BG Pulse Journal USA
ISSN:1947-2536 http://www.bgpulseusa.com/index.php/bg

A NATIONAL COMPENSATION SYSTEM FOR THE PROTECTION OF RETAIL INVESTORS: ADAPTING THE US SIPC EXPERIENCE TO UZBEKISTAN

Alikulov Azamat Tuygunovich
University of Information Technologies and Management
Head of the Department of Economics, DSc, Associate Professor
E-mail: azamat1441@mail.ru | ORCID: 0000-0001-7717-3274
Doi: https://doi.org/10.5281/zenodo.23719601

Abstract. The expansion of household participation in Uzbekistan's securities market makes the reliability of investment intermediaries an increasingly important policy issue. This article examines whether the United States Securities Investor Protection Corporation (SIPC) model can inform a national compensation mechanism for retail investors in Uzbekistan. The study applies comparative legal analysis to the US Securities Investor Protection Act of 1970, broker-dealer customer-protection rules and Uzbekistan's Law "On the Securities Market", together with official regulatory documents and a transparent scenario-based funding exercise. The analysis finds that US protection is a narrowly defined response to missing client cash and securities following a member broker's failure, rather than insurance against poor investment outcomes. Uzbekistan already recognizes investor claims, intermediary liability and securities ownership records, but the principal legal instruments examined do not create an equivalent automatic, industry-financed compensation backstop. A proposed Uzbekistan Investor Compensation Fund would combine mandatory intermediary participation, asset segregation, independent claims administration, limited payouts and risk-sensitive supervision. Illustrative funding calculations indicate the importance of an initial reserve and credible contingent liquidity; they do not constitute a forecast of actual failure rates. The article concludes that a compensation system could strengthen confidence only if designed as the last layer of protection, not a substitute for custody discipline or market oversight.

Keywords: Securities Investor Protection Corporation; retail investors; broker-dealer insolvency; investor compensation fund; Uzbekistan; capital market; custody; investor confidence.

INTRODUCTION

Uzbekistan has invested considerable effort in modernizing its capital-market infrastructure, broadening the range of traded instruments and attracting new investors. These measures are essential, but greater market access also raises a practical question: what happens to an individual's securities and investment cash if the intermediary holding or recording them can no longer meet its obligations? An investor may have a contractual right to reclaim property and may ultimately obtain a favourable court ruling, yet the recovery process can still be slow and costly when client assets are missing. For households investing comparatively modest sums, that uncertainty can matter as much as the expected return on the securities themselves.

The issue should not be confused with ordinary investment risk. A fall in the market price of shares is a risk the investor accepts; the inability of an insolvent intermediary to return assets entrusted to it is a different problem. The American Securities Investor Protection Corporation (SIPC), established under the Securities Investor Protection Act of 1970 (SIPA), was designed to address the second problem. SIPC protection generally reaches USD 500,000 per eligible customer, including a maximum USD 250,000 for eligible cash claims, subject to statutory terms [1–3]. It does not guarantee the market value of investments.

Uzbekistan's regulatory circumstances differ from those of the United States. The 2015 revised Law "On the Securities Market" provides a framework for licensing professional participants, maintaining custody records, exercising investor rights and assigning liability for breaches [5]. Presidential Resolution No. PP-291 of 2 September 2023 also provides for infrastructure reforms [6]. Importantly, on 14 October 2026 the National Agency of Perspective Projects (NAPP) reported that a new draft Law "On the Capital Market" had passed its first reading and was being prepared for a second reading. The draft was not reported as enacted at that time [7]. This creates a timely opportunity to examine whether a specific compensation chapter would complement existing rules.

The research objective is to identify which legal and institutional elements of SIPC are transferable to Uzbekistan and to formulate a proportionate implementation model. The central proposition is that compensation can improve confidence in intermediated ownership only when its scope is clearly limited and its financing is credible. The contribution is a distinction between existing legal remedies and the proposed collective payment mechanism, accompanied by a stress-test illustration that makes the fiscal assumptions explicit.

LITERATURE REVIEW AND LEGAL BACKGROUND

Legal protection and capital-market development are closely related in the institutional finance literature. La Porta et al. (1998), examining 49 countries, associate stronger investor protection with broader capital markets and less concentrated ownership [8]. Their findings concern shareholder and creditor protection generally, not compensation for broker insolvency; nevertheless, they support the proposition that the quality of enforcement affects the willingness to provide outside capital. IOSCO likewise identifies investor protection, fair and transparent markets, and reduction of systemic risk as the three objectives of securities regulation [9].

The US model is best understood as a layered arrangement. First, securities intermediaries are subject to preventive requirements. SEC Rule 15c3-3 addresses the possession or control of fully paid securities and segregation of customer resources, while Rule 15c3-1 addresses broker-dealer net capital. Recordkeeping and early-warning requirements add further checks [4, 10]. Second, if a SIPC-member firm collapses and client assets are missing, SIPA establishes special procedures for distributing customer property, including advances from the SIPC Fund within statutory ceilings [1, 2]. The two layers serve related but distinct functions: preventive rules seek to avoid shortfalls; compensation mitigates the residual loss after those safeguards fail.

SIPC is not a general investment guarantee, nor is it the same as bank-deposit insurance. SIPC protection does not reimburse an investor for a stock-market decline, an adviser's poor recommendation or an ordinary dispute over an issuer's business performance [2, 3]. In the US structure the fund is financed through assessments on member broker-dealers, supported by statutory financing arrangements; its rules permit assessments that vary with the condition of the fund [1, 11]. The relevance for Uzbekistan lies in the allocation of responsibility among intermediaries, regulator, courts or liquidators, and the collective fund—not in the mechanical adoption of the US dollar ceiling.

A useful regional policy contrast arises within Uzbekistan itself. Law No. O'RQ-1031 of 18 February 2025 created an explicit bank-deposit guarantee framework, including compensation of up to UZS 200 million per depositor at a single bank in the situations covered by that law [12]. Bank deposits, however, are different legal claims from securities or investment cash held by a brokerage intermediary. The deposit-guarantee ceiling therefore neither establishes nor implies coverage for securities accounts. Its relevance is institutional: a clearly identified trigger, a

dedicated administrator and publicly comprehensible eligibility rules can make financial-sector protection more predictable.

RESEARCH METHODOLOGY

This study uses a qualitative comparative-law design with a supplementary arithmetic stress exercise. Primary sources consist of US SIPA provisions in Title 15 of the US Code, SEC materials on financial-responsibility rules and official SIPC explanations, together with the Uzbek securities-market law, the 2023 capital-market resolution, the 2025 bank-deposit guarantee law and NAPP's October 2026 statement [1–7, 10–12]. The analysis compares five dimensions: covered risk, eligible customers, administrative trigger, funding architecture and recovery procedure. Regulatory statements and academic commentary are used to interpret the framework, not as substitutes for enacted statutory rules.

The research employs normative gap analysis. A legal entitlement to claim damages is distinguished from an ex ante pool that advances funds when the intermediary's estate cannot return client property. A set of hypothetical assumptions is then used to demonstrate the relation among accounts, insured balances, assessment income and compensation payouts. No historical Uzbek intermediary default database or verified distribution of retail client balances was available for this study. Consequently, the illustrative numbers are explicitly assumptions, and the paper does not estimate a failure probability or claim an econometric effect on household participation.

RESULTS AND ANALYSIS

Under SIPA, a qualifying failure of a SIPC member can lead to a customer-protection proceeding. The objective is first to return identifiable customer property; if a shortfall remains, advances may be used to satisfy eligible net-equity claims within the statutory limit. Section 78fff-3 provides for advances of up to USD 500,000 per customer and the statutory cash sublimit, while section 78ddd provides the legal basis for the SIPC Fund and member assessments [1, 11]. The existence of an advance mechanism does not imply that the fund pays the face value of every investment. When the client's security can be returned, return in kind is generally preferable; any compensation responds to the missing asset, not to its unrealized investment loss.

The protection framework also limits moral hazard. Market risk remains with the investor; the broker's duty to protect client holdings remains enforceable; and the collective scheme does not replace supervision. A claimant must meet the eligibility and claims requirements of SIPA. In addition, US regulatory requirements for possession and control, customer reserve accounts and financial reporting reduce the chance that a brokerage insolvency translates into a missing-asset loss [3, 4].

Protection currently identifiable in Uzbekistan

The Uzbek Law "On the Securities Market", in its revised 2015 form and subsequent amendments, establishes multiple protective rights. Article 24 concerns licensed professional market activity; Article 35 governs relationships between professionals and customers, including brokerage and depository services; Article 36 provides for recording securities rights through depo accounts maintained by the relevant infrastructure; Articles 58 and 59 address investor rights and the property liability of professional participants and issuers [5]. These provisions form an essential legal baseline. A depositor's right to an account statement and an investor's right to pursue damages are particularly significant in reconstructing ownership after a failure.

The reviewed securities-market provisions nevertheless perform a different function from SIPC. They set duties and liabilities but do not, within the primary statutes examined here, establish a universal industry-funded institution obliged to advance a fixed amount to eligible retail customers of failed investment intermediaries. This is a statement about the identified legislative

framework, not a claim that all sector-specific or contractual recoveries are unavailable. A statutory compensation system would therefore require more than a ministerial circular: its legal personality, mandatory membership, covered claims and authority to collect assessments should be expressly defined in legislation.

Institutionally, NAPP is the sectoral supervisor, while the Central Securities Depository and licensed intermediaries perform recordkeeping and settlement-related functions within their respective legal mandates [5–7]. The forthcoming capital-market reform may introduce additional custody licensing and investor classifications, according to NAPP's description of the draft [7]. Because the draft remained under legislative consideration as of 14 October 2026, the design suggested below is a proposal for consideration rather than a description of an existing compensation entitlement.

Table 1. Comparative protection architecture

Dimension	**United States**	**Uzbekistan: reviewed instruments / proposed gap**
Primary mechanism	SIPA customer-property proceeding and SIPC advances	Investor rights, accounts and liability rules; dedicated collective advances proposed
Risk covered	Missing eligible cash/securities after SIPC-member failure	Proposed: missing client assets attributable to covered intermediary failure
Market losses	Not covered	Not to be covered by proposed scheme
Funding	Member assessments to SIPC Fund	Proposed mandatory ex ante intermediary levies and contingent liquidity
Administration	SIPC and liquidation trustee / applicable procedures	Proposed separate compensation body coordinated with NAPP and insolvency authorities
Coverage ceiling	USD 500,000 incl. USD 250,000 cash sublimit	No equivalent SIPC-style limit identified in reviewed laws; suggested pilot ceilings below

Source: author's comparative analysis of SIPA, SEC and SIPC documentation, and Uzbek statutory sources [1–7, 11–12].

A proposed Uzbekistan Investor Compensation Fund

An appropriate domestic design would begin with a narrow purpose: to restore covered securities and investment cash that an authorized intermediary cannot deliver because of a legally established failure. The scheme should be established as an independent, non-profit institution with public-law responsibilities and a separate balance sheet. Mandatory participation would apply to licensed firms that hold, administer or owe eligible client assets. Investment advisers that neither hold nor control customer property should be treated differently unless local supervision finds a relevant custody exposure.

Retail customers should be the initial beneficiaries, with an explicit statutory definition that excludes directors, controlling owners and related parties responsible for the failed firm. A decision to extend limited coverage to microenterprises could follow after fund capitalization and data reporting improve. Claimants should retain their underlying property and contractual rights; the fund would acquire subrogation rights to recover advanced amounts from the insolvent estate. Clear

rules are also needed for pooled/nominee accounts, joint accounts, securities lending, foreign-currency balances and the treatment of clients of foreign intermediaries.

For a pilot design, this paper suggests a maximum payment of UZS 100 million per eligible customer, within which no more than UZS 30 million would cover missing investment cash. These are policy parameters offered for debate, not current Uzbek statutory limits. The final ceilings should be set only after analysis of account-level holdings, income distributions, expected recoveries, intermediary concentration and public affordability. A more generous nominal promise without a financing base would risk weakening confidence rather than improving it.

Table 2. Proposed legal and institutional arrangements

Element	Operational proposal	Reason for inclusion
Trigger	Regulator finds inability to return client assets and court/authorized insolvency procedure is initiated	Avoid discretionary claims triggered by price declines
Sequence	Reconcile records → return identifiable property → calculate shortfall → pay eligible advance → recover from estate	Prioritize client property and reduce duplicated payment
Participation	Compulsory for licensed custodial / carrying investment intermediaries	Prevent adverse selection and free-riding
Funding	Entry contribution + periodic assessment + exceptional supplementary assessment	Build ex ante capacity with replenishment
Oversight	Independent governing board; NAPP supervision; external audit and public annual reporting	Limit conflicts and establish accountability
Safeguards	Asset segregation, daily/periodic reconciliation, custody audits, sanctions and investor disclosure	Keep compensation as the final—not first—defence

Source: author's design based on the allocation of legal functions observed in the US framework [1–4, 11] and Uzbek institutional structure [5–7].

Illustrative financial capacity and stress tests

A hypothetical funding exercise helps show why the proposed cap alone cannot demonstrate feasibility. Suppose 60,000 eligible accounts hold an average of UZS 20 million of assets within the scheme's coverage rules. The aggregate modelled exposure is UZS 1.2 trillion. An assessment equal to 0.25% of this covered-asset base would generate UZS 3.0 billion annually; an initial member-funded reserve of UZS 15.0 billion would bring first-year resources to UZS 18.0 billion before expenses and investment returns. The annual charge is measured against assumed covered assets, not broker operating revenue, and is therefore not directly comparable with the US SIPC assessment percentage.

The simple accounting identities are: Covered exposure = $N \times B$; assessment income = $\tau \times$ covered exposure; stress payout = $C \times L$; residual resources = opening reserve + assessments − payout. Here N denotes eligible accounts, B the assumed average covered balance, τ the assessment rate, C the number of successful claims, and L the average compensated shortfall. Claims are assumed to respect the individual maximum and cash sublimit. The exercise deliberately excludes legal costs, asset recoveries, time value of money, concentration correlations and administrative expenses.

Table 3. Stylized compensation fund sensitivity (UZS billion, not forecasts)

Indicator / stress	Low	Middle	Severe
Eligible claims (persons)	150	400	900
Average covered shortfall per person (UZS million)	20	20	20
Aggregate claim amount (UZS billion)	3.0	8.0	18.0
First-year available resources (UZS billion)	18.0	18.0	18.0
Resources after claims (UZS billion)	15.0	10.0	0.0
Full payout feasible before costs?	Yes	Yes	Exactly at limit

Assumptions for all columns: 60,000 eligible accounts; UZS 20 million average covered assets; UZS 15 billion opening reserve; 0.25% annual assessment on UZS 1.2 trillion covered assets, yielding UZS 3 billion. Author's arithmetic; no estimated default probabilities.

The severe case exhausts the modelled resources before operating costs and therefore exposes the fragility of a scheme designed around a single static levy. Introducing a trigger for emergency assessments, an independently negotiated contingent liquidity line and a binding reserve-ratio policy would be more defensible than claiming the fund can absorb any large insolvency. A second stress test should consider simultaneous failures, high client-asset concentration and cash mismatches. Prudential supervision, timely data submission and the ability to transfer intact client accounts to a solvent intermediary may reduce payouts more effectively than simply raising the compensation ceiling.

DISCUSSION

Three implementation issues require particular attention. First, legal certainty: the investor must know which institution is responsible, what evidence proves a covered account, how claims are submitted and which losses remain outside coverage. The application should be free or inexpensive for small claimants, with published deadlines for initial decisions and documented appeal rights. A digital registry connecting relevant depository information and intermediary subledgers could speed reconciliation, but data sharing must be authorized, secure and auditable.

Second, financial incentives: firms holding concentrated, weakly reconciled or operationally risky client assets should not pay the same effective charge as firms with stronger controls merely because their account count is similar. A flat entry levy might be appropriate during a pilot period, followed by a transparent risk-sensitive formula subject to anti-arbitrage safeguards. Independent governance is important because intermediaries would fund the mechanism while also being potential subjects of claims. Coverage should be displayed alongside brokerage licenses without language suggesting a state guarantee of investment performance.

Third, legislative sequencing: Uzbekistan should adopt binding client-asset segregation and independent reconciliation standards alongside the compensation mechanism. US experience illustrates that the underlying system of custody and client-property priority is indispensable; SIPC does not operate in isolation. The October 2026 capital-market draft presents a policy window, but provisions in a draft must not be treated as presently enforceable [7]. A legislative feasibility assessment should coordinate with the Law "On the Securities Market", insolvency law and bank-deposit guarantee rules to prevent duplicated coverage and uncertain priority across financial institutions.

Suggested implementation sequence and performance indicators

A staged introduction would make the legislative project more manageable. In the first stage, the regulator and Central Securities Depository should develop a common map of account ownership, custody chains and unsettled securities transactions. This stage should also identify where customer cash is legally held: in a commercial bank, a broker-controlled settlement account or another permitted arrangement. Different holding structures can lead to different claims and must not be placed automatically under the same compensation rule. At this stage NAPP could consult licensed investment intermediaries, investor groups, insolvency practitioners and the deposit-guarantee authority about definitional conflicts, data availability and information-security constraints. Such consultation is necessary before coverage numbers are chosen.

In the second stage, an enabling law should specify that covered compensation is a claim against the separate fund, rather than an unlimited obligation of the state budget or of the Central Securities Depository. The statute should prescribe the asset-return priority, the insolvency trigger, exclusions for insiders and control persons, the treatment of foreign-denominated client claims, subrogation and judicial review. Detailed secondary regulation could then address operational matters: periodic submissions of custody reconciliation files, member assessment declarations, independent examinations, the investment policy for collected premiums and the minimum public disclosures required from every participating firm. A customer should not need a legal adviser simply to find out whether an intermediary is a fund member.

In the third stage, a limited pilot could cover accounts carried by a defined group of licensed intermediaries, provided their segregation systems pass an independent readiness assessment. The pilot should not advertise a guaranteed investment return. Its outcomes can instead be measured with operational indicators: share of accounts reconciled without discrepancy; time required to transfer intact securities; median processing period for accepted claims; value of missing assets recovered from insolvent estates; and the proportion of beneficiaries receiving the amount for which they qualify. Reporting each measure separately would distinguish actual protection capacity from the growth of the fund's headline balance.

Finally, a regular review should assess whether contributions are adequate for correlated losses. If a single intermediary accounts for a disproportionate share of covered balances, a simple average-account model may substantially understate exposure. The fund should therefore perform institution-level stress testing and publish aggregated results that preserve commercial confidentiality. This is particularly important in a market where the intermediary population is relatively small and operational failures may be correlated through common custodians or software providers. Resilience depends on the recovery of property and continuity of customer access, not solely on cash disbursements after a liquidation.

There are limitations to the present research. A documentary legal comparison cannot measure how often Uzbek intermediaries fail or whether an eventual guarantee increases market participation. Moreover, the proposed cover level and assessment rate have not been calibrated against confidential supervisory returns, holdings data or stress-loss distributions. The present model is therefore a structured policy design and scenario demonstration rather than an actuarial pricing exercise. Future research could use anonymized broker client-account records, operational-loss incidents and household surveys to estimate appropriate ceilings and the fund’s impact on perceived intermediary safety.

CONCLUSION AND RECOMMENDATIONS

The comparison demonstrates that the American SIPC system protects a specific relationship of trust: the expectation that an intermediary will return securities and investment cash held for a customer. It does not remove investment risk. Uzbekistan’s current legal framework

already recognizes securities ownership records, investor claims and intermediary liability, but those mechanisms are not functionally identical to a dedicated collective compensation facility. The difference is especially consequential for small retail customers for whom individual legal recovery may be disproportionate to the value of a claim.

The study recommends developing a statutory Uzbekistan Investor Compensation Fund with compulsory membership for custodial investment intermediaries, carefully limited eligible claims, a modest starting ceiling, ex ante contributions, risk-sensitive assessments and powers of subrogation. Implementation should proceed only together with stronger segregation, custody reconciliations, public reporting and a disciplined insolvency-transfer procedure. The UZS 100 million illustrative cover, UZS 30 million cash sublimit and stylized funding calculation presented in this article are not proposed as final regulatory figures; they identify variables on which a data-driven feasibility assessment must focus.

A national compensation scheme should be assessed by the reliability of asset recovery and the transparency of its promise, not by the size of a headline guarantee. In this respect, adapting the SIPC experience means developing a credible last-resort mechanism suited to Uzbekistan's market structure. Done carefully, it could become one component of a more trustworthy securities market and a practical complement to reforms seeking broader participation by the population.

REFERENCES

1. United States Code (2026). Securities Investor Protection Act, 15 U.S.C. §§ 78aaa–78lll, in particular § 78fff-3 (SIPC advances). https://uscode.house.gov/us/usc/119-121/t15/s78fff-3/
2. Securities Investor Protection Corporation (SIPC). What SIPC Protects. https://www.sipc.org/for-investors/what-sipc-protects (accessed 26 October 2026).
3. US Securities and Exchange Commission and SIPC (2023). Investor Bulletin: SIPC Protection (Part 1: SIPC Basics), 7 June. https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/investor-bulletin-sipc-protection-part-1-sipc-basics
4. US Securities and Exchange Commission (2017). Amendments to Financial Responsibility Rules for Broker-Dealers, compliance guide. https://www.sec.gov/resources-small-businesses/small-business-compliance-guides/amendments-financial-responsibility-rules-broker-dealers
5. Republic of Uzbekistan (2015, as amended). Law "On the Securities Market", revised by Law No. O'RQ-387 of 3 June 2015, Articles 24, 35–36, 58–59. https://lex.uz/uz/docs/-2662539
6. President of the Republic of Uzbekistan (2023). Resolution No. PP-291 of 2 September 2023, "On Additional Measures for the Development of the Capital Market". https://lex.uz/uz/docs/6590029
7. National Agency of Perspective Projects (2026). Press conference dedicated to the Draft Law "On the Capital Market", 14 October. https://napp.uz/en/news/kapital-bozori-to-g-risida-gi-qonun-loyihasiga-bag-ishlangan-matbuot-anjumani-2
8. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and Finance. Journal of Political Economy, 106(6), 1113–1155. https://doi.org/10.1086/250042
9. International Organization of Securities Commissions (IOSCO) (2017). Objectives and Principles of Securities Regulation. https://www.iosco.org/library/pubdocs/pdf/ioscopd561.pdf
10. US Securities and Exchange Commission (2024). SEC Adopts Rule Amendments to the Broker-Dealer Customer Protection Rule, Release 2024-211, 20 December. https://www.sec.gov/newsroom/press-releases/2024-211

11. United States Code (2026). 15 U.S.C. § 78ddd, SIPC Fund and assessments. https://uscode.house.gov/us/usc/119-120/t15/s78ddd/
12. Republic of Uzbekistan (2025). Law No. O‘RQ-1031 of 18 February 2025, “On Guarantees for the Protection of Deposits in Banks”. https://lex.uz/docs/-7389404
13. European Commission. Investor compensation schemes: principles and distinction from market losses. https://finance.ec.europa.eu/financial-markets/financial-markets-policy/securities-markets/investor-compensation-schemes_en (accessed 26 October 2026).
14. SIPC (2026). Assessment Rate, decision of 17 September 2026 on the rate from 1 January 2027. https://www.sipc.org/for-members/assessment-rate