year 2003 the state shares in the authorized capital and actives were sold in 2015 enterprises in the primary market.

Besides with a view of suppression of a hidden flow of capital and development of a secondary securities market, on April, 29 of 2003, government adopted a decision «About measures on the further development of a secondary securities market» which has determined, that transactions in the secondary market on sale and purchase of shares of open joint-stock companies outside trading systems of stock exchanges and organizers of off exchange tenders, having corresponding licenses, are considered to be illegal.

Due to the decision and the constant control over its execution, we have achieved sharp reduction of unorganized secondary off exchange market flow of capital and now in this market only transactions of inheritance, donation, transfer to the authorized capital, repayment the emitter of own shares and transfer on account of repayment of debts under the decision of court are carried out.

Main organizations involved in regulation of securities market.

The main organizations participating in regulation of the securities market of Republic Uzbekistan are:

1. Center on coordination and control of the functioning of the securities market;
2. Central bank;
3. National Association of Investment Institutes;

Center on coordination and control of the functioning of securities market

Body of state regulation in the securities market of Uzbekistan is the Center on coordination and control of functioning of the securities market (further Center), created on the Decree of the President of Republic of Uzbekistan from March 26, 1996 №1414.

Before issue of the Decree, the functions of a regulator were carried out by the State commission on securities and stock exchanges at the Ministry of Finance of Republic of Uzbekistan founded on the Decision of the Cabinet of Ministers of Republic of Uzbekistan from September 7, 1995 N 351.

Within the framework of assignments determined by the Government, the Center carries out functions inherent to commissions on securities and stock exchanges and is a special state body on regulation of the securities market in Republic of Uzbekistan.

The mechanism of state regulation of the securities market is expressed in: observance by the participants of the securities market obligatory normative acts, adopted by the Center; obligatory registration of releases of securities, prospectus of issue; obligatory licensing of the organizers of tenders
and other investment institutions; reception of the qualifying certificates by the specialists and managers of investment institutes etc.

**Structure of the Center**

The administrative structure of the Center includes the General Director, who is also on the post of the vice-president of the State property management committee, 2 assistances of the General Director, 6 divisions (mentioned below) in the head office and 13 territorial divisions.

1. Division of methodology:
   - department of work with the complaints and protection of the rights of the participants of the securities market
2. Division of supervision of professional activity on the securities market;
3. Division of strategy and analysis:
   - department of interaction with regions;
   - sector of information technologies.
4. Division of registration of securities and admission to the outflow;
5. Division of the control over the emitters’ activity;

At the Center also set and functions the joint body - Council on appeals consideration, structure of which, alongside with the representatives of the Center, includes representatives of the Ministry of finance, State tax committee, Central bank, State property management committee, Committee on demonopolization (anti monopolization) and other organizations.

There are 125 people employed by the Center and 29 of them work in the main republican office (head quarter)

The tasks and competence of the Center are determined by the Provision «On the Center on coordination and control of functioning of the securities market at State property management committee of Republic of Uzbekistan », authorized by the decision of the Cabinet of Ministers of Republic of Uzbekistan № 126 from 30.03.1996, and also by other acts and decisions of the Government.

Major directions of activity of the Center also is the state registration of releases of securities; licensing of activity of the professional participants of the securities market, and also realization of certifications for conducting activity with securities.

On the present moment the number of the working licenses is 295 and 100 licenses from them belong to the investment intermediaries.

During year 2003 Center has given (renewed, prolonged) 17 licenses to carry out activity on the securities market, 11 of them got the license first time, and 21 licenses were cancelled.

In a direction of supervision over performance of the legislation requirements by the securities market participants, Center conducted on-site inspections in 29 investment institutes to check their observation of requirements of the legislation on the securities market.

As a result of inspections the cases were opened on 21 investment institutes on revealed during the inspections to infringements and the following measures are accepted:
- Two enterprises were deprived the licenses for realization of activity on securities market;
- On three enterprises the economic sanctions for the sum more than 2 mln. sums were exposed;
- The instructions for elimination of infringements revealed were given to nine enterprises during check;
- Five accepted cases to consideration were transferred to law-enforcement bodies.

Besides, for the past period of this year for not disclosing of the information and for the other reasons 183 cases (including not the professional participants) were opened and the economic sanctions for more than 60 mln. sums are exposed.
It would be desirable also to add, that during the past period of this year for the benefit of the investors the Center has collected damage (loss) for the sum more than 560 mln. sum.

According to the additional agreement between Republic of Uzbekistan and World Bank, the Center together with a Bureau on post privatization support of the enterprises conducts work on realization of the project on development of the capital market in the country. The second stage of the project assumes creation of two integrated systems for institutes of an infrastructure of the securities market «Electronic system of informing of the participants of the securities market» and «Electronic system of monitoring and control» for the Center, the purpose of creation of which is the maintenance of the qualitative control over activity of the securities market.

*The central bank*

Together with the Center in regulation of the securities market the Central bank also plays main role and according to the law «On securities and stock exchange» Central bank defines(determines) Provisions of release, registration, conditions of release and outflow of bank deposits, and also bills (except for exchequer), together with the Ministry of finance.

The purchase more than twenty percents of the shares of bank by one or several purchasers connected among themselves by the agreement, and also group of the legal persons being affiliated or dependent on relation to each other, requires the preliminary consent of the Central bank. At an establishment of an unsatisfactory financial position of the purchasers of the shares the Central bank has the right to give up in a summer residence of the consent on fulfillment of the transaction of sale and purchase more than twenty percents of the bank shares.

By provision «On order of release, state registration, repayment (cancellation) of release of securities by commercial banks» registered by the Ministry of justice of February 12, 2003 for №1216 determined, that the commercial banks within one month from the date of registration or re-registration (modification and additions) charter, represent the prospectus of securities release to the Central bank for the coordination with conditions and volumes of release of securities. Then, all the necessary documents are submitted to the Center for registration of issue.

*National association of investment institutes*

According to the Law of Republic of Uzbekistan «On mechanism of functioning of the securities market», with the purposes of protection of interests of the investors, investment institutes and other clients, an association of investment institutes can be created on principles of noncommercial organizations.

Thus, the national association of investment institutes (NAII) was founded in January 2000 under the initiative of a number of the conducting domestic investment institute of the securities market, as not state, noncommercial organization in the securities market of Uzbekistan.

The main purpose of creation and organization of activity of NAII is the representation of interests and protection of the rights of the participants of the securities market, including, acceptance of measures on increase of efficiency of activity of investment institutes; maintenance of a transparency of operations with securities, introduction of the international standards of professional activity and ethics, participation in development new and preparation of the offers on perfection of the working acts etc.

Now NAII unites more than 40 domestic and foreign members - professional and not professional participants of the securities market of Uzbekistan.

The management system of NAII carries democratic character and has the following structure:
- General meeting of NAII;
- Council of the directors of NAII;
- Sole executive body of NAII headed by the Director;
- Консультативный совет НАИИ.

In addition to the above-stated participants of regulation of the securities market, there are such organizations as Central depository of securities, Republican Stock Exchange «Toshkent» and Clearing
chamber «ELSIS-KLIRING», which also participate in regulation of activity of the market, by an establishment of the provisions and orders obligatory for their members and other investment institutes.

In a final part of the report I would like to emphasize, especially, a role and importance of the Decree of the President of Republic of Uzbekistan accepted in January 24, 2003 of №3202 «On measures to fundamentally increase the private sector's share and importance in the economy of Uzbekistan».

One of the basic purposes of signing of the given Decree is the perfection of system of corporate governance in Republic of Uzbekistan and its introduction in practice for increase of inflow of the investments in all branches of economy both from sources inside the country, and from the foreign investors.

According to the Decree of the President the order was cancelled, at which:

- The decision of the supervisory council of joint-stock company can not be accepted without the consent of the confidential manager of a package of the shares belonging to the state, or state attorney;
- The state attorney has the right to suspend execution of the decision of general meeting of the shareholders;
- The transfer of state packages of the shares in Capital fund (уставный фонд) of economic associations with the right of confidential management is accepted.

In summary, I with confidence say, that the active work on strengthening and further development of the securities market is carrying out in Uzbekistan. In spite of the fact that a number of tasks and unsolved questions still exist, almost all necessary conditions for attraction of the foreign investments and further integration of a national economy in global economic system are created in Uzbekistan.

*Thank you very much for your attention!*

The items below should be covered in the country notes, as appropriate.

I. Macroeconomic Characteristics
♦ Please provide a short description of macroeconomic developments in recent years and of future prospects.

♦ Please provide statistical data on macroeconomic developments of the past five years (1998-2002), including:
  – Population (thousands) 24.6 mln.
  – GDP (gross and per capita values in USD and growth rate (%))
  – Inflation (annual rate (%))
  – Wage level (annual increase rate (%))
  – Asset composition (savings, stocks, etc.: each % of total asset)
  – Budget balance
  – External balances
  – Exchange rate movement, etc.

II. Market Overview

♦ In order to assess the prospects for the growth and development of the securities market, it is indispensable to scrutinise the current situation of the securities market. In this respect, please briefly describe the recent developments in the securities market in your country. For example: What is the latest situation of primary and secondary markets? What are the major reforms to develop the secondary market? What is the problem to be removed in order to secure liquidity of securities? Is the pricing mechanism appropriate? What kinds of investors want what types of products? What kinds of institutional investors do you have (e.g., pension funds, privatisation funds, mutual funds, etc.) and are they functioning? What are the major factors that shape the current situation?

♦ Please provide statistical data on the securities market for the last five years (1998-2002), including:
  – Market size (trade volume and total market values in USD)
  – Stock market capitalisation (% of GDP)
  – Major products (equities, government/corporate bonds, derivatives, etc.: each % of the total)
  – The size of electronic (internet) trading, if available
  – Price movements
  – Investors structure
    -- The number of domestic and foreign investors and each % of the total
    -- The number of individual and institutional investors and each % of the total
  – Issuers structure
    -- The number of state-owned and private enterprises and each % of the total
  – Intermediaries
    -- The number of securities brokers, e.g., primary dealers
  – Primary market
    -- The number of listed joint stock companies and closed joint stock companies and each % of the total
  – Secondary market
    -- Free float level (turnover ratio of securities), etc.
-ставка налога на прибыль с 24 до 20%;
-отчисления на социальное страхование с 37,3 до 35%;
III. Уровень инфляции составил 3,8% против 21,6% в 2002 году
IV. Рост реального дохода населения на 12,3%;
V. Депозиты во вклады в коммерческие банки выросли на 44%;
VI. Государственный бюджет в 2003 году исполнен с дефицитом 0,4%;
VII. Объем внешнеторгового оборота активизировался на 17,3%, объём экспорта на 24,6%;