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CORPORATE GOVERNANCE IN COMMERCIAL BANKS OF UZBEKISTAN

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Abstract

In the thesis, the author highlights the basics of organization and features of corporate governance in commercial banks. The author explains the complexity of the situation with bank risk management by the low level of corporate governance, draws attention to the fact that with the large role of the bank's depositors in the formation of a significant part of the bank's financial resources, their rights to participate in the corporate governance of the bank are practically not taken into account, and tries to reveal its reasons.

Keywords: commercial banks, corporate governance, stakeholders, banking supervision, Basel Committee, board of Directors, depositors, banking management, financial aspects, financial intermediation.

Today, as one of the most important institutional changes taking place in the activities of commercial banks of the Republic of Uzbekistan, the formation of a corporate management system should be especially noted. “The banking system of the

Republic of Uzbekistan is currently represented by 31 commercial banks that provide the traditional range of banking services - lending, deposit operations, settlement and cash services, etc. The state has a dominant position in the banking sector - 13 out of 31 banks have state participation in the capital, their capital is more than 87% of total capital, and assets - more than 85% of the total assets of the banking system".[1].

Corporate governance organized in commercial banks is the main factor in building the confidence of legal entities and individuals who place their funds in them, as well as counterparty banks in the interbank credit market, investors operating in the securities market. Considering the role of commercial banks as a financial intermediary, attention is paid to the issue of effective organization of corporate governance in banks as the main goal of economic reforms carried out in the banking system of our republic.

According to the legislation of the Republic of Uzbekistan, "Corporate governance is understood as a set of relations between the bank's management bodies and other interested parties, providing the necessary organizational structure for determining the strategic goals of the bank and controlling them, as well as the possibility of making management decisions, including the distribution of powers and responsibilities of management bodies" [2].

A review of the literature devoted to the study of corporate governance in banks shows that various studies have considered certain aspects of corporate governance of commercial banks. Therefore, corporate governance is understood as a set of relations between the bank's management bodies and other interested parties, providing the necessary organizational structure for determining the strategic goals of the bank and controlling them, as well as the possibility of making managerial decisions, including the distribution of powers and responsibilities of management bodies. As a result of the research, it became clear that corporate governance is a complex concept that should be considered as a management system.

In our opinion, corporate governance in commercial banks is a system of interaction between the bank's stakeholders, which establishes the rules and determines the mechanism for the relationship between the bank's shareholders and its board, staff and other stakeholders that influence the bank's activities.

The corporate governance of commercial banks is the main factor in building the confidence of business entities and the population placing their funds in them, as well as counterparty banks in the interbank lending market, investors operating in the securities market. Issues of a comprehensive assessment of risks associated with the activities of commercial banks are also important for improving the reliability and stability of the banking system, ensuring the transparency of banking activities and fully protecting the legitimate interests of all its participants [3].

Nowadays, the distinctive features of corporate governance in commercial banks of our republic can be characterized as follows:

A significant role in banking corporate governance is played by the Central Bank of the Republic of Uzbekistan and other regulatory bodies such as the State Tax Committee, the State Customs Committee, etc., which are one of the hallmarks of banking corporate governance. In this regard, a relationship is established between the

financial system and the role of the Central Bank of the Republic of Uzbekistan, which is the regulator of corporate governance.

Corporate relations between shareholders and boards of commercial banks (ie executive bodies) are more complex than in other economic entities of the country's economy. This complexity is mainly due to factors such as a large state share in the capital of commercial banks, banking secrecy, strict regulation of the activities of commercial banks by the Central Bank and other regulatory bodies of the Republic of Uzbekistan,

To carry out intermediary operations, mainly credit operations, commercial banks attract deposits from legal entities and individuals. An increase in credit funds leads to an increase in the level of banking risks. A temporary significant discrepancy between the structure of bank liabilities and assets, in turn, may lead to a loss of confidence of the bank's depositors. For this reason, the risk appetite of banks makes deposit insurance mandatory.

“When the corporate governance system of a commercial bank in Uzbekistan is defined, the state should be recognized as one of the stakeholders. At the same time, the state should be understood not only as the Central Bank of the Republic of Uzbekistan, but also other state bodies that influence the activities of banks” [4].

The difficulty in managing banking risks in developing countries like Uzbekistan is due to the low level of corporate governance. For example, this manifests itself in serious conflicts of interest and their ineffective resolution, insufficient attention of supervisory boards to the problem of risk management within the internal control system, in shortcomings in information disclosure, an insufficient number of national firms capable of conducting a qualified and independent external audit, etc. [5].

Poor corporate governance at a bank means an increase in certain credit, operational and reputational risks, which in turn leads to a decrease in the value of the bank's shares. Based on the conducted research, it can be said that the features of corporate governance in commercial banks of the Republic of Uzbekistan are as follows:

1. Although its depositors occupy a significant place in the activities of commercial banks, their role and rights to participate in the corporate management of the bank are practically not taken into account. The main reason for this is the lack or weakness of theoretical foundations, problems with the place and role of depositors in the corporate governance of the bank, which allows the Central Bank, as well as the shareholders and the board of the bank, to ignore their rights in the corporate governance of the bank.

2. The role of the Central Bank of the Republic of Uzbekistan in the corporate management of the bank is too great, so it acts as a regulator of corporate relations in the entire banking sector.

3. Transparency of banking operations plays an important role in the corporate governance of the bank. However, in this respect too, the presence of confidential information, as well as the fact that banks carry out complex, technologically non-transparent operations, overshadows the issue of transparency.

In recent years, the following main trends have been observed in the corporate governance system of commercial banks of the Republic of Uzbekistan:

1. Concentration of ownership. Most commercial banks are owned by the state. This situation is observed on the example of large joint-stock commercial banks such as “Uzmilliybank” JSC, “Agrobank” JSC, “Ipoteka-Bank” JSCIB, “SQB” JSC, “Asaka Bank” JSC, etc. They not only control GDP and the volume of financial services but also act as a major investor [6].

2. Increase in the share of external shareholders (outsiders) in commercial banks, both individuals and legal entities. It is believed that this is due to the placement of shares on the country's stock market, especially the IPO.

3. The high concentration of capital and the presence of large shareholders are characterized by the emergence of a practice of insufficient attention to the rights of minority shareholders in the corporate governance of the Bank.

4. Low level of transparency of the property composition of commercial banks. The practice of corporate governance in banks is also characterized by a relatively low level of transparency and transparency of the banking business. Here the concept of relativity is used to refer to certain trends in the field, indicating an increase in the level of transparency in recent years.

According to the legislation of the Republic of Uzbekistan, the number of members of the Bank's Supervisory Board is determined by its charter. “For a company with more than five hundred shareholders, the number of members of the supervisory board of the company cannot be less than seven members, and for a company with more than one thousand shareholders, at least nine members” [7]. Consequently, the number of members of the Bank's Supervisory Board must be at least seven people. In order to ensure the effectiveness of its work, the Supervisory Board forms special committees, in particular the Audit Committee, the Risk Management Committee, the Remuneration Committee, as well as other committees for preliminary consideration of the most important issues within the competence of the Board.

The main task of these committees is to study in depth the issues within their competence and develop proposals and recommendations on them, as well as assist the Council in the performance of its oversight functions. According to the recommendations of the Basel Committee on Banking Supervision, banks should establish at least four committees under the Supervisory Board, in particular committees for audit, remuneration, appointments, and risk management [8].

Below is information on the committees established under the Supervisory Boards of some commercial banks of the Republic of Uzbekistan.

The provided table is based on the data of individual commercial banks of the Republic of Uzbekistan. This indicates that, on the recommendation of the Basel Committee on Banking Supervision, the above-mentioned committees were created within the Supervisory Board of Commercial Banks. All commercial banks have established audit and risk management committees. As for other committees, the situation is different, and the reason may be that in some commercial banks the committees for appointments, remuneration and corporate governance are organized as one committee, and in others they are separate. Most importantly, all commercial banks have a separate corporate governance committee, at least a corporate consultant. The absence of one or another special committee does not mean that there is no

possibility of carrying out activities in the relevant areas, but in such cases, certain responsibilities can be assigned to other committees of the Bank's Supervisory Board.

Table 1

Committees established under the Supervisory Boards of some commercial banks of the Republic of Uzbekistan*

№	Commercial banks	Committees established under Supervisory Boards			
		Internal audit	Rewards	Appointments	Risk management
1	JSC National Bank	+			+
2	JSC People's Bank	+		+	+
3	JSC Asaka bank	+	+	+	+
4	JSCIB Ipak Yuli	+	+		+
5	JSCB Asia Alliance Bank	+			+
6	JSC Agrobank	+	+	+	+
7	JSC Qishloqqurilishbank	+	+		+
8	PJSCB Davrbank	+	+		+
9	PJSCB "Invest Finance Bank"	+	+		+
10	Korean Development Bank Uzbekistan	+			+

* Developed by the author based on data from commercial banks

In recent years, the weight of independent directors has increased in the corporate governance system in the Republic of Uzbekistan. As the main reason, one can point out that they have qualities that are fully aware of the specifics of the company's activities and can contribute to its strategic development. Joint stock companies are recommended to have an independent member of supervisory boards, the requirement for its size is at least one (but not less than 15% of the number of members of the Supervisory Board established by the charter of the company) independent member in each supervisory board. Therefore, this state leads to openness, transparency, objectivity of corporate governance and, consequently, transparency and reliability of information [9].

Summing up, it is necessary to pay attention to the fact that in the corporate governance of the Republic of Uzbekistan it is necessary:

1. Implementation of banking corporate governance in accordance with the requirements of regulatory legal documents, ensuring the reliability of banking activities.

2. Increase the share of external shareholders of the bank, both individuals and legal entities. This is due to the placement of shares on the Tashkent stock exchange, by issuing an IPO.

3. With a high concentration of capital and the presence of large shareholders, there is a case of insufficient attention to the rights of minority shareholders in the corporate governance of the Bank. Therefore, further expansion of their rights is necessary.

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XALQARO STANDARTLAR ORQALI MOLIYA MUASSASALARINING KORPORATIV BOSHQARUVINI KUCHAYTIRISH

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Annotatsiya

Ushbu maqolada moliyaviy sektorda, xususan rivojlangan mamlakatlardagi korporativ boshqaruv muhokama qilinadi. U barcha manfaatdor tomonlarning manfaatlarini hisobga olgan holda mas'uliyatli va barqaror operatsiyalarni ta'minlash uchun kompaniyalar amalga oshirishi mumkin bo'lgan bir nechta amaliyotlarni ta'kidlaydi.