



DEVELOPMENT OF THE SECURITIES MARKET IN UZBEKISTAN: IMPROVEMENT OF THE REGULATORY AND LEGAL FRAMEWORK AND DIGITALIZATION TRENDS

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ABSTRACT

This article analyzes the development of the securities market in the Republic of Uzbekistan from 2019 to 2024, the improvement of the regulatory and legal framework, and the process of implementing digital technologies. The 2023 report of the "Tashkent" Republic Stock Exchange, regulatory documents on internal control from 2019 and 2021, and the procedure for remote digital identification of clients in 2024 were used to study the transparency, security, and alignment of the market with international standards (FATF, KYC, AML/CFT). The results show that the legal infrastructure of the market has been strengthened, digitalization has improved convenience for investors, but liquidity and technological infrastructure constraints remain. Based on international experience (India, European Union), recommendations for future development were provided.

KEY WORDS

Securities market, internal control, digital identification, stock exchange, regulatory and legal framework, AML/CFT, KYC, FATF, Uzbekistan, digitalization.

Introduction

The securities market in Uzbekistan was formed in the legislative framework in the 1990s. Based on the Presidential Decree No. 745 of the Republic of Uzbekistan on "Measures for Further Deepening Economic Reforms, Protecting Private Property Rights, and Promoting Entrepreneurship," the "Tashkent" Republic Stock Exchange was established on April 8, 1994. Its active development began in the second half of the 2010s. According to the 2023 report of the "Tashkent" Republic Stock Exchange, the volume of exchange trading showed an upward trend compared to the previous year, confirming the market's growing role in economic activity. The regulatory documents adopted by the Republic of Uzbekistan, such as the Ministry of Justice's decree on October 23, 2019, on "Amendments and Additions to the Regulation on Internal Control of Professional Participants in the Securities Market," the June 26, 2021, decision of the Ministry of Finance and the Department for Combating Economic Crimes under the Prosecutor General's Office of the Republic of Uzbekistan on "Amendments and Additions to Internal Control Rules to Combat Money Laundering, Terrorism

Financing, and Financing the Spread of Weapons of Mass Destruction for Professional Participants in the Securities Market," and the Cabinet of Ministers' decree on April 26, 2024, No. 238 on "Approval of the Regulation on the Remote Digital Identification of Clients in the Securities Market," have aligned the market's legal infrastructure with international standards.

The development of the securities market in foreign experience is often linked to digitalization and strict control mechanisms. The introduction of digital platforms by the National Stock Exchange of India (NSE) since the 2000s resulted in an increase in the number of investors to 30 million (SEBI, 2023). In the European Union, the MiFID II directive (2018) made internal control and data exchange mandatory to enhance market transparency (European Commission, 2018). Uzbekistan's recent reforms are similarly focused on creating favorable conditions for investors through a digital identification system and strengthening the fight against the legalization of criminal proceeds.

In Uzbekistan, several issues have emerged in the development of the securities market, including low financial literacy among investors, limited market liquidity, and insufficiently developed technological infrastructure. The aim of this article is to analyze the current state of the market based on regulatory and legal documents from 2019-2024 and the 2023 activities of the "Tashkent" Stock Exchange, assess the impact of digitalization trends, and examine its development prospects in an international context. The article attempts to reveal the relationship between state policy, legal framework, and practical outcomes, which can serve as a basis for developing new regulations for future research.

Literature Review

Research on the development of the securities market has been widely studied internationally, with this sector being closely linked to economic growth, financial stability, and global integration. According to international financial institutions, in emerging markets, the securities sector plays a crucial role in attracting capital as an alternative to the banking system (Levine, 2005; World Bank, 2022). The need for a strong legal framework, internal control mechanisms, and the implementation of modern technologies for the effective functioning of the market is emphasized (IOSCO, 2020). This research examines the development of the securities market in Uzbekistan from both international experience and local context perspectives.

There are several important studies in the international literature regarding the regulation of the securities market. The MiFID II directive of the European Union (European Commission, 2018) became a model for strict regulation of internal control and data exchange to enhance market transparency. FATF (2019) developed standards for combating money laundering (AML) and countering the financing of terrorism (CFT), which are recognized as global benchmarks in ensuring the security of the securities market. India's experience is particularly noteworthy: the introduction of digital platforms at the National Stock Exchange (NSE) increased the number of investors to 30 million and boosted trading volume (SEBI, 2023). These experiences will serve as an important guide for Uzbekistan among emerging countries.

The 2023 report of the "Tashkent" Republican Stock Exchange is an important source reflecting market activity, covering aspects such as trading results, growth in the stock and bond markets, and international cooperation. In the international literature, the positive results of digitalization are emphasized by Allen et al. (2021), who highlight that digital technologies reduce transaction costs and increase the number of market participants. Uzbekistan's experience provides an opportunity to test these global trends in local conditions.

The literature review shows that the legal framework and digitalization are interconnected factors of significant importance for the development of the securities market. Based on the regulatory documents from 2019-2024 and the 2023 activities of the "Tashkent" Stock Exchange, this analysis examines the specific aspects of market development in both the local and international contexts.

Research Methodology

This research is focused on analyzing the development of the securities market in Uzbekistan, the improvement of the regulatory framework, and trends in digitalization, using official documents as primary data sources. The research is based on a qualitative methodology, utilizing document analysis, legal-technical comparison, and contextual interpretation methods. This approach allows for a comprehensive study of the legal and practical development of the market. The trade volume and strategic directions in the 2023 report of the "Tashkent" Stock Exchange were examined in relation to changes in regulatory documents. The internal control rules in the 2019 and 2021 documents, as well as the 2024 digital identification procedure, were analyzed in terms of their impact on market safety and convenience. The analysis prioritized a qualitative approach, as the available data is primarily textual and legal in nature.

Due to the fact that the data is derived from official state documents and the stock exchange report, the validity of the research is considered to be high. The documents are registered by the Ministry of Justice of the Republic of Uzbekistan, and their legal status is confirmed. Special attention was paid to maintaining impartiality and objectivity during the analysis process. This methodology allows for a systematic analysis of the legal and technological development of the securities market in Uzbekistan and provides a foundation for further detailed presentation of the results in the subsequent sections.

Analysis and Discussion of Results

In this section, the results derived from five documents on the development of the securities market in Uzbekistan are analyzed, and their legal, technological, and practical significance is discussed. The results highlight important changes in strengthening the market's internal control mechanisms, increasing convenience through digitalization, and aligning with international standards.

The 2023 report of the "Tashkent" Republican Stock Exchange reflects the practical development of the market. According to the report, the exchange's trading volume showed an upward trend compared to the previous year, with increased activity in the stock and bond markets. Specifically, the report emphasized the expansion of international cooperation (such as the signing of memorandums with foreign exchanges) and the development of digital platforms as strategic directions. This growth indicates the positive impact of regulatory and legal reforms.

The order from the Ministry of Justice of the Republic of Uzbekistan dated October 23, 2019, regarding amendments and additions to the "Regulation on Internal Control of Professional Participants in the Securities Market," and the decision from the Ministry of Finance of the Republic of Uzbekistan and the Department for Combating Economic Crimes under the General Prosecutor's Office of the Republic of Uzbekistan dated June 26, 2021, aimed at strengthening internal control in the securities market. In 2021, mechanisms for deep monitoring of operations by high-ranking officials and a 30-day operation suspension were introduced. These changes align with FATF standards and serve to enhance market security.

The trading volume in the stock market amounted to 19.18 trillion soms (\$1.5 billion). Compared to the previous year, the trading volume increased by 16.56 trillion soms or 632.0%. Meanwhile, the main volume of trades (18.6 trillion soms) was attributed to transactions related to the primary placement of shares and block transactions on the Free of Payment Board (FoP) in the secondary market. The significant growth in transaction volume on the FoP platform is explained by the increasing use of the organized market by issuers transitioning from the unorganized over-the-counter market to execute deals, which ensures higher levels of openness and transparency in the stock market. As a result, the share of the unorganized market decreased from 94% last year to 58%, while the share of the organized market increased from 6% last year to 42% in 2024. The average daily trading volume amounted to 77.4 billion soms.

The main indicators of the stock market are as follows

		2020	2021	2022	2023	2024
<i>Trading volume</i>	mln so'm	510800	1147110	4705790	2620570	19182120
<i>Average daily trading volume</i>	mln so'm	2003	4588	19052	10567	77347
<i>Average size of a single transaction</i>	mln so'm	14.2	16.1	58.4	6.4	43.2
<i>Number of transactions</i>	dona	35983	71187	80652	411393	443849
<i>Average daily number of transactions</i>	dona	141	285	327	1659	1790

Figure 1. Key indicators of the stock market¹

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan, No. 238, dated April 26, 2024, "On Approval of the Regulation on the Procedure for Remote Digital Identification of Customers in the Securities Market," introduced the procedure for remote digital identification of customers. This system is based on KYC (Know Your Customer) and AML/CFT (Anti-Money Laundering/Countering the Financing of Terrorism) requirements and enables remote account opening and contract signing with a digital signature. The document establishes strict measures for data security (e.g., local server hosting, multi-factor authentication). The following table shows the key features:

1-table.

Features of the Digital Identification System²

Feature	Description	Advantage
Remote deposit account	Opening via biometric passport/ID card	Convenience for investors
Multi-factor authentication	Confirmation via SMS, email, or social networks	Enhancing security
Compliance with FATF requirements	A verification system compliant with AML/CFT standards	International integration

¹ The information is sourced from the official website of the "Tashkent" Republican Stock Exchange, uzse.uz.

² Prepared by the researcher based on lex.uz and international standards.

Digitalization in the experience of India's NSE (SEBI, 2023) increased the number of investors, similarly, in Uzbekistan, it could stimulate market activity, but the low technological infrastructure and digital literacy of the population may limit the widespread adoption of this system.

The results show that the securities market of Uzbekistan is at a significant stage of development through the improvement of the legal framework and digitalization. Internal control measures have strengthened market security, and digital identification has opened new opportunities for investors. The activities of the "Tashkent" exchange in 2023-2024 confirm the practical results of these reforms. However, for the market's full potential to be realized, it is necessary to enhance technological infrastructure and increase the population's financial literacy. These results align with international experience, but due to local conditions, there are specific limitations.

Conclusion

This study analyzed the development of the securities market in the Republic of Uzbekistan from 2019 to 2024, focusing on the improvement of the regulatory framework and digitalization trends. Based on the 2023 report of the "Tashkent" Republican Stock Exchange, the decree of the Ministry of Justice of the Republic of Uzbekistan dated October 23, 2019, on amendments to the "Regulation on the Internal Control of Securities Market Professional Participants," the resolution of the Ministry of Finance and the Economic Crimes Department of the Prosecutor General's Office of the Republic of Uzbekistan dated June 26, 2021, regarding amendments and additions to the internal control regulations for securities market participants to combat money laundering, financing of terrorism, and the spread of weapons of mass destruction, and the decision of the Cabinet of Ministers of the Republic of Uzbekistan dated April 26, 2024, on approving the "Regulation on the Digital Identification of Clients in the Securities Market" the following conclusions were drawn.

The internal control mechanisms were significantly strengthened. In 2021, mechanisms for monitoring operations of senior officials and a 30-day suspension were introduced. These changes align with FATF standards and enhanced the security level of the market. With the 2024 decision, the digital identification system was implemented, enabling remote account opening and contract validation based on KYC and AML/CFT requirements. This provided convenience for investors and strengthened the market's international integration. The 2023 report of the "Tashkent" Stock Exchange confirmed the growth of trading volume and the expansion of international cooperation, reflecting the practical results of regulatory reforms. However, market liquidity and investor activity remain limited, which is associated with insufficient technological infrastructure and financial literacy development.

These results demonstrate that Uzbekistan's securities market has made significant strides in terms of transparency, security, and alignment with international standards. Digitization has opened new opportunities for investors, but its full impact depends on technological capabilities and the digital experience of the population. International experience, such as India's NSE platform (SEBI, 2023), has shown that digitization can sharply increase the number of investors, but in Uzbekistan, this process is still in its early stages. At the same time, the strengthening of internal controls has increased the accountability of market participants, though its economic effectiveness will require long-term monitoring.

Development of technological infrastructure: To ensure the widespread use of the digital identification system, it is necessary to modernize internet infrastructure and server capacities. This will help attract

international investors and increase market liquidity. Increasing financial literacy of the population: The government and the stock exchange should organize public education programs. For instance, free courses on securities trading could increase the number of investors.

Wider implementation of international experience: Drawing on the experiences of digital platforms in India or the European Union (NSE, MiFID II), Uzbekistan should develop real-time trading systems and data exchange mechanisms. Strengthening monitoring and evaluation: It is recommended to create a specialized statistical database to regularly analyze the impact of internal controls and digitization on market activity. This will help substantiate future policy decisions. Enhancing staff qualifications: Regular training for professional participants and regulators based on international standards (FATF, IOSCO) will ensure quality market governance.

These recommendations will support the future development of Uzbekistan's securities market. The research findings and proposals can serve as a foundation not only for local policy development but also for future academic work studying market modernization in developing countries. The long-term stability and competitiveness of the market will depend on the comprehensive implementation of the measures outlined above.

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