AMERICAN JOURNALS
Open Access, Peer Reviewed Journals

American Journal of Business Management, Economics and Banking
ISSN (E): 2832-8078 Volume 35, April - 2025

ROLE OF CORPORATE SECURITIES IN CAPITAL MARKET

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A B S T R A C T

This article studies role of corporate securities in capital market. Moreover, types and forms of corporate securities, some aspects of different securities are analyzed in detail. Scientific conclusions and recommendations are presented on the basis of analyses.

K E Y W O R D S

Share, bond, capital, capital market, securities, corporate securities, corporate securities operations.

Introduction

In this era of accelerating globalization, large companies are directing twice as much of their capital into the economies of developing countries than into developed countries. Despite the rapid growth of investment flows in developing countries, factors such as capitalization of stock markets, transparency, liquidity, volatility of securities prices, and high transaction costs complicate the process of using the optimal method of asset valuation. The sharp fluctuations in assets on world stock markets are explained by the fact that the capitalization of stock markets in developing countries is increasing year by year. However, the mechanism of issuing securities and selling them on the stock market is not being effectively used. So learning the topic is essential for the development of corporate securities market.

Literature Review

In this regard, it is necessary to emphasize that the content and essence of securities are interpreted differently in various economic literature. This is fully confirmed by the following:

“securities are monetary or commodity documents (stocks, bonds, letters of credit, bills, checks, etc.) that give their owner the right to ownership of property and the right to receive a certain amount of money in the form of income” [1];

“securities are a certificate legally confirming the right to receive expected future income under certain conditions, that is, a certificate of ownership” [2];

“Securities reflect real economic relations in the processes of distribution and redistribution between production entities, confirm the investment of funds in the economy and its sectors, reflect property and non-property, share and debt relations, and bring a certain amount of income to the owner” [3];

“a security is a document reflecting the property relations associated with it, which can circulate independently on the market, be the object of purchase and sale and other sales, serve as a source of permanent and one-time income, and be a type of money capital" [4].

"securities – a document issued by the issuer in paper or electronic form, evidencing indebtedness, investments made, obligations assumed, and other property and non-property relations" [5];

"Securities are property and related non-property rights in the field of raising, redistributing and repaying funds in the form of debt or equity capital by business entities, confirmed in a separate manner in the form of a document (form) or in the form of entries in accounts in specialized organizations (depositories)" [6];

"a security is, in general, a monetized (backed by money) asset with a value (price) and properties equivalent to the real basis ("twin-analog"), provided with a special economic-informational-legal mechanism, characterizing, shaping and developing financial relations in its own market, ensuring the efficient distribution and redistribution of financial resources. "a means of ensuring the distribution of income, in certain cases in certain forms, manifested in various forms, forms and contents, both as investment capital (assets, special fund assets, securities portfolio), as a means of payment, and as a separate stock market product" [7].

Securities also have their own definition in legislation. For example, the Law of the Republic of Uzbekistan "On the Securities Market" provides a detailed definition of securities: "Securities are documents that confirm property rights or debt relations between the legal entity that issued these documents and their owner, provide for the payment of income in the form of dividends or interest, as well as the transfer of rights arising from these documents to other persons. "considers the possibility" [8].

Analysis and Results

It is advisable to consider the advantages and disadvantages of financing enterprises through the issue of securities separately for issuers and investors. In addition, these advantages and disadvantages can be systematized for each type of securities.

An important source of financing of a joint stock company is funds received from the issue and sale of shares. The advantages of financing a joint stock company through ordinary shares for the issuer are as follows:

- if the enterprise is a joint stock company, it has the opportunity to mobilize a very large amount of financial resources, since shares can be issued in an unlimited amount. Recently, the IPO (public offering of shares) mechanism has become quite popular. With its help, enterprises not only attract large financial resources for their development, but also enter the foreign capital market;
- the absence of strictly conditional, permanent financial payments. Attracting funds through a bank loan usually requires fixed payments and leads to the constant use of the corresponding working capital. Of course, the issue of shares creates an obligation to pay dividends on them. However, with the consent of the shareholders, the company can refuse to receive dividends until it is on its feet;
- capital stability. Shares are a stable instrument. Under normal circumstances, joint-stock companies are not obliged to return the funds invested by shareholders, which is not the case with bank loans or bonds. Ordinary shares do not have a maturity date - this is non-refundable fixed capital. It can be returned only in the event of liquidation of the company;
- increase in the investment attractiveness of the company. The authorized capital serves as a kind of guarantee of compensation for losses for the company's creditors;

- popularization. The issue of shares and the conduct of an advertising campaign increase the awareness of the company not only among professional investors, but also among the general public. For example, in foreign countries, the implementation of IPO projects for most companies, in addition to attracting financial resources, is aimed at first becoming popular, which will subsequently help to attract larger funds.

The advantages of financing a joint stock company through the issue of ordinary shares for an investor include:

- exercising the right to participate in the management of the company in exchange for the invested capital;
- receiving income from the company in the form of dividends;
- using the privileges granted by the company;
- exercising the right to a part of the property in the event of liquidation of the company.

It is also necessary to list some disadvantages of financing a joint stock company through the issue of ordinary and preferred shares. Disadvantages for the issuer in financing a joint stock company through the issue of ordinary shares:

1. Decrease in the speed of decisions made. According to the legislation, as a rule, large transactions and transactions involving interests must be agreed upon with the supervisory board or the general meeting of shareholders. However, they take time to set up, so profitable large contracts or contracts with interest may go to other competitors due to the long negotiation of transactions in this JSC.
2. The possibility of increasing the cost of raising financial resources. An investment advisor is often involved in the preparation of the prospectus and other documents for the issue of shares. In many cases, JSCs use the services of an underwriter to distribute (place) their shares. All this requires additional costs.
3. The use of debt capital allows the JSC to obtain funds with a fixed one-time financial cost, while when using common shares for financing, the company's net profit is always distributed among a larger number of shareholders over a long period of time.

Another important source of financing for a JSC is preferred shares, which reflect the characteristics of debt obligations and common shares. The share of preferred shares in the total volume of JSC's authorized capital should not exceed 25%.

In the event of liquidation of the company, the claims of the holder of preferred shares are satisfied after the creditors, but before the obligations to the holders of ordinary shares.

The advantages of financing a joint-stock company with preferred shares for the issuer are as follows:

1. Flexibility. According to the law, the payment of dividends on preferred shares is not an unconditional obligation of the company. If the company is making a loss or is experiencing signs of bankruptcy, dividends may not be paid. When raising debt, interest must be paid regardless of the financial condition of the company.
2. Open-endedness of actions. There is no deadline for the redemption of preferred shares. If capital is raised by issuing bonds or taking out a bank loan, they require repayment or redemption.
3. Raising additional funds without granting the right to participate in the management of the company. Holders of preferred shares participate in general meetings of shareholders with the right to vote only when certain issues are raised.

4. The inability to force the company into bankruptcy. Since preferred shareholders are deprived of voting rights, unlike ordinary shareholders, they are unlikely to cause any serious damage to the company.

Thus, the issue of preferred shares provides capital inflow, but control over the company is not lost and the JSC's debt does not increase. However, in this case, a strict dividend policy is required.

At the same time, when financing a JSC through the issue of preferred shares, it is likely that the issuer will be subject to more stringent conditions than when paying dividends.

An important place in the structure of financing a JSC through the issue of securities is occupied by funds raised on the basis of bonds. “Corporate bonds are a special investment asset that represents a debt relationship between an investor and an issuer; they are freely traded on the stock market until they are fully paid off and have their own quotation; they have the following main investment properties: liquidity, reliability and profitability.”

When a joint stock company is financed with corporate bonds, there are a number of advantages for the issuer.

The main advantages of such financing of a joint stock company are that in this case the enterprise itself determines the important and unimportant conditions for attracting debt funds. These are, first of all, such parameters as the loan amount, term, repayment terms, and interest rate. When an enterprise receives a loan from a bank, the bank sets the conditions. Obtaining long-term loans from a bank is a rather complicated matter.

This is explained by the limited resource base of the bank. In addition, the cost of the loan can be significantly higher. In addition to interest on the loan, the intermediate official and unofficial transaction costs for its formalization lead to an increase in its cost. From this point of view, bonds become a source of cheap financing.

Table 1 Comparative Analysis of the Advantages and Disadvantages of External Financing Sources for Enterprises

№	Comparison Criteria	Issuance of Common Shares	Issuance of Corporate Bonds	Bank Loan
1	Legal form restrictions	Joint-stock companies only	Joint-stock companies and commercial banks	None
2	Minimum period of operation	None	At least three years	Depends on bank credit policy
3	Limitations on attracted funds	None	Within the limit of equity capital	Depends on credit policy and collateral
4	Requirement for a positive credit history	Not required	Not required	May be required
5	Requirement for collateral	Not required	Can be issued with or without collateral	Minimum collateral coverage must be 125%
6	Obligation to pay income/dividends/interest	May be applicable	Obligatory	Obligatory
7	Right to participate in enterprise management	Arises	Not applicable	Not applicable
8	Term of attracting investment	Unlimited	Fixed term	Fixed term

Source: Done by the author

It should be noted that the decision to issue bonds can be delegated to the supervisory board by the general meeting of shareholders or, as established by its charter, by the board of directors. This, unlike the issue of shares, allows for faster fundraising.

The issuer is not required to sell the entire issue at a single price. This is the flexibility of this financial instrument. Depending on market conditions, bond prices can be increased or decreased, thereby raising the entire planned amount of debt funds. The issuer's costs associated with the placement of bonds are usually lower than when placing shares. A credit history is created and investment reputation is improved.

The issuer of corporate bonds is not tied to creditors, which makes it easier to refinance debt if necessary and reduces the risk of losing control over the company.

One of the disadvantages of financing through the issue of bonds for a joint stock company is the obligation to return the amount received from the investor and pay interest on it. However, this can be called a disadvantage conditionally, since the same conditions apply when obtaining a bank loan.

The various sources of financing listed above directly affect how the company's capital structure is formed. It is necessary to make a decision after thoroughly analyzing the advantages and disadvantages of each of them.

Conclusions

On the basis of the above-mentioned analysis the following conclusions are formed:

1. Organizational Structure Flexibility: Joint-stock companies have the most flexibility in raising funds, as both common shares and corporate bonds can be issued by these entities. Bank loans, on the other hand, are not available to these companies unless they meet specific criteria set by the bank.
2. Duration of Financing: Corporate bonds offer a fixed-term financing option, making them suitable for long-term investments. In contrast, the issuance of common shares provides unlimited duration, offering more flexibility in terms of time. Bank loans are typically tied to the bank's credit policies, which may impose restrictions on the duration of the loan.
3. Fundraising Limits: The issuance of common shares does not have any specific restrictions on the amount of funds that can be raised. Corporate bonds, however, are limited by the equity capital of the issuing company. Bank loans are constrained by the lending institution’s policies and the collateral provided.
4. Income Payment Obligations: Issuing corporate bonds or obtaining a bank loan comes with the obligation to pay interest or dividends, making these funding options more burdensome in terms of financial obligations. On the other hand, the payment of income or dividends for common shares may be optional depending on the company’s performance.
5. Investment Attraction Period: Issuing common shares provides an indefinite period to attract investment, which can be advantageous for companies looking for long-term funding. In contrast, corporate bonds and bank loans are limited to specific terms, requiring the company to repay or refinance within a set timeframe.

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