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# Limited liability companies were allowed to issue corporate bonds

Uzbek Parliament has passed a law granting limited liability companies (the “LLCs”) the right to issue corporate bonds (the “Draft Law”). The draft is now due for parliamentary approval by the Senate and by the president.

The Draft Law was initiated by the Capital Markets Development Agency of the Republic of Uzbekistan (the “Agency”) at the end of 2019. In accordance with the current legislation, corporate bonds can only be issued by joint-stock companies and commercial banks (together the “Entities”). However, the process and requirements involving issuance of corporate bonds are currently fraught with a number of impediments even for the Entities.

According to the Agency, existence of such regulatory hurdles has deprived business from engaging more actively on the capital market by attracting much needed investment for growth. Particularly, between 2010 and 2018 the number of corporate bonds in circulation has dropped from 41 to 17 units and their amount has declined from 512 to 198 billion UZS.

The Draft Law envisages a number of amendments to the capital market regulations, including:

- ▶ allowing LLCs to issue corporate bonds subject to the requirements related to external auditing, financial reporting, information disclosure and other requirements that are applicable to the Entities;
- ▶ removing the regulatory requirement limiting issuance of corporate bonds to the company’s equity, the pledged collateral requirement for corporate bonds issuance, as well as mitigating requirements of three-years affirmative financial performance and rating;
- ▶ assigning the Agency that is the authorized state body of regulating securities market, with the authority to establish conditions and determine requirements for issuing corporate bonds in order to reflect timely current trends and introduce amendments to the process of issuing bonds, taking into account interests of all participants of securities market, including investors.

There are currently around 150,000 LLCs operating in Uzbekistan. To date, all LLCs had to rely on traditional source of financing, banking loans. The option of corporate bonds will serve as an alternative instrument of capital injection for LLCs.

The Draft Law also envisages a number of amendments in relation to taxation of holding companies. Particularly, funds received by holding companies in the form of dividends of its subsidiaries and monetary funds from the sale of shares of subsidiaries of holding companies will not be considered as the total income of holding companies.

The proposed amendments are set to contribute to the improvement of Uzbekistan’s economy by further deregulating local business environment and reducing dependence of legal entities from banking loans and sovereign guarantees.

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