



## Diversification Of Securities Portfolio In Commercial Banks

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**Abstract:** One of the urgent problems of the commercial banks of the Republic of Uzbekistan in terms of minimizing the risks associated with asset operations is the lack of improvement in the practice of using financial market instruments, the measures taken by the state to develop the securities market in our republic, and the limits on their open positions on securities transactions. as a result of the designation, it is intended to improve the level of diversification of the securities portfolio.

**Key words:** commercial banks, securities portfolio, market quotes, market conditions, investment operation, speculative operations, investors, market conditions, asset operations, Central Bank bonds, diversification. issuer, risk minimization.

### INTRODUCTION

The level of diversification of the securities portfolio of commercial banks of our republic is low. This does not allow reducing the sensitivity of the securities portfolio to financial risks.

According to the conclusion of a group of economists, in the passive strategy of managing the securities portfolio of commercial banks, all market information is reflected in the market quotations of securities. Therefore, passive investors believe in the efficient market hypothesis and naturally do not expect to benefit from speculative transactions.

The asset strategy of managing the portfolio of securities of commercial banks envisages the purchase of securities for a short period of time in order to make a profit by repurchasing them. Therefore, an active strategy requires constantly changing the composition of the portfolio of securities, depending on the changes in the market situation.

Three economic standards have been established by the Central Bank of the Republic of Uzbekistan regarding the investment operations of commercial banks with securities:

1. What a commercial bank does to securities of one issuer the highest level of investment.
2. This economic norm is established in relation to the first-tier capital of a commercial bank, and its normative level is set at 15%.
3. The highest level of commercial bank's investments in securities intended for purchase and sale.

This economic norm is established in relation to the first-tier capital of a commercial bank, and its normative level is set at 25%.

4. The highest level of investment of a commercial bank in securities of all issuers.

This economic norm is established in relation to the first-tier capital of a commercial bank, and its normative level is set at 50%.

In our opinion, since commercial banks in Uzbekistan are the main participants of the securities market as a professional participant, the development of the securities market in our

republic gives a strong impetus to the development of asset operations carried out by banks with securities. In particular, in the development strategy of New Uzbekistan for 2022-2026, approved by Decree No. PF-60 of the President of the Republic of Uzbekistan on January 28, 2022, the annual volume of stock market turnover by 2026 is 200 mln. 7 billion from US dollars. The task of delivery to US dollars is set.

One of the urgent problems of the commercial banks of the Republic of Uzbekistan in terms of minimizing the risks associated with asset operations is the failure to improve the practice of using financial market instruments. Our conclusion is based on the following evidence:

1. The fact that the volume of issuance of Central Bank and State securities is small.

A total of 4.9 trillion will be put into circulation during 2021. Ministry of Finance bonds and 24.2 trillion soums. Soum Central Bank bonds were issued. 12.1 trillion in circulation as of January 1, 2022. Central Bank bonds and 4.7 trillion soums. State securities issued by the Ministry of Finance are in circulation.

2. Lack of development of investment operations of commercial banks with securities.

As of January 1, 2022, the share of investments in securities in the total assets of commercial banks of the Republic of Uzbekistan was only 4.4 percent.

3. Absence of comprehensive use of financial market instruments.

However, it should be noted here that in recent years, a number of practical changes have been implemented in our republic in terms of improving the mechanisms of using existing instruments of the financial market. In particular, starting from February 15, 2021, the following changes have been made regarding practices in the domestic currency market:

1. In determining the exchange rate, the current method of fixing ("fixing") was switched to the continuous auction - "matching" method.

In most developing countries, as well as in all countries that have implemented the inflation targeting regime, currency trading is carried out by the method of continuous auction ("matching"). In the continuous auction method, trades in the domestic currency market last longer, transactions are carried out at different rates based on the orders of buyers and sellers whose prices match each other, and the importance of market participants in determining the rate increases. The Central Bank also made its interventions as a participant of the market. This method makes it possible to more widely introduce market principles in the formation of the exchange rate, to ensure its formation on the basis of full supply and demand, and to increase its flexibility to macroeconomic conditions. According to these changes, currency exchange trading sessions are conducted from 10:00 to 10:30 in the "call auction" method and from 10:30 to 15:00 in the continuous auction "matching" method.

2. The daily determination of the official exchange rate of the Central Bank has been established.

As a result of the transfer of trades in the domestic currency market to the "matching" method, currency contracts were concluded at different exchange rates (on the basis of mutual agreements between banks), and an opportunity was created to determine the daily average exchange rate after the trades were completed. In this case, the official exchange rate was determined by the weighted average exchange rates of foreign exchange transactions carried out between 10:00 and 15:00 through auctions of the currency exchange, and the practice of announcing it at 16:00 on every bank working day was established.

3. Calculations on currency trading have been adjusted to international standards.

Until 2021, settlements on foreign exchange transactions in the domestic currency market were made in the form of T+0 (today's working day), that is, the transfer of funds by commercial banks was carried out on the same day. T+1 (next business day) and T+2 (next second business day) forms are widely used in international practice and foreign exchange transaction standards, which

allow commercial banks to freely trade in the foreign exchange market and form their liquidity based on trading results. allows.

4. Commercial banks were given the opportunity to trade freely in the domestic currency market.

In order to increase the role of commercial banks in the further development of the domestic currency market, in particular, in determining the exchange rate, the practice of commercial banks participating in interbank currency trading on behalf of clients was abandoned and they were given the opportunity to freely buy and sell foreign currency within their open currency positions. Giving commercial banks the opportunity to freely sell or buy foreign currency in the domestic currency market within the framework of open currency positions in the continuous auction method encourages their participation in determining the exchange rate and helps to create a balanced exchange rate.

5. "Strategy of currency interventions of the Central Bank of the Republic of Uzbekistan for 2021-2025" was approved.

The strategy includes the main principles, goals and objectives of the Central Bank currency interventions, forms of intervention and communication processes in that field.

To implement currency intervention,

first, the Central Bank must have sufficient gold-currency reserves;

secondly, there should be no negative devaluation expectation in the domestic currency market in relation to the nominal exchange rate of the national currency;

thirdly, the procedure for implementing currency intervention should be mandatory.

If the above-mentioned three conditions are not present, then the foreign exchange intervention will not have the expected effect, that is, the sharp fluctuation of the nominal exchange rate of the national currency cannot be eliminated by means of the foreign exchange intervention. This leads to an increase in the volatility of the nominal exchange rate of the national currency.

### **Conclusion**

Based on the above, we can say the following as a conclusion.

The following types of limits should be set in relation to the open positions of commercial banks for transactions with securities:

- according to the currency content of securities;
- according to the riskiness of securities;
- according to the share of each issuer's securities in the bank's securities portfolio.

Setting limits for the open positions of banks on operations with securities according to the currency composition of securities allows to increase the level of diversification of their currency reserves.

Increasing the level of diversification of foreign currency reserves of commercial banks is one of the urgent issues in the modern stage of the banking system of our republic. The reason for this is that more than 90 percent of the foreign currency reserves of commercial banks of our republic are formed in US dollars. This serves to increase the level of currency risk in the activity of commercial banks.

Investments in stocks vary greatly in terms of risk levels. For example, the risk level of investing in common stocks is higher than the risk levels of investing in preferred stocks and bonds. Or, the risk level of investments made in securities of the Government and the Central Bank is the lowest.

At the request of the Central Bank of the Republic of Uzbekistan, the investment of a commercial bank in the securities of one issuer should not exceed 15 percent of its Tier 1 capital.

This regulatory requirement is of great practical importance from the point of view of minimizing fund risk in commercial banks.

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