

DEVELOPMENT AND FORMATION OF THE SECURITIES MARKET IN RUSSIA

Askarjon Khudjamuratov
Sarvar Rejabbaev

Abstract— This article discusses the main historical stages of the development of the securities market in Russia, as one of the most important elements of the economic development of the state. Also, the author analyzes the significance and degree of influence of the securities market on the Russian economy.

Index Terms— security, securities market, financial instruments, Russia, signs of securities.

1 INTRODUCTION

Today, securities are one of the most flexible financial instruments. Securities can be transformed into both a means of payment and a means of credit, performing the functions of cash.

The Russian securities market and the banking system closely related to it have a long history. The credit system of the Russian Empire until the middle of the 19th century. was mainly represented by a system of state banks aimed at supporting and developing socio-economic relations. The low efficiency of the work of the Zemstvo banks (primarily of the nobility) led to the need for reforms in the banking sector. In 1859, by decree of the emperor, a special commission was created, which was supposed to create a project for the device of a new type of institutions - the so-called zemstvo banks, which could replace state credit organizations in the stage of bankruptcy and liquidation. For a fairly short period of time, the commission developed a draft of zemstvo banks and credit companies. Preference was given to credit institutions in the form of joint stock companies and mutually responsible partnerships.

2 FORMATION OF THE SECURITIES MARKET IN RUSSIA

Most banks in pre-revolutionary Russia were based on public share capital. Consequently, their functioning required the issue of their own shares and the creation of a securities market.

According to the adopted law of 1872, commercial banks received the right to carry out all operations with securities. The law also enshrined mandatory standards, including the standard for creating a reserve in the form of government securities.

Since the 1870s. banks have consistently developed their operations, both at their own expense and at the expense of their clients. The services of banks for organizing the issue of

shares for clients - large industrial and transport enterprises - have become widespread. The bank provided significant assistance to the client on the size of the issue, the expected circle of buyers, the placement price, took upon itself all the necessary paperwork, ordering forms of securities and their subsequent long-term storage [1, p. 24].

In the anniversary report of the St. Petersburg private commercial bank for half a century of its work, it was noted: "In 1866, with the help of the bank and some of the local leading banking houses, the Ryazhsko-Morshansk railway company was able to place its bonds in Russia without resorting to the help of foreign banks and lending institutions. This was the first example of the formation of such a loan in Russia by one Russian capital. This success has prompted a desire on the part of some other societies to take advantage of similar bank assistance. The Bank provided assistance in the construction of Zemskaya, Orlovo-Vitebsk, Rybinsk-Osechenskaya, Bresto-Graevskaya, Gangeskaya and other important railways "[4, p. 114].

Some local economists, as well as Khodiev B. Y. [7], Mustafakulov Sh. I., Yuldashev N. [8;9] and others proposed evaluation methodology for integrated assessment of production capacity management, which is based on qualitative and effective indicators of production capacity management. Methodology for assessment the efficiency of production capacities management at textile enterprises were investigated by B. O. Tursunov in other works [10;11;12], but they have not investigated problems of influence of the Covid-19 pandemic coronavirus of the world economy.

When distributing a new issue, the bank could redeem it using its own funds or gradually place it on the market for a commission. The preparation of new issues of securities was carried out mainly for well-known clients, therefore, the bank, as a rule, bought out part of the issued shares for the purpose of long-term investments. The dynamics of development and the scale of commercial banks' operations with securities were largely predetermined by the social situation in the financial market of pre-revolutionary Russia, increasing during periods of industrial growth and decreasing during periods of recession and after financial crises. Before the industrial boom of the 1890s. banks were mainly involved in the initial public offering of government securities. Since 1893-1899 banks took a large-scale participation in the establishment of large enter-

• Askarjon Khudjamuratov, Ph.D, "Corporate governance", Tashkent state University of Economics, Republic of Uzbekistan
E-mail: jaloliddin_2019@mail.ru

• Sarvar Rejabbaev, researcher, Tashkent state University of economics, Republic of Uzbekistan

prises of the oil refining, mining, metallurgical and machine-building industries. Banks bought out various portfolios of shares of the enterprises being founded to establish full control or to receive the highest dividends.

The swift issuing and founding activity eventually led to the formation and consolidation of banking and industrial monopolies. The first banking syndicates, or issue consortia, which were temporary complicity of banks for joint large-scale operations with securities - shares of industrial enterprises, and subsequently - with bonds of state loans, appeared directly to conduct transactions with securities in the Russian Empire on the basis of the conclusion of agreements. The participation of joint-stock banks in the issue of shares of industrial enterprises amounted to about 150 million rubles. For the years 1896-1899. participation of the St. Petersburg Accounting and Loan Bank in issue operations, in terms of which it ranked third among St. Petersburg commercial banks, was equal to 9.6 million rubles. [1, p. 25].

Significant development was acquired by operations of the so-called on-call lending - the issuance of loans secured by securities subject to repayment of the loan at the request of the bank. The government bonds accepted as collateral were valued more highly - 80-95% of the market value. When assessing the pledged shares of industrial or other enterprises, banks were not only guided by the market value of these securities, but also made forecasts of the dynamics of their rates based on the analysis of various indicators of the work of issuing companies [5, p. 46].

By the beginning of the First World War, the commercial banks of Russia had large credit investments, secured by securities (oncall loans), were the owners of shares, bonds, bills of exchange for significant amounts. So, by 1914 the Azov-Don Commercial Bank issued on-call loans in the amount of 91 million rubles, and its own portfolio of securities amounted to 14 million rubles. On the whole, for commercial banks by 1914, on-call loans for non-guaranteed securities exceeded 810 million rubles, which amounted to 16% of the banks' fixed assets, i.e. less than 18% of the amount of on-call amounts.

Commercial banks also provided services for the purchase and sale of securities on the stock exchange or over-the-counter market to various clients, which were not only enterprises, but also the population. Customers filled out and sent orders to the bank to buy or sell securities. When buying, banks were usually paid an advance in the amount of 10% of the transaction amount, securities held for sale were also transferred to the bank. Due to the fact that all securities were issued in cash, banks gradually began to provide services for their storage and accounting for the rights of owners, as well as for receiving coupons, dividends, etc. Storage of securities in banking institutions made it possible to organize cashless circulation of traded securities on exchanges. securities, which greatly simplified the mechanism of exchange trading. Large commercial banks with foreign branches earned money on arbitration between the Russian and European exchanges, using the difference in the rates of various securities.

During the years of stock market crises (1900 and 1913), banks suffered significant losses from the fall in the market value of their shares. The crisis of 1913. was so significant that

the Ministry of Finance, in order to prevent the bankruptcy of a number of large banks, was forced to undertake a large-scale purchase of shares on the exchange market.

The importance of banks to the stock market increased especially when stock exchanges were closed with the outbreak of the First World War. Since that time, the main turnover of transactions with securities passed through banks.

After the October Revolution, the Council of People's Commissars banned all transactions with securities, annulled the state's obligations on domestic loans, shares and bonds of nationalized enterprises lost their legal force. As a result, the securities market in Russia ceased to exist.

A new revival of the securities market in Russia began in the 1990s, when the mixed model of the stock market acquired widespread development, the specificity of which is the simultaneous presence of both banks and non-banking organizations.

The primary market combines the design phase of a new issue of securities and their initial placement. The primary securities market is defined as the relationship that develops during the issue or during the conclusion of civil transactions between persons who assume obligations to issue securities, and between the first investors, professional participants in the securities market, as well as their representatives [1, p. 423]. The main property of the primary market is the disclosure of information about the issuer, which makes it possible to make an objective choice of a security for investing funds. Only when issuing securities on the primary market does the real capitalization of the company that carried it out increase. The stock market is a mechanism for financing the real sector of production. In countries such as the USA and Great Britain, the securities market in terms of the volume of attracted resources is many times ahead of the banking market.

The securities market has an indirect impact on the development of the economy, largely through the secondary market.

The secondary market is a market in which securities previously issued on the primary market are traded. The secondary securities market is based on operations that arise during the redistribution of the spheres of influence of investors' investments, as well as those aimed at obtaining speculative income by investors [1, p. 423]. The main property of the secondary market is the ability to trade quickly and extensively, the ability to absorb large volumes of securities in a short time with small changes in rates and at low selling costs. Outwardly, the secondary market looks (and to some extent really is) a purely speculative process, the scope of which may seem redundant and reprehensible. In fact, it is the resale process that creates a mechanism for capital flow into the most efficient sectors of the economy. Shares and bonds of the most profitable companies and entire sectors of the economy are growing in price, increasing the number of those wishing to have these securities, which makes it possible to issue new securities and raise new capital.

The circulation of securities in the secondary market is largely due to the large number of investors who want to make money on the increase in the market value of securities and receive dividends on them. In the future, investors rein-

vest their profits either again in the securities market, or spend it for other economic purposes, which increases the level of consumption of material goods and contributes to an increase in their production in the country.

The main functions of the stock market are the redistribution of financial resources and the transformation of savings into investments. The securities market can effectively implement these functions provided that pricing is "fair", there is a wide range of investors and issuers, a variety of financial instruments, etc. However, the primary condition for the effective functioning of the securities market is "fair" pricing, which means equality of trading participants in the possibility of accepting and executing investment solutions. Consequently, the originality of any stock market is expressed in the peculiarities of price formation. The concept of forming a "fair" price in the securities market is of great importance for the efficient functioning of the stock market. This is due to the importance of determining the prices of the financial assets that circulate on it. In many ways, in order to achieve a "fair" price in the market, it is necessary to have reliable information.

Therefore, a very important property of the securities market is informational openness or transparency, that is, the presence of free access of participants to all information that is in circulation at a certain point in time. Information transparency of the securities market helps to strengthen public confidence in it and accelerate the process of converting household savings into investments. An increase in investment leads to economic growth, which contributes to an increase in the well-being and an increase in the standard of living of the population. This becomes possible due to the fact that, with high-quality disclosure of information, the freedom of choice of risks by investors is ensured, prerequisites for timely and comprehensive protection of the rights and interests of investors are created, which leads to the formation of "fair" prices and prevents sharp market downturns.

The securities market has an underdeveloped information system and most often turns out to be undercapitalized, because the pricing mechanism in such a market falls under the generalized category of the "Dutch" auction. The essence of the auction is such that when there is a limited number of buyers on the market, they deliberately underestimate the true subjective assessment of the asset in their bids, thereby understating the price when buying a financial instrument and overstating it when selling. In the absence of a wide range of informed investors in the securities market, the value of assets will generally be underestimated, therefore, not only investors, but also issuers are interested in an information transparent and mass market. For them, the direct advantage of full and reliable disclosure of information is an increase in the valuation of their assets and, accordingly, more favorable conditions for attracting financial resources.

The main quantitative indicator reflecting the degree of development of the securities market and the financial market is the financial depth of the economy. Financial depth indicators help to form a clearer understanding of the impact of the financial and securities markets on the development of the economy. At their core, indicators of financial depth are relative indicators that demonstrate the share of a particular seg-

ment of the financial market relative to GDP [2, p. nine].

Financial market researchers have found that in addition to quantitative indicators characterizing the financial market, there are also qualitative ones. These include such indicators as the number and reliability of professional participants, the presence of modern adequate legislation, the indisputability and unconditional force of laws, the effectiveness of regulation and supervision by the state over the financial market. Together, the financial market and the securities market have a significant impact on economic growth [3, p. 21].

3 DEVELOPMENT OF THE SECURITIES MARKET IN RUSSIA

At present, the general situation in the world economy and The concept of the securities market is a part of the financial market, the function of which is to convert savings into investments. It can also be thought of as a stock market, which has the ability to meet the needs for financial resources with the help of certificates of deposit, stocks, bonds and other similar documents. The securities market serves as a financial lever, an indicator of the market economy and is divided into primary and secondary. On the primary market, the issue of securities is carried out and their primary sale at a nominal price, and on the secondary market, securities are resold. For growth, the Russian securities market lacks development and investors [2, p. 275].

The number of registered investors in the trading system [6]

Investor groups	January 2017	August 2017	The change (%)
Individuals	1605440	1726066	7,51
Legal entities	30224	31113	2,94
Foreign persons	14297	15652	9,48
Foreign individuals	6720	7610	13,24
Foreign legal entities	7577	8042	6,14
Investors who have transferred their funds into trust	31425	41623	2,45
Total	1681386	1814454	7,91

If we consider the dynamics of the number of investors and professional participants in the stock market trading of the leading and large stock exchanges in Russia, the CIS countries and Eastern Europe of the Moscow Exchange in January and August 2017, we can immediately see a small number of professional participants and investors, including foreign ones, present at the auctions [6]. The statistics on the number of registered investors in the trading system contains several open accounts per investor (Table 1), therefore, for a more

transparent statistics, the number of registered unique investors is considered (Table 2).

According to statistics, 542,852 accounts are doubled, that is, investors in their own name open several accounts, which is not prohibited, for example, when servicing in several investment companies.

If we consider the number of individuals who have opened accounts on the Moscow Exchange, it turns out that the involvement of the population in the stock market in Russia is only 0.85% (Table 3), which is a catastrophically low indicator.

An analysis of the number of investors who completed at least one transaction during the month (Table 4) shows activity in only 8.23% of investor groups, which is also a low indicator of activity for a developing country, that is, more than a million accounts may simply be zero.

The number of registered unique investors in the trading system [6]

Investor groups	January 2017	August 2017	The change (%)
Individuals	1122053	1224837	9,16
Legal entities	18499	18539	0,22
Foreign persons	9371	10116	7,95
Foreign individuals	5969	6814	14,16
Foreign legal entities	3402	3302	-2,94
Total	1160914	1217602	9,53

Also low for Russia are data on the number of professional trading participants with active ones.

Table 3 - The number of active investors in the trading system (who have made at least one deal during the month) [6].

Investor groups	January 2017	August 2017	The change (%)
Individuals	86 958	98 846	13,67
Legal entities	916	1 092	19,21
Foreign persons	667	776	16,34
Foreign individuals	415	494	19,04
Foreign legal entities	252	282	11,9
Investors who have transferred their funds into trust	2 837	3 927	38,42
Overall	91 378	104 641	14,51

Table 4 - The number of professional trading participants providing services for entering the exchange for investors [6]

	January 2017	August 2017	The change (%)
Number of professional traders with active investors	330	329	- 0,3

The Russian securities market has huge growth potential and many opportunities, but there is not enough investment from domestic investors. Even small investments from each citizen will increase the market tenfold and reduce dependence on foreign capital. The population of the country is afraid to invest, as it does not have financial literacy [3, p. 32].

4 CONCLUSIONS

Summing up, we can say that the securities market has a direct and indirect impact on the development of the economy. The securities market plays an important role in the formation of the type of financing of the economy and in the distribution of the ownership structure between the economic entities. In addition, the securities market can be viewed as a factor that contributes to the convergence of many countries. The process of unification of the financial legislation of countries, their integration into the world economic community clearly testifies to the increasing role of financial markets.

It should be noted that the influence of the financial market, and the securities market in particular, on the development of the country's economy varies greatly depending on which category (developed or developing countries) it belongs to. The developed countries are characterized by the most obvious influence of the financial market on economic growth among other countries of the world. The securities market of developing countries is largely dependent on developed markets, on the inflow of foreign investment, and is quite often speculative. However, despite this, it is impossible to completely refute the theory of the importance of the securities market as a stimulating factor in economic development.

Thus, securities are of great importance for the development and formation of both the country's economy and the banking system as a whole. The securities market is controlled by the Bank of Russia and other government agencies.

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