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ORGANIZATIONAL ASPECTS OF UNDERWRITING ACTIVITIES IN IPO OPERATIONS

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Abstract
This article studies organizational aspects of underwriting activities in IPO operations. Stages of verifying the reliability of a company's financial condition, key stages of the IPO process are analyzed. Scientific conclusions and recommendations are presented on the basis of analyses.

Keywords: IPO, SPO, stock, underwriter, intermediary, issue, issuer, investor.

Introduction

Developing countries have a great need for financial resources to develop their economies. The capital market and the investments attracted through it play an important role in meeting these needs. Moreover, in developed countries, the capital market is also increasing its importance in financing new projects, ensuring employment and improving the well-being of the population. It should be noted that public placement of shares is one of the main operations in the development of the international capital market. The quality of underwriting services is also an important factor in ensuring the successful implementation of public placement of shares. Therefore, it is relevant to study the organizational aspects of underwriting activities in IPO operations.

Literature Review

Many researchers have expressed their opinions on the importance and specific features of public offering practices in the development of capital markets. Jiahui Li and Rui Li noted that the low price of shares in the initial public offering of shares and the immediate increase in the price of these shares in the post-IPO period are common in most markets [1]. The decision to conduct a public offering is one of the most important decisions made by companies. Currently, firms can use two main methods to sell their shares in the initial public offering process. Book-building, the main method of IPO in the United States, is dominant in most authorized markets. However, underwriters can abuse their rights to place shares for their own benefit. An alternative mechanism is the auction method, which is rarely used worldwide. Compared to book-building underwriters, underwriters in an auction method cannot pursue their own interests [2].

James C. Brau and Stanley E. Fawcett studied the motives for public placement, the timing of the IPO, underwriter selection, underpricing, signaling, and problems associated with the IPO process [3].

S. Elmirzayev and B. Boyev noted that "the cost of an IPO is determined by the following costs:

- legal due diligence;
- financial and tax due diligence;

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- preparation of audit reports;
- asset valuation;
- conclusion of contracts with underwriters and underwriter's remuneration;
- costs of issuing and registering shares;
- taxes, one-time fees, and other costs" [4].

According to Q. Chinkulov, "the mechanism of financing JSCs through corporate securities, in particular shares, is being widely studied worldwide. Many scientific studies are devoted to attracting funds to corporations through the issuance of shares, especially large-scale investments through IPO. However, the aspects of the possibility of attracting large investments to corporations through IPO, which is considered one of the mechanisms of equity financing, while also reducing the state's share, have not found their scientific solution" [5]. "The state may have a negative impact on some aspects of transactions related to securities of enterprises in which it participates. In particular, this is reflected in the adoption of decisions by the enterprise on the payment of dividends on shares, the organization of IPO and SPO operations, raising capital through corporate bonds and thereby expanding the business" [6]. Underwriting services should also be taken into account in this process.

Analysis and Results

The process of public offering of shares is multi-stage, requires a long time (several years) and high financial costs. In addition to the company's internal preparation and the completion of all necessary processes, it is also worth noting that the timing of the public offering of shares depends on the current state of the economy. Because the unstable situation in the market can sharply increase the risk level of capital placement and reduce the possibility of achieving the expected level of capitalization. After the company has made a decision to carry out a public placement of shares, having analyzed its internal capabilities, it begins the preparatory process. This process involves four stages that span several years [7]. We can see that these stages are detailed in the table below (Table 1).

In the first stage, a group of organizers and IPO participants is formed, and they determine the company's financial strategy and develop a business plan accordingly. In addition, the company's financial readiness is assessed. This process involves the preparation of financial statements based on international standards.

In the second stage, external partners, consultants, and potential investors pay great attention to the process of checking the reliability of the company's financial condition (due diligence). The aspects included in this process are presented in the table below (Table 1). In addition, a serious approach is taken to working with PR agents and investors on the placement of securities, and presentations are made in front of potential investors. When selecting potential investors for presentations, it is also necessary to take into account the level of taxation in the country where the investor's activities are organized. Because in countries with a high tax burden on dividends, the desire to earn income through the purchase of shares will ultimately be low.

In addition, at this stage, the choice of trading venue is determined, that is, the stock exchange on which the securities will be listed and the time of entry into the open market.

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Table 1 Stages of Verifying the Reliability of a Company's Financial Condition [8]

Direction	Financial Analysis and Valuation	Audit and Financial Due Diligence	Legal Cooperation and Support
1. Specialists Involved	Financial analysts, business valuation experts	Highly qualified auditors	Specialized legal experts
2. Team Objective	To determine the actual value of the investment object and define the valuation range of the enterprise under various use-case scenarios for the buyer.	To conduct corporate financial due diligence, assess enterprise performance, and identify profit and tax risks.	To conduct legal due diligence of the company and identify risks associated with its acquisition.
3. Tasks Performed	- Evaluate the market, investment, and liquidation value of the enterprise, depending on whether it is acquired for preservation or integration into a holding structure. - Offer the buyer a price range calculated using various standards for decision-making on purchasing securities.	- Analyze the structure of revenues and expenditures. - Assess internal control systems. - Examine fixed assets, financial investments, receivables/payables, and inventory. - Analyze credit contracts, obligations, and contingent liabilities. - Verify the completeness and reliability of assets and liabilities reporting. - Identify potential tax risks and their impact on profitability. - Determine the possible amount of tax liabilities and their financial impact.	- Review founding documents, legal status, corporate governance documents, board decisions, and major powers of attorney. - Analyze key agreements related to shares, shareholder rights (property and non-property). - Examine government regulations, main contracts, property rights, labor relations, and ongoing legal claims or disputes.
4. Final Output	Business or equity valuation report.	Financial due diligence report.	Legal due diligence report.

The third stage, considered the most important of the stages of conducting a public offering of shares, involves the registration of securities with state bodies and on the stock exchange, the determination of the price range of securities expected to be placed, and the printing of the primary issue prospectus.

The fourth and final stage is the public offering of the company's shares, which, in addition to shareholders and managers, is attended by underwriters, financial, legal and tax advisors, potential investors and other participants in the financial market. In addition, state bodies may also participate in the placement of shares of strategically important companies. While underwriters are engaged in the underwriting of shares on the primary market, tax advisors are directly involved in the placement of shares when tax issues arise. As we have emphasized above, conducting public placement operations of shares requires a certain level of costs. In this regard, the costs of placing shares can be conditionally divided into initial and fixed costs. The costs incurred in assessing the suitability of the public placement of shares are considered initial costs. Fixed costs are the costs directly incurred in preparation. In general, the cost of a public offering consists of the following costs [9]:

- legal due diligence;
- financial and tax due diligence;
- preparation of audit reports;

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- asset valuation;
- underwriting agreements and underwriters' fees;
- share issuance and registration costs;
- - taxes, one-time fees and other expenses.

The most expensive process is the process of checking the reliability of the company's financial condition.

Currently, public placement of shares by companies in the international financial market is a widespread method of raising capital. In addition, public offering of shares provides companies with the opportunity to shape their image, increase investment attractiveness and expand their business. The organization and conduct of an IPO by companies is a time-consuming and costly process that involves a number of stages (Table 2).

Table 2 describes the stages of the IPO process in 5 stages based on the data of IPO operations in international financial markets. In this process, the selection of underwriters is considered one of the complex stages. In this case, mainly institutional investors are selected as underwriters, and their reputation and experience play an important role in this. In addition, the terms of the agreement with the underwriter, including the successful conduct of roadshows, pricing, balancing, and transition to market competition are also important in the IPO process.

Table 2 Key Stages of the IPO Process [10]

Stage No.	IPO Stages	Description
1	Selecting Underwriter	Choosing an investment bank or consortium to manage the IPO process.
2	Due Diligence and Regulatory Filings	Conducting financial, legal, and operational reviews; preparing filings (e.g., prospectus).
3	Pricing	Determining the initial share price through book building or market analysis.
4	Stabilization	Managing post-IPO price volatility, typically through underwriter intervention.

It is necessary to emphasize that underwriting activities in the Republic of Uzbekistan are regulated on the basis of a number of legal and regulatory documents. In particular, Regulation No. 860 “On Underwriting Activities on the Securities Market”, registered by the Ministry of Justice of the Republic of Uzbekistan on December 28, 1999, is one of the documents regulating underwriting activities in Uzbekistan. According to it, only investment intermediaries and commercial banks can be underwriters. Commercial banks and investment intermediaries must have a license to carry out underwriting activities. The relevant license is issued by the authorized state body for regulation of the securities market or the Central Bank of the Republic of Uzbekistan, which grants the right to carry out banking operations.

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The following types of guaranteed placements can be distinguished:
- fully guaranteed placement - placement by the underwriter of all securities of this issue;
- partially guaranteed placement - partial placement by the underwriter of securities of not less than 10% of this issue.

In the process of implementing underwriting activities, the underwriter has the following rights:
• when concluding an agreement for the initial placement of securities with full or partial underwriting, to require the issuer to provide a discount from the nominal value of the securities in the amount specified in the agreement;
• to take all possible measures to protect the legitimate interests of the issuer's shareholders;
• insure the issuer against liability in the event of failure to fulfill the terms of placement of securities;
• receive a commission from the issuer in the amount specified in the contract for the placement of securities.

The main areas of the underwriter's activity include:
- formation of an optimal structure for the issue and placement of securities together with the issuer;
- preparation and presentation of an investment memorandum to investors;
- pre-subscription of the right to purchase securities in the expected volume of the issue;
- conducting market research, including studying the market situation and opportunities arising from the initial subscriptions made by potential investors to the right to purchase securities in the expected volume of the issue;
- drawing up an issue prospectus, documenting the operation and guaranteeing obligations, specifying the features of underwriting services;
- if necessary, forming a temporary association of underwriters and selecting investment intermediaries and commercial banks to ensure its activities;
- conducting a guaranteed placement of the issuer's securities in accordance with the obligations and terms agreed upon in the underwriting services agreement (placement of issues at a certain minimum price);
- distribution of income or commission from the difference between the purchase and sale of securities among the participants of the temporary association for the provision of underwriting services (if any);
- payment of funds received from the placement of securities to the issuer;
- the implementation of the initial support for securities placed on the secondary market (this issue) is provided for in the issue prospectus (underwriting services agreement).

Conclusions

In international practice, in countries with developed market economies, to implement underwriting, investment companies may join together in a group of underwriters that organize the issuance of securities and their guaranteed placement in emission syndicates. Having thoroughly studied the positive and negative aspects of this practice, it is necessary to implement underwriting operations of commercial banks and organize emission syndicates among banks, in accordance with the legislation on the securities market in our country. As a result, the issuance of shares and corporate bonds by joint-

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stock companies in our republic and their placement among investors will be accelerated, and brokerage activities on stock exchanges will develop.

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