



International Conference of Economics, Finance and Accounting Studies

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Risks and Specific Features of Commercial Banks' Activities in the Securities Market

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ABSTRACT

This study examines the risks associated with commercial banks' activities in the securities market and their specific characteristics. The research highlights that participation in securities markets enables banks to diversify income sources and enhance profitability; however, it also exposes them to various types of risks, including market risk, interest rate risk, credit risk, and liquidity risk. The paper analyzes the structure of banks' securities portfolios, risk assessment approaches, and risk management practices applied in international banking systems. Special attention is given to the role of portfolio diversification, risk measurement techniques, and regulatory requirements in mitigating potential losses. The findings suggest that improving risk management frameworks, strengthening internal control systems, and applying advanced analytical tools can significantly reduce vulnerabilities and enhance financial stability in commercial banks.

Keywords: commercial banks, securities market, market risk, interest rate risk, credit risk, liquidity risk, portfolio diversification, risk management, financial stability.

Introduction

Commercial banks are one of the main elements of the financial system and play an important role in the stability and development of the economy.[1] Banks not only issue loans and accept deposits, but also actively participate in the securities market. The stock market is the main platform for the effective allocation of financial resources, capital accumulation and expansion of investment opportunities.[2]

The activities of commercial banks in the securities market are very extensive and multifaceted and include processes such as their issuance, investment and mediation. These processes are an important tool for increasing banks' liquidity, income and risk management.[3]

Also, activity in the securities market is one of the main areas of investment activity of banks, serving

to ensure financial stability and provide customers with a wider range of financial services. In carrying out these activities, commercial banks use government bonds, corporate bonds, stocks and other financial instruments.[4]

Methodology

The activity of commercial banks in the securities market is a multifaceted and complex system, including several main areas: issuing, investment, and brokerage operations. Each of these areas is of great strategic importance for banks, contributing to improving their overall financial stability and profitability.[5]

The issuing operations of commercial banks in the securities market include the process of issuing financial instruments and selling them.[6] These operations allow banks to raise capital and channel it into various sectors of the economy. Issuing operations are becoming important for banks not only to attract new financial resources, but also to ensure their liquidity and capital adequacy.[7]

During the issuance process, banks often issue securities such as stocks and bonds. Shares allow the bank to own a share in the capital, while bonds establish a relationship between the borrower and the lender as debt obligations.[8] The denominations and the number of issue-grade securities are determined on the basis of clearly defined legislative norms, which is an important factor in the legal and regulatory framework of banks' activities.[9] At the same time, the entry of securities into the market and their distribution among investors requires important strategic decisions for banks. These processes serve to increase the financial stability of the bank, strengthen relations with investors, and strengthen its position as an active market participant.[10]

Result and discussion.

Investment operations of commercial banks in the securities market are carried out by investing their own funds in various financial instruments. These Figure 1. operations are a long-term source of income for banks, allowing them to diversify their investment portfolio and reduce risks.[11]

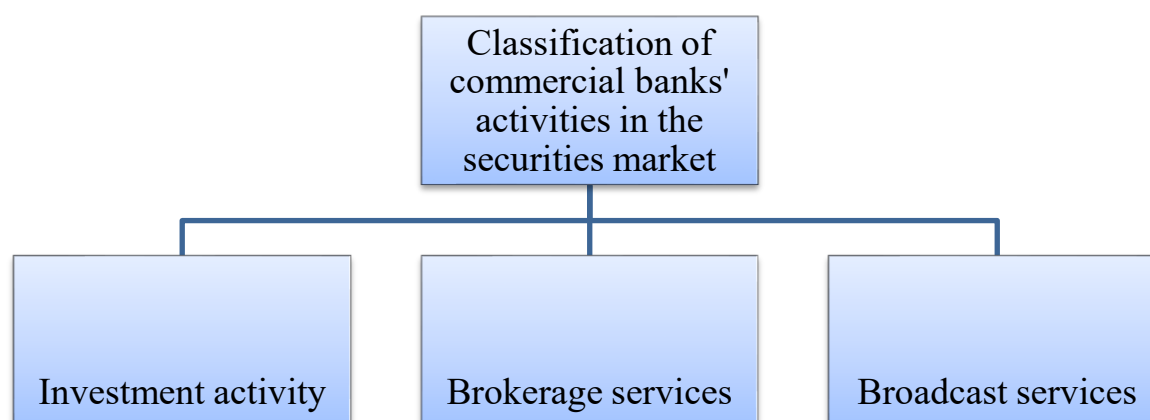


Figure 1. Classification of the activities of the securities market of commercial banks [12]

-Investment activity: commercial banks make direct investments in securities, that is, they try to earn income by buying or selling securities.

- Brokerage services: banks carry out the processes of buying and selling securities for clients. In this process, banks act as intermediaries for customers in exchange for a commission or service fee.[13]

- Issuance services: banks participate in the issuance (issue) of securities for corporations or the government. They are engaged in the organization of this process, the placement and sale of securities.[14]

In the course of investment operations, commercial banks buy stocks, bonds and other securities, receiving income from the growth of their market value. This activity also contributes to improving the overall financial stability of banks, as it contributes to the efficient allocation of financial resources and capital growth. In addition, when managing their investment portfolio, banks strive to reduce risks by diversifying risks, that is, maintaining a balance between financial instruments. This makes

it possible to optimize the level of profitability of banks and direct financial resources in the most effective directions.[15]

Conclusion.

In conclusion, commercial banks' participation in the securities market plays an important role in enhancing profitability and diversifying income sources. However, such activities also expose banks to various financial risks, including market, interest rate, credit, and liquidity risks. The study shows that effective risk assessment and management practices—such as portfolio diversification, stress testing, and the use of advanced analytical tools—are essential for minimizing potential losses. Strengthening internal control systems and aligning risk management frameworks with international standards further contribute to improving financial stability and resilience of commercial banks.

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