

Directions for developing commercial banks in the securities market

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Abstract

The article describes the theoretical and practical aspects of the activities of commercial banks in the securities market. At the same time, problems of the development of operations of commercial banks in the securities market of our country and recommendations based on the experience of commercial banks of developed countries to solve them are developed.

Keywords: stock market, issuer, investor, commercial bank, issue transaction, investment operation, intermediary operation.



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Introduction

Commercial banks are financial institutions that carry out investment and issuance operations in the securities market and a "financial channel" that attracts investors to the market by directing the free flow of capital of the the population, and forms their re-accumulation.

In current conditions, the securities market is a highly developed trading platform attended by more than a thousand companies every day; individuals invest in this market for economic gain [4]. However, the instability of socio-economic processes at the international level has led to a drop in stock prices in this market to 20% in the first quarter of 2020 [5]. The "coronavirus infection", causing the "Great Crisis" and "Depression" in the world community, has harmed the economies of countries, as well as a certain stagnation of economic activity, which has exacerbated financial transactions. This, in turn, leads to the temporary suspension of operations in the financial sector.

Strengthening the regulatory framework of commercial banks in the securities market of the country is an essential direction in attracting financial resources of local and foreign investors by increasing transparency, competition, and confidence.

The President of the Republic of Uzbekistan Sh. Mirziyoyev said: "In order to attract more foreign investment, we must take measures to fully demonstrate the investment potential of our country [6]", emphasizing the need to carry out practical work on growth.

Review of the literature

The emergence of the need for the securities market in the country, their development, and the participation of business owners in this market directly and indirectly impact the existing socio-economic processes, the rules, and trends of economic management. This, in turn, is reflected in the scientific work of many economists on the activities of commercial banks in the securities market.

O.N. Yanina, a Russian economist, suggests dividing the securities transactions of commercial banks into the following groups [1]:

- active operations - an investment of unrestricted funds in securities, placement of own and borrowed funds in joint-stock assets on its place in stocks and over-the-counter markets;
- passive operations - the issuance and placement of their securities by banks, as well as other operations related to the increase of the bank's financial resources;
- commission (with clients) operations - operations, settlements, guarantees, acceptance for safekeeping, etc., carried out by banks on behalf of clients for a certain fee.

Peter Rose considered it expedient for banks to develop mainly investment activity in the securities market, and studied its instruments and divided them into the following two classes: [2]:

- money market instruments;
- capital market instruments.

Peter Rose suggested that commercial banks focus more on promissory notes and bonds as a critical area for improving investment operations in the securities market.

E. Nosirov, an Uzbek economist, has studied the role of commercial banks in the securities market, noting that they are reflected in the following operations: first, the formation and transfer of equity capital and meeting the needs of working capital for quality; secondly, as an investor directing to the purchase of for-profit securities; thirdly, the securities market is characterized by various intermediary operations and many other operations as an investment institution. [3]

In the securities market, commercial banks simultaneously issue securities as an issuer and are involved in investment transactions as investors, in addition to selling and buying securities in the securities market as financial intermediaries at the request of issuers and investors.

Methods

The study's primary purpose is to identify the existing problems based on the theoretical and practical analysis of the operations of commercial banks in the securities market and draw scientific conclusions to develop scientific and practical proposals and recommendations for their solution. The scientific works of foreign and local economists were used in the analysis of the literature. In carrying out scientific research on the topic, methods such as the collection of theoretical and practical materials and systematic analysis, induction, deduction, and synthesis were used.

Discussion

In a market economy, regardless of ownership, any business entity, especially commercial banks, also conduct activities such as allocating, attracting, and managing financial resources through operations in financial markets. The volume of trade turnover in this market is an essential indicator of the country's GDP when assessing the state of operations of commercial banks in the securities market and the activity of the primary and secondary securities market in the country as a whole through stock exchanges.

If we compare the stock market turnover of the CIS countries with GDP, we can see that it is 1.2% in Uzbekistan, 1.5% in Kazakhstan, 1.1% in Kyrgyzstan, and 5.4% in Russia.

Banks in the CIS countries, especially in Uzbekistan, are the prominent participants in the securities market. For example, in 2019, the securities market turnover on the country's stock exchange amounted to 438.8 billion sums, of which about 319.5 billion sums or 72.8% fell to the share of commercial banks.

Below is given the volume of investment and issuance operations of the bank and their role in banking of the Industrial and Commercial Bank of China Ltd, the world's first bank in terms of assets, profit, and net income (second only to JPMorgan Chase & Co.) and their banking activities.

1-figure

Balance sheet structure of the Industrial and Commercial Bank of China [8]

№	Balance sheet items	2017		2018		2019	
		million RMB	%	million RMB	%	million RMB	%
1	Credits	13 535 464	57,7	14 600 596	58,7	15 897 368	58,8
2	Investment	5 135 606	21,9	5 483 420	22,0	6 141 181	22,7
3	Requirements to the central bank	3 142 370	13,4	3 155 407	12,7	2 979 028	11,0
4	Requirements to other banks	1 651 391	7,0	1 628 820	6,5	2 029 662	7,5
	<i>Total of earning assets</i>	23 464 831	94,1	24 868 243	93,2	27 047 239	92,0
5	<i>Total non-earning assets</i>	1 788 680	7,2	2 211 163	8,3	2 802 458	9,5
6	Backup to potential losses	-322 769	-1,3	-387 490	-1,5	-461 121	-1,6
	Total assets	24 930 742	100	26 691 916	100	29 388 576	100
	Total liabilities	23 079 401	92,6	24 560 708	92,0	26 626 751	90,6
	Owned funds (capital)	1 851 341	7,4	2 131 208	8,0	2 761 825	9,4
	Total liabilities	24 930 742	100	26 691 916	100	29 388 576	100

The table shows that the volume of investments by the Industrial and Commercial Bank of China (ICBC) in total assets increased from 21.9% in 2017 to 22.7% in 2019, or an increase of 0.8 percentage points in the analyzed period.

In terms of the bank's assets, asset diversification is of high quality; the attracted financial resources are directed to high-risk loans and the Central Bank and other banks in terms of investment and liquidity, about 20%. During the period under analysis, these quantities have remained relatively stable.

Although the Bank of Industry and Commerce of China did not have a significant share in the securities market, its share in the bank's liabilities in the period under review was around 2.5-3.5%, including the shares issued by the bank to form the authorized capital it would be 10-12 percent.

We will continue the process of analyzing the operations of commercial banks in the securities market with the study of investment and issuance operations of Sberbank of Russia, which has the most extensive banking system in the CIS. The following table shows the consolidated balance sheet of the bank for 2017-2019.

2-figure

Consolidated balance sheet of Sberbank of Russia [9]
In Russian ruble

№	Balance sheet items	2017		2018		2019	
		in billions	%	in billions	%	in billions	%
1	Loans	18488,1	68,2	19585	62,8	20363,5	68
2	Securities	3030,5	11,2	3442,5	11	4182,4	14
3	Financial instruments, REPO	258,9	1	307	1	187,3	0,6
4	Requirements for financial instruments (derivatives)	140,9	0,6	177	0,5	193,9	0,7
5	Other assets	5193,8	19,2	7686	24,7	5031,8	16,7
Total assets		27112,2	100	31197,5	100	29958,9	100
Total liability		23676,2	87,3	27341,7	87,6	25472,2	85
1	Authorized capital and issue income	320,3	1,2	320,3	1	320,3	1,1
2	Purchased shares	-15,3	-0,1	-18,1	-0,1	-21,5	-0,1
3	Different stocks	72,4	0,3	-7,1	0	138,7	0,5
4	Retained earnings	3058,6	11,3	3560,7	11,4	4049,2	13,5
Total owned funds		3436	12,7	3855,8	12,4	4486,7	15
Total liabilities		27112,2	100	31197,5	100	29958,9	100

The table shows that the volume of investment operations of Sberbank of Russia during the analyzed period was higher than the volume of issuance operations, while the bank conducted intermediation operations with various securities instruments.

In particular, in the structure of the bank's assets, investment operations in 2017-2019 amounted to 11.2% and 14.0%, respectively, while the bank's REPO and purchased financial instruments amounted to 0.5-1.0%.

The volume of long-term securities issued by Sberbank in the liabilities structure amounted to 2.4-3.4%, while the bank also sold its financial instruments to customers.

A study of investments in the assets of international banks, in particular Russian banks, revealed that their main items were:

- long-term liabilities
- participation in the capital of subsidiaries and affiliates;
- financial derivatives;
- equity securities;
- registered bills;
- including other intermediary transactions with securities.

Operations and activities of commercial banks in the securities market in Russia are regulated by the Central Bank of Russia (Bank of Russia) - a mega-regulator.

We consider the operations of commercial banks in the securities market on the example of investment and issuance operations of ATIB Ipotekabank, one of the five largest banks in

Uzbekistan, for the last three years. The bank's assets, loans, and deposits make up about 10% of the country's banking system.

3-figure

The structure of the balance sheet of the joint-stock commercial mortgage bank "Ipotekabank" [10]

№	Balance sheet items	2017		2018		2019	
		in billion sums	%	in billion sums	%	in billion sums	%
1	Funds in the Central Bank and other banks	2 178 920,4	16,3	1 453 715,1	7,4	2 623 444,4	11,1
2	Loans and leasing operations	10 461 336,0	78,1	17 195 777,3	87,0	19 486 172,5	82,6
3	Investments and other securities	76 417,2	0,6	256 085,2	1,3	262 356,9	1,1
4	Other assets	672 628,1	5,0	849 281,3	4,3	1 215 830,2	5,2
Total assets		13 389 301,7	100, 0	19 754 858,9	100, 0	23 587 804,0	100, 0
Total liabilities		12 131 548,1	100, 0	18 144 135,0	100, 0	19 857 543,0	100, 0
1	Ordinary shares	838 003,4	66,6	977 561,5	60,7	2 809 392,1	75,3
2	Preference shares	8 052,0	0,6	8 052,0	0,5	8 052,0	0,2
3	Added capital	754,4	0,1	754,4	0,1	754,4	0,1
4	Reserve capital	132 035,5	10,5	374 194,0	23,2	481 957,3	12,9
5	Retained earnings	278 908,2	22,2	250 162,0	15,5	430 105,2	11,5
Owned capital		1 257 753,6	100, 0	1 610 723,9	100, 0	3 730 261,0	100, 0
Total liabilities		13 389 301,7	100, 0	19 754 858,9	100, 0	23 587 804,0	100, 0

The table above shows that the investment operations of the "Ipoteka-Bank" joint-stock commercial mortgage bank in 2017 amounted to 0.6% of total assets, and by 2019 will increase by almost 3.5 times to 262,356.9 million sums or 1.1% of total assets. For comparison, in 2019, this figure reached 22.7% in the Industrial and Commercial Bank of China, while in Sberbank of Russia, which has the most extensive banking system in the CIS, it was 14.0.

As for the issue operations of ATIB Ipotekabank for the last three years, the number of ordinary shares in the bank's equity in 2017 amounted to 838,003.4 million sums, and by 2019 it will increase by about 3.5 times to 2,809,392.1 million sums. The main reason for this is that the bank issued 417,199,050,000 ordinary shares on March 18, 2019, and 1,414,631,585,251 ordinary shares with a nominal value of 1 sum on November 25, this year. This, in turn, caused the "Ipoteka-Bank" joint-stock commercial mortgage bank to be included in the TOP-5 list of issuers on the Republican Stock Exchange "Tashkent" in 2019 with a total of 3,384 transactions.

The bank's total capital share in total liabilities also increased by 6.4 percentage points in 2019 compared to 2017 and amounted to 15.8% [7]. However, the amount of capital added in 2017-2019 remained unchanged. From this, there is no positive difference between the nominal and market value of securities issued by the bank on the stock exchange. Also, the analysis of the balance sheet of the "Ipoteka-Bank" joint-stock commercial mortgage bank shows that the bank almost did not carry out intermediary operations, which can be performed as a professional participant in the securities market.

Conclusions and recommendations

Based on the experience of the banking system of developed countries, including the results of investment and issuance operations in the securities market of the Industrial and Commercial Bank of China and Sberbank of Russia, the following conclusions can be drawn:

- Although the level of return on investment in securities is low, the bank will be able to sell them in the securities market when there is an urgent need to fulfill obligations, as they are placed in highly liquid securities;
- The main reason for the low volume of issuance is that this source of passive transactions is costly, almost twice as high as time deposits (for example, the average interest rate on securities issued by the Industrial and Commercial Bank of China is 3.56%, 1.59% on-time deposits). However, due to its long-term and high attractiveness, the bank also focused on forming financial resources to a certain extent at the expense of this instrument and diversified the bank's liabilities in this way.

Concluding the operations of commercial banks in the securities market in the country, more than 70% of the trade turnover with securities on the country's stock exchanges falls on the share of commercial banks. They carry out mainly investment and issuance operations on the stock exchange. The analysis of the balance sheets of banks in developed countries shows that the investment activity of commercial banks in the country is unsatisfactory; they do not effectively use the opportunities to diversify assets and reduce risks through these operations. There are some reasons for this, the main of which is that the infrastructure of the securities market in the country is underdeveloped. In contrast, the quality of the regulatory framework that protects the obligations and rights of banks in this market has not been created.

As for the issue operations of commercial banks in the securities market of our country, the nominal value of issued securities is almost constant, which does not allow them to form a market price. As a result, commercial banks are constantly forced to issue additional shares to increase the amount of authorized capital. The main problem is that the lack of an increase in the market value of shares issued by commercial banks does not attract additional capital and increase its volume. In particular, it can be concluded from the reports of commercial banks that there is no difference between the book value of securities and the market value at all, and the fact that supply and demand in the financial market have almost no effect on the securities market does not necessitate reassessment. This situation also reduces the economic interest associated with the participation of commercial banks in the securities market. In our view, the solution to this problem is to increase the confidence of domestic and foreign investors in the country's financial markets, including bank securities, which will undoubtedly reduce inflation, ensure the stability of stock prices and increase the demand for bank securities.

Along with investment and issuance operations in the securities market, it is expedient for commercial banks to develop their professional intermediary participation in this market. Banks

are among the financial institutions in the country with the highest capacity to perform these operations and a reliable intermediary and financial institution with financial resources.

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