



## MODERN ASPECTS OF ECONOMIC AND SOCIAL SUSTAINABLE DEVELOPMENT

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### REGULATORY AND LEGAL BASIS OF STRENGTHENING THE REVENUE BASE OF COMMERCIAL BANKS

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**Abstract:** *This research work is devoted to the analysis of the legal framework regulating the strengthening of the income base of commercial banks. The article examines the main laws, norms and regulations that determine the basis and requirements for ensuring the stability and efficiency of the banking sector's revenue operations.*

*The author analyzes the national legislation and international standards that regulate the financial sector, including the Basel norms and the recommendations of the International Monetary Fund. Also, the changes and reforms made to the regulatory framework in recent years and their impact on banking strategies and practices are considered. The study allows determining the main requirements and obligations of commercial banks in the context of strengthening the income base, as well as assessing the compliance of the regulatory legal framework with modern challenges and trends, such as digitalization and a changing competitive environment. This study can serve as a basis for more effective regulation and development of the banking system.*

**Keywords:** *regulatory framework, strengthening the income base, commercial banks, financial regulation, legislation, Basel norms, international standards, reforms in the banking sector, competitive environment.*

The modern banking system plays an important role in the economic development and stability of the country. Commercial banks, as the main participants of this system, strive to strengthen their income base in order to ensure financial stability, efficient operation and ability to respond to changing market conditions. However, in order to achieve this goal, they must comply with the legal framework that regulates their activities.

The regulatory and legal framework covering the banking sector is the main factor affecting the strategies, operations and financial stability of commercial banks. Laws, regulations, and standards set by national regulatory bodies and international organizations determine the scope of services, lending conditions, required reserves, and many other aspects of banking.

In this study, we consider the regulatory and legal framework that regulates the strengthening of the income base of commercial banks. We analyze what laws and regulations exist today and how



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they affect banks» strategies and practices in this area. It also explores recent developments and reforms in the regulatory environment, their purpose and expected implications.

In accordance with the Law of the Republic of Uzbekistan «On the Central Bank»:

firstly, ensuring the stability of the country's banking system is one of the main goals of the Central Bank's activity;

secondly, the Central Bank applies the mandatory reserve requirement to commercial banks, and these mandatory reserves are maintained by transferring the funds of the banks in special accounts at the Central Bank to the depositor and (or) in the representative account opened at the Central Bank, based on the amount of the averaged amount of the required reserves, which is calculated based on the average amount held by;

thirdly, in order to ensure the continuity of payments in the event of a temporary shortage of liquidity in commercial banks, the Central Bank has the right to provide quick assistance to commercial banks in the form of short-term loans for up to three months in order to maintain liquidity, and the interest rate on these loans should not be lower than the current rates for other loans of the Central Bank, and it must be secured by the bank's assets;

fourthly, the Central Bank regulates and controls the activities of credit organizations, including the activities of commercial banks [1].

According to the newly revised Law of the Republic of Uzbekistan «On Banks and Banking Activities»:

banks are independent in making decisions related to the implementation of financial transactions;

state bodies and their officials are prohibited from interfering in the activities of banks, including managing business risks related to the formation of the bank's loan portfolio and assets, appointing the bank's managers, as well as demanding various payments and contributions from the bank's funds;

the supervisory board of the bank carries out general management of the bank's activities, performs control and inspection functions in the process of making management decisions, and is generally responsible for the bank's activity and financial stability;

the bank's management is the executive body of the bank's management, it carries out operational management of the bank's activities in accordance with the activity strategy and its management system approved by the bank's supervisory board, and assumes full responsibility for the bank's activities;

the bank has no right to distribute profits by paying dividends to shareholders, as well as rewarding members of the bank's supervisory board, management and employees in the following cases:

when the prudential regulations do not comply with the requirements established by the Central Bank or when they are violated as a result of this distribution;



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in case of insolvency (bankruptcy) or when symptoms of insolvency (bankruptcy) appear as a result of this distribution;

When the shortcomings indicated in the mandatory instructions of the Central Bank, including information disclosure, are not eliminated or there is no possibility to eliminate them;

When there is a request of the Central Bank to the bank not to distribute profits;

banks must obtain the approval of the Central Bank for profit distribution when the total amount of payments exceeds ten percent of the bank's equity capital and there is a loss in the current or previous quarter and/or financial year:

In the event of deterioration of its financial condition, the bank shall develop a bank financial recovery plan (hereinafter referred to as the recovery plan) containing measures to restore it at the request of the Central Bank and submit it for review and evaluation [2].

According to the Law of the Republic of Uzbekistan «On Protection of Joint-Stock Companies and Shareholders» Rights» adopted in 2014:

shares are issued securities bearing the owner's name, which can be ordinary or preferred according to their type;

the share is indivisible. If the share belongs to several persons based on common property rights, all these persons are recognized as one shareholder and use the rights confirmed by the share through their common representative;

one type of share gives each shareholder who owns it the same amount of rights as other owners of the same type of shares;

it is not allowed to exchange ordinary shares for preferred shares, corporate bonds and other securities;

The market value of a security is understood to be the most likely price, according to which this security can be transferred to another person in the open market in competitive conditions where the parties to the transaction act rationally and voluntarily in their interests, having all the necessary information. extraordinary circumstances, including the obligation of one of the parties to join this agreement are not reflected;

shareholders who are owners of preferred shares do not have the right to vote at the general meeting of shareholders, unless otherwise specified in this Law and the company's charter;

the company's preferred shares give their owners the same amount of rights and have the same nominal value as ordinary shares;

the amount and (or) value (liquidation value) of the dividend paid on preferred shares upon liquidation of the company should be specified in the charter of the company. The amount of the dividend and the liquidation value of the preferred shares are determined in a fixed amount of money or as a percentage of the nominal value of the preferred shares. Even if the procedure for determining the amount of dividends and the liquidation value of preferred shares is specified in the charter of the



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company, the amount of dividends and liquidation value of preferred shares is considered to be determined [3].

Approved by the Decree of the President of the Republic of Uzbekistan No. PF-5992 of May 12, 2020, «In the strategy of reforming the banking system of the Republic of Uzbekistan for the period of 2020-2025, the following tasks are defined, which are directly and indirectly related to strengthening the income base of commercial banks:

- creation of equal competitive conditions in the financial market;
- lending only on the basis of market conditions;
- reducing the dependence of banks on state resources;
- modernization of banking services;
- improving the quality of credit portfolio and risk management;
- follow the moderate growth of lending volumes;
- improving corporate governance and attracting managers with international practical experience;
- implementation of technological solutions for financial risk assessment;
- comprehensive transformation of commercial banks with a state stake;
- selling a package of state shares in banks to investors with the necessary experience and knowledge on a competitive basis;
- wide introduction of remote services for residents and small businesses, development of a network of low-cost service points [4].

In accordance with the Decree of the President of the Republic of Uzbekistan dated September 2, 2017 No. PF-5177 «On the first measures to liberalize the currency policy»:

firstly, the realization of the rights of legal entities and individuals to freely buy and sell foreign currency and freely dispose of their funds at their will is fully ensured;

secondly, the development of the market of state securities, as well as the implementation of operations on the open market and the implementation of operations on the pledge of state securities to the liquidity of banks, as well as the introduction of market instruments for the management of foreign currency resources, were defined;

thirdly, the demand for compulsory sale of foreign currency earnings of all exporting enterprises, regardless of the form of ownership, was canceled;

fourthly, state duties, levies and other mandatory payments were levied only in national currency, with the exception of consular fees [5].

According to the decision of the President of the Republic of Uzbekistan dated September 12, 2017 No. PQ-3270 «On measures to further develop and increase the stability of the banking system of the Republic»:

First, starting from September 1, 2023, the requirement for the minimum amount of authorized capital of commercial banks will be 200 billion. was set at soum;

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secondly, the personal responsibility of the heads of the ministries, agencies and other bodies that are the organizers of the projects for the quality and timely implementation of the investment projects was established;

thirdly, it was clearly established that ministries and agencies, local state authorities are not allowed to interfere in the activities of banks and their branches; fourthly, it was forbidden to involve banks in state and regional investment programs without a positive opinion of commercial banks [6].

According to the regulation «On the procedure for calculating interest in commercial banks» approved by the decision of the Board of the Central Bank of the Republic of Uzbekistan No. 24/7 dated August 23, 2023:

the bank's income includes only the gross receipts of the economic profit received and to be received by the bank on its account. In an agency relationship, the gross receipts of economic profit include amounts that are collected on behalf of a third party and do not lead to an increase in the bank's capital. Amounts collected on behalf of a third party are not considered income. In this case, the amount of the bank's brokerage fee is the bank's income;

interest on the loan amount is calculated from the day the loan was granted until the day before the day it was returned to the bank or removed from the relevant account on other grounds;

interest on loans is calculated daily based on the annual base period - 365 days (for certain types of loans, 360 days are taken as the base period);

interest on loan funds is calculated daily;

if unpaid interest accrues before the purchase of interest-bearing investments, then the subsequent interest received is allocated to the period before and after the purchase, and the post-purchase part of the interest received is recognized as income;

Banks should use the effective interest rate method when calculating interest on financial instruments sold at a premium or discount, or when the monthly interest payment schedule is not specified under the contract;

based on the effective interest rate method, income is determined by discounting the expected cash flows until they reach the initial book value of the asset (liability). The effective interest rate is calculated using software. In this case, the «Internal rate of return» (IRR) calculation function is used in the Microsoft Excel program;

the discount is amortized over the term of the financial instruments using the effective interest rate method;

when securities are issued at a discount, the discount is reflected on the date of sale and amortized using the effective interest rate method during the period of validity of the securities;

When securities are issued at a premium, the premium is recognized at the date of sale and amortized using the effective interest rate method over the life of the securities [7].

Approved by the decision of the Central Bank of the Republic of Uzbekistan and the Center for Coordination and Control of Securities Market Activities under the State Property Committee of



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the Republic of Uzbekistan «On Approval of the Regulations on Requirements for Banks to Perform Professional Activities as Investment Brokers, Investment Asset Managers, and Investment Consultants in the Securities Market» According to the regulation:

firstly, when the bank performs professional activities as an investment intermediary in the stock market, the bank keeps accounts of each client's securities and funds, carries out transactions and operations related to securities in accordance with the contract concluded with the client, and reports to him on the concluded transactions and performed operations condition;

secondly, the bank should have a structural division responsible for banking operations related to the implementation of professional activities as an investment intermediary, investment asset manager and investment consultant;

thirdly, the function of monitoring and regulating the professional activities of banks as investment intermediaries, investment asset managers and investment consultants in the securities market is carried out by the Central Bank of the Republic of Uzbekistan together with the authorized state body for the regulation of the securities market [8].

The regulation «On requirements for liquidity management of commercial banks» approved by the decision of the Central Bank of the Republic of Uzbekistan No. 19/14 dated July 22, 2015 (registered by the Ministry of Justice of the Republic of Uzbekistan on August 13, 2015 with number 2709) regulatory requirements for the following four financial ratios have been established for banks» liquidity:

- instant liquidity ratio;
- current liquidity ratio;
- liquidity coverage ratio;
- net stable funding rate ratio [9].

According to the Regulation «On requirements for the capital adequacy of commercial banks» approved by the decision of the Board of the Central Bank of the Republic of Uzbekistan dated June 13, 2015 No. 14/3 (registered by the Ministry of Justice of the Republic of Uzbekistan on July 6, 2015 with No. 2693):

The amount of Tier I capital must not be less than the minimum amount of the bank's authorized capital;

Tier I capital should not be less than 75% of the regulatory capital. If the amount of Tier II capital exceeds one third of the amount of Tier I capital, the increased amount is not included in the regulatory capital;

Tier I capital must not be less than 60% of the bank's regulatory capital.

The Central Bank of the Republic of Uzbekistan may require banks to maintain a higher capital adequacy ratio based on the risks inherent in their activities, economic conditions and financial situation. Such risks include, but are not limited to, high levels of non-performing loans, net losses, high growth in assets, exposure to high levels of interest rate risk, or exposure to risky activities [10].



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The minimum amount of authorized capital of commercial banks of the country: 100 billion soums by September 1, 2023, 200 billion soums from September 1, 2023, 350 billion soums from April 1, 2024, 500 billion from January 1, 2025. should amount to a billion soums [2].

We believe that increasing the requirements for the minimum amount of authorized capital of republican commercial banks at such a high pace will ultimately allow to increase the level of financial security of banks.

The Central Bank of the Republic included the relevant requirements of the Basel Committee in the guidelines on capital adequacy requirements of commercial banks in order to implement the recommendations of the Basel Committee on the step-by-step increase of the capital adequacy requirements of commercial banks. This should make it possible to increase the resistance of commercial banks to financial crisis situations in the future and is a positive situation from the point of view of ensuring the financial security of banks.

In short, the regulatory framework serves as a basis for strengthening the income base of commercial banks and ensures the stability and reliability of the financial system. Continuous improvement of this base, its compliance with modern requirements and international standards are integral elements of ensuring the success and stability of the bank's activities. Proper coordination of the interests of banks, regulatory bodies and society helps to strengthen the profit base of commercial banks and create favorable conditions for long-term economic growth.

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