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Nematjon Ashurali o'g'li Shamsiddinov
Doctoral Researcher (PhD), University of Business and Science, Tashkent, Uzbekistan

ENFORCEMENT SILENCE AS EVIDENCE: INTERPRETING THE ABSENCE OF INSIDER-TRADING CASES IN FRONTIER SECURITIES MARKETS

Abstract. Comparative securities research treats enforcement activity as an indicator of market integrity: jurisdictions that prosecute insider trading are held to have functioning prohibitions, and the cost of equity falls when enforcement begins rather than when statutes are enacted. The inference is asymmetric, however. A positive enforcement count is informative; a zero count is not, because it is generated equally by a market in which the offence does not occur and by one in which it is never detected. Frontier securities markets, where zero counts are the norm, are therefore systematically mis-classified — typically as low-asymmetry markets, which inverts the likely truth. Following a theory-adaptation design, this article theorises enforcement silence as an equilibrium outcome rather than a data gap. It identifies four generative mechanisms — prohibitive void, surveillance void, prosecutorial-incentive void, and absence of the offence's precondition — and shows that each leaves a distinct observable signature in disclosure behaviour, ownership structure and price dynamics, so that the mechanisms are separable without a single prosecuted case. It then develops the detection-capacity paradox: because building surveillance converts undetected violations into recorded ones, measured enforcement is a non-monotonic function of market integrity, and reform programmes evaluated on case counts will appear to fail precisely when succeeding. Nine propositions and an identification protocol are advanced, with attention to markets in which the state is concurrently dominant shareholder, principal issuer and ultimate regulator. The protocol's legal audit is applied to Uzbekistan, where the prohibition proves sanctionless rather than absent — a sub-case of the prohibitive void that the taxonomy is extended to accommodate.

Keywords: insider trading; enforcement; securities regulation; frontier markets; information asymmetry; state ownership; detection capacity; Uzbekistan

Huquqni qo'llash sukunati dalil sifatida: frontir qimmatli qog'ozlar bozorlarida insayderlik savdosi bo'yicha ishlarning yo'qligini talqin qilish

Nematjon Ashurali o'g'li Shamsiddinov — tayanch doktorant (PhD), Biznes va fan universiteti, Toshkent, O'zbekiston

Annotatsiya. Qimmatli qog'ozlarni tartibga solish bo'yicha qiyosiy tadqiqotlar huquqni qo'llash faoliyatini bozor yaxlitligi ko'rsatkichi sifatida talqin qiladi: insayderlik savdosi uchun javobgarlikka tortadigan yurisdiksiyalarda taqiq amalda ishlayapti deb hisoblanadi, aksiyadorlik kapitali qiymati esa qonun qabul qilingan paytda emas, balki huquqni qo'llash boshlangan paytda pasayadi. Biroq bu xulosa assimetrikdir. Musbat ko'rsatkich axborot beradi; nol ko'rsatkich esa bermaydi, chunki u huquqbuzarlik sodir bo'lmaydigan bozorda ham, u hech qachon aniqlanmaydigan bozorda ham bir xilda yuzaga keladi. Shu sababli nol ko'rsatkich odatiy hol bo'lgan frontir bozorlari muntazam ravishda noto'g'ri tasniflanadi — ko'pincha past assimetriyali bozorlar sifatida, bu esa haqiqatning teskarisidir. Nazariyani moslashtirish (theory adaptation) dizayni asosida maqolada huquqni qo'llash sukunati ma'lumot bo'shlig'i emas, balki muvozanat holati sifatida nazariylashtiriladi. Sukunatni keltirib chiqaruvchi to'rtta mexanizm ajratiladi — taqiq bo'shlig'i, nazorat (surveillance) bo'shlig'i, prokuror rag'batlari bo'shlig'i va huquqbuzarlik uchun zarur shart-sharoitning haqiqatan yo'qligi — hamda ularning har biri oshkoralik amaliyoti, mulkchilik tuzilmasi va narx dinamikasida o'ziga xos, kuzatiladigan iz qoldirishi ko'rsatiladi. Shu tariqa mexanizmlar birorta ham sud ishisiz ajratilishi mumkin. So'ngra aniqlash qobiliyati paradoksi ishlab chiqiladi: nazorat tizimini qurish aniqlanmagan huquqbuzarliklarni qayd

etilganlarga aylantirgani uchun, oʻlchanadigan huquqni qoʻllash bozor yaxlitligining monoton boʻlmagan funksiyasidir va ishlar soni boʻyicha baholanadigan islohot dasturlari aynan muvaffaqiyat qozonayotgan paytda muvaffaqiyatsiz koʻrinadi. Toʻqqizta taklif va identifikatsiya protokoli ilgari suriladi. Protokolning huquqiy audit bosqichi Oʻzbekiston misolida qoʻllaniladi: taqiq yoʻq emas, balki sanksiyasiz ekani koʻrsatiladi — bu taqiq boʻshligʻining alohida koʻrinishi boʻlib, tasnif shunga mos ravishda kengaytiriladi.
Kalit soʻzlar: insayderlik savdosi; huquqni qoʻllash; qimmatli qogʻozlarni tartibga solish; frontir bozorlar; axborot assimetriyasi; davlat mulkchiligi; aniqlash qobiliyati; Oʻzbekiston

Правоприменительное молчание как свидетельство: интерпретация отсутствия дел об инсайдерской торговле на фронтирных рынках ценных бумаг

Нематжон Ашурали угли Шамсиддинов — докторант (PhD), Университет бизнеса и науки, Ташкент, Узбекистан

Аннотация. Сравнительные исследования регулирования рынка ценных бумаг рассматривают правоприменительную активность как показатель добросовестности рынка: считается, что в юрисдикциях, где инсайдерская торговля преследуется, запрет действует, а стоимость акционерного капитала снижается в момент начала правоприменения, а не в момент принятия закона. Однако этот вывод асимметричен. Положительный показатель информативен; нулевой — нет, поскольку он в равной мере порождается и рынком, на котором правонарушение не совершается, и рынком, на котором оно никогда не выявляется. Поэтому фронтирные рынки, где нулевой показатель является нормой, систематически классифицируются неверно — как правило, как рынки с низкой асимметрией, что переворачивает вероятную истину. Опираясь на дизайн адаптации теории, статья концептуализирует правоприменительное молчание как равновесный исход, а не как пробел в данных. Выделяются четыре порождающих механизма — запретительная пустота, надзорная пустота, пустота правоприменительных стимулов и подлинное отсутствие предпосылки правонарушения — и показывается, что каждый из них оставляет особый наблюдаемый след в практике раскрытия информации, структуре собственности и динамике цен, так что механизмы различимы даже при полном отсутствии возбуждённых дел. Затем формулируется парадокс способности к выявлению: поскольку построение системы надзора превращает невыявленные нарушения в зарегистрированные, измеряемое правоприменение является немонотонной функцией добросовестности рынка, и реформы, оцениваемые по числу дел, будут выглядеть провальными именно тогда, когда они успешны. Предлагаются девять положений и протокол идентификации. Этап правового аудита протокола применяется к Узбекистану: показано, что запрет не отсутствует, а лишён санкции — частный случай запретительной пустоты, под который типология расширяется.
Ключевые слова: инсайдерская торговля; правоприменение; регулирование рынка ценных бумаг; фронтирные рынки; информационная асимметрия; государственная собственность; способность к выявлению; Узбекистан

JEL classification: G14; G18; G38; K22

1. Introduction

The comparative literature on securities regulation rests on a robust empirical finding: what matters for the cost of capital is not the existence of an insider-trading prohibition but its enforcement. Bhattacharya and Daouk (2002) showed that equity costs fall following the first prosecution rather than the first statute, and subsequent work confirmed that enforcement intensity, proxied by regulatory resourcing, outperforms statutory text as an explanator of market outcomes (Jackson & Roe, 2009). Enforcement counts consequently entered the standard toolkit as an indicator of effective market integrity.

The inference the toolkit supports is, however, one-directional. Observing prosecutions establishes that a detection and sanctioning apparatus operates. Observing none establishes nothing, because the null observation is consistent with two opposite states of the world: a market in which insiders do not trade on private information, and a market in which they do so without impediment. In developed jurisdictions the ambiguity rarely arises, since counts are positive. In frontier markets it is the standard case, and it is routinely resolved by default — the zero is either dropped from the sample or coded as low enforcement and thereby, implicitly, as low asymmetry.

The default resolution is almost certainly wrong. The structural features that make a market frontier — concentrated and often state-linked ownership, minimal free float, weak disclosure infrastructure, thin trading — are the same features that raise the private value of inside information and lower the probability of its detection. Such a market should be expected to exhibit high asymmetry and zero recorded enforcement at once, so treating the zero as evidence of integrity inverts the underlying relation.

Uzbekistan illustrates the configuration and its timing: a securities law of 2008 restated in 2015, supervision transferred to its present regulator in 2023, and a replacement statute at first reading in 2026. A market at this stage of institutional construction has little accumulated enforcement record, and how that absence is read determines whether the reform is later judged to have worked. Section 7 sets out the evidence and applies the protocol's legal audit to it.

This article makes three contributions. It reconceptualises enforcement silence as an equilibrium generated by identifiable mechanisms rather than as missing data. It derives, for each mechanism, an observable signature outside the enforcement record, yielding an identification protocol usable where no case has ever been brought. And it formalises the detection-capacity paradox, showing that reform-induced increases in recorded violations are evidence of success and specifying when case counts are invalid as reform indicators.

2. Methodology

2.1. Research design

The article is conceptual and follows the theory-adaptation type in MacInnis's (2011) taxonomy, in the form Jaakkola (2020) specifies for it. The framework taken is the enforcement-based account of market integrity (Bhattacharya & Daouk, 2002; La Porta, Lopez-de-Silanes & Shleifer, 2006; Jackson & Roe, 2009); the implicit assumption identified as failing is that a recorded count reads the offence rate monotonically, so that zero carries the same weight as a positive value; the domain of failure is the frontier market, where detection capacity is itself the scarce input; and the device imported to repair the gap is the identification logic of the literature on under-recorded offending, which treats a count as the product of an offence rate and a chain of conditional passage probabilities.

2.2. Source selection

Sources were selected purposively, as suits conceptual work (Jaakkola, 2020), against three criteria: foundational status in the enforcement literature; mechanism relevance in microstructure, disclosure and deterrence, together with the normative debate on prohibition itself; and domain relevance for Uzbekistan and the post-Soviet region. Only peer-reviewed outlets were used for the scholarly literature; the legal, institutional and market sources of Section 7 are governed by the paragraph below.

Section 7 is held to a stricter standard: legislative facts are cited to the National Database of Legislation of the Republic of Uzbekistan by instrument number and date, market data to the exchange or the depository, and institutional assessments to the issuing organisation. Where a fact is available only through a press report of an official statement, the reliance is identified at the point of use.

2.3. Logic of proposition development

The propositions are derived analytically. The recorded count is first decomposed into an offence rate and a sequence of conditional passage probabilities (Section 3), which yields Proposition 1. Each mechanism is then defined by the stage at which that sequence collapses and asked what it implies for evidence generated outside the enforcement process — in legal texts, price records and ownership filings; the answers are Propositions 2 to 5, whose joint content is Table 2. The comparative statics of the same decomposition under a reform raising detection capacity yield Propositions 6 and 7; its interaction with an enforcer whose principal is the counterparty yields Proposition 8; and the same probability-times-severity logic applied to the choice between instruments yields Proposition 9. None is tested here; Table 4 pairs the principal ones with a design and a data requirement.

3. What enforcement statistics measure

Recorded insider-trading cases are the product of a filtering process with several stages, each with its own attrition. An offence must occur; it must leave a trace in data someone examines; a surveillance function must flag the trace; an investigative body must have the authority, resources and evidentiary standard to pursue it; and a prosecutor must judge the case worth bringing. The count is the joint outcome of the offence rate and the product of the conditional passage probabilities.

It follows that a count of zero identifies the offence rate only under the assumption that all passage probabilities are close to unity — that is, only in jurisdictions with mature surveillance. This is precisely the assumption that fails in the markets where zero counts occur. Meulbroek's (1992) analysis of detected cases in a mature market established that insider trading leaves observable price signatures before public announcement; the corollary, less often drawn, is that where nobody examines pre-announcement price behaviour, the signature persists but the case does not.

Three literatures bear on this. Work on enforcement intensity shows that variation in regulatory attention alters offending, so counts are endogenous to enforcement effort rather than a passive reading of it (Del Guercio et al., 2017). Work on legal origin shows that disclosure and liability rules, rather than public enforcement as such, carry much of the explanatory weight for market development (La Porta et al., 2006), so integrity may be achieved through channels generating no case count at all. And the comparative insider-trading literature finds that what separates jurisdictions is not a prohibition's presence but its activation: Beny (2005) associates statutory stringency with market outcomes, while Bris (2005) finds enactment followed by more, not less, detected insider activity around takeovers — an early statement of the pattern formalised in Section 6.

The desirability of prohibition is not itself settled — Manne (1966) treated insider trading as efficient managerial compensation that accelerates the impounding of information into prices, and Leland (1992) showed its welfare effects to be formally ambiguous — but the present argument does not adjudicate that debate. It takes the prohibition as given and asks only what may be inferred from the absence of cases under it.

4. Four mechanisms generating enforcement silence

Four mechanisms are distinguished below. They are not mutually exclusive, but carry different implications and, as Section 5 shows, different signatures.

4.1. Prohibitive void

The conduct is not unlawful, or is unlawful only in terms too general to support a case. Many frontier jurisdictions regulate securities markets primarily through licensing and registration, addressing market abuse only obliquely. Where the prohibition does not define insider information, the class of insiders, or the prohibited act with sufficient precision, no case can be constructed regardless of conduct. Silence here reflects legal drafting, not market behaviour.

Section 7 identifies a sub-case the taxonomy should record separately, because a test framed only around definitional precision cannot see it. A prohibition may be stated in operational terms in the securities statute and yet carry no penalty in the criminal or administrative code to which enforcement must ultimately attach; the conduct is then unlawful and unpunishable at once. This sanctionless prohibition produces silence for the same reason as a definitional gap, but is missed by an audit inspecting only the securities law. Proposition 2's audit is accordingly three-limbed: a definition, a class of addressees, and an attaching sanction.

4.2. Surveillance void

The conduct is prohibited but undetectable. Detection requires order-level records linked to identified accounts, a monitoring function with the analytical capacity to screen them, and a dated corporate-event series against which to test for pre-announcement trading. Absent any of these, violations leave no institutional trace. This mechanism is the most likely to produce the joint occurrence of high asymmetry and zero enforcement.

4.3. Prosecutorial-incentive void

Conduct is prohibited and detectable, but pursuit is not in the interest of the actors positioned to initiate it. The mechanism is most acute where the state is concurrently dominant shareholder in listed issuers, sponsor of privatisation transactions and ultimate regulator: a prosecution then implicates the enforcing authority's own principals. It is reinforced where regulatory legitimacy rests on market growth, since enforcement is read by prospective issuers as a reputational cost of listing. Private enforcement is an unreliable substitute here: reviewing Russian joint-stock companies, Mukhamedkarim (2022) finds the formal minority protections broadly adequate and the operative constraint to be minority passivity itself.

4.4. Absent precondition

The offence requires a counterparty. In the canonical microstructure models the insider's profit is drawn from uninformed order flow and scales with its volume: in Kyle's (1985) continuous-auction model expected insider profit rises with noise-trader volume, and in the Glosten–Milgrom (1985) sequential-trade model the quoted spread widens with the probability that an incoming order is informed, until the market can close altogether. Where free float is negligible and secondary trading close to absent, both quantities collapse. Easley, Kiefer, O'Hara and Paperman (1996) show that for infrequently traded stocks the uninformed flow which makes informed trading profitable is thin, and Lesmond (2005) documents emerging-market transaction costs and non-trading frequencies far above developed ones. In the thinnest frontier venues there may simply be too few uninformed counterparties for the offence to be worth committing on-market.

Silence arising this way is genuine but is not evidence of integrity: private information is exploited through channels other than exchange trading — negotiated block transfers, related-party transactions, the timing of corporate actions — which lie outside the insider-trading frame entirely. This is the one mechanism under which a zero count is compatible with a fully operational prohibition, and Section 11 returns to it.

Table 1. Four mechanisms of enforcement silence

Mechanism	Proximate cause	Implication for information asymmetry	Appropriate policy response
Prohibitive void	Conduct not defined as an offence, defined too generally to charge, or defined without an attaching sanction	Asymmetry unconstrained; no deterrence operates	Statutory definition of insider information, insiders and prohibited acts, with a penalty in the administrative or criminal code
Surveillance void	No order-level records, monitoring function or dated event series	Asymmetry likely high; violations leave no institutional trace	Build surveillance infrastructure before expanding sanctions
Prosecutorial-incentive void	Enforcer and principal shareholder coincide; growth-oriented legitimacy	Asymmetry systematic and concentrated in state-linked issuers	Separate supervisory function from ownership function
Absent precondition	Free float too small to supply uninformed counterparties	Asymmetry expressed off-market rather than through exchange trading	Related-party transaction and block-transfer disclosure rules

5. An identification protocol

The mechanisms are separable because each leaves a signature outside the enforcement record. The diagnostic logic is stated below as propositions.

Proposition 1. *A zero enforcement count is uninformative about the offence rate unless detection capacity is independently observable; enforcement-based measures of market integrity are therefore identified only jointly with a measure of surveillance capacity.*

Proposition 2. *Under a prohibitive void, the legal texts fail at least one of three limbs — an operational definition of insider information, a defined class of addressees, or a sanction attaching in the administrative or criminal code; the signature is textual and can be established without market data.*

Proposition 3. *Under a surveillance void, pre-announcement abnormal returns and volume are present in the price record but are not referenced in any supervisory output; the signature is the divergence between what prices reveal and what the regulator reports.*

Proposition 4. *Under a prosecutorial-incentive void, pre-announcement abnormal returns are concentrated in state-linked issuers relative to privately controlled issuers of comparable size and liquidity; the signature is cross-sectional asymmetry in the price evidence rather than its overall level.*

Proposition 5. *Under an absent precondition, pre-announcement abnormal returns are weak or absent on-market while ownership records show significant block transfers preceding announcements; the signature is the migration of informed transactions off-exchange.*

The protocol has three steps: a legal audit (Proposition 2); a price audit testing for pre-announcement drift across issuers with sufficient traded days and comparing the state-linked and private sub-samples (Propositions 3 and 4); and an ownership audit examining the timing of block transfers and related-party transactions relative to announcement dates (Proposition 5). Together they distinguish the four mechanisms without a single prosecuted case, because no two share a full row of signatures in Table 2.

Table 2. Identification protocol: signatures by mechanism

Mechanism	Operational and sanctioned prohibition in law	Pre-announcement drift on-market	Drift concentrated in state-linked issuers	Pre-announcement block transfers
Prohibitive void	Absent	Likely present	Not diagnostic	Possible
Surveillance void	Present	Likely present	Not diagnostic	Possible
Prosecutorial-incentive void	Present	Likely present	Yes	Possible
Absent precondition	Either	Weak or absent	No	Yes

Note. The protocol requires dated corporate-event records, daily price data for issuers with sufficient traded days, and ownership-change filings. Where daily price data are unavailable only the legal and ownership audits are feasible: the prohibitive void stays separable, the other three cannot be told apart. Drift entries are expectations, not certainties, since the absence of a binding prohibition does not itself guarantee that informed trading occurs in a given market.

6. The detection-capacity paradox

Enforcement counts respond to two forces moving in opposite directions during reform. Building surveillance raises the probability that an existing violation is recorded, increasing the count; deterrence, operating with a lag, reduces the offence rate, decreasing it. Early in a reform the first dominates, because detection improves immediately while deterrence requires credible sanctions to have been observed. Bris (2005) supplies the closest analogue: after prohibitions were enacted, measured insider activity around takeovers rose rather than fell — what a higher recording probability produces and a falling offence rate does not.

Proposition 6. *Recorded insider-trading enforcement is a non-monotonic function of market integrity: it rises as detection capacity is built and falls only after deterrence takes effect, so that identical counts are consistent with opposite states of market development.*

Proposition 7. *Reform programmes evaluated on enforcement counts within a short horizon will register apparent deterioration during the interval in which detection capacity is being built, and this misreading is more likely the more successful the surveillance reform.*

The paradox has a practical corollary for supervisory design. Because the count is invalid as a short-horizon indicator, reform should be assessed on inputs and intermediate outputs — surveillance coverage, alert-to-investigation conversion, disclosure timeliness — rather than on sanction counts. Fernandes and Ferreira (2009) supply the complementary long-horizon evidence: enforcement improves price informativeness, but the effect is concentrated in developed markets, implying that in frontier settings the transmission channel requires prior institutional construction rather than statutory adoption alone.

6.1. Sequencing under a coincident enforcer and owner

Where the state is simultaneously controlling shareholder of the principal issuers and ultimate supervisor, the two voids do not bind in parallel. Building surveillance changes the volume of alerts, not the willingness of the body receiving them to escalate: an alert becomes an internal document recording a suspicion about an entity whose beneficial owner is the enforcer's own principal. The result is an observable failure pattern — alerts rise, investigation openings rise more slowly, sanctions not at all — distinct from a pure surveillance void, where all three rise together with a lag.

Two strands of comparative evidence support the ordering. Jackson and Roe (2009) show that market outcomes are predicted by enforcement resourcing rather than by the formal powers a statute confers — capacity to act and disposition to act are separate inputs. La Porta et al. (2006) find that public enforcement powers explain far less of the variation in market development than disclosure and liability rules operating through private action, which is what one would expect if public enforcers systematically decline to use the powers they hold. The prescription is institutional rather than budgetary: separate supervision from ownership before expanding detection capacity, or the expansion will generate evidence that is never acted upon.

Proposition 8. *Where the state is concurrently dominant shareholder, principal issuer and ultimate regulator, the prosecutorial-incentive void binds before the surveillance void: expanding detection capacity without separating supervisory from ownership functions increases detected violations without increasing sanctions. The observable signature is a widening gap between alert volume and investigation openings, and between investigation openings and sanctions imposed.*

6.2. Why disclosure timeliness dominates sanction expansion at low capacity

The argument for the final proposition is deterrence-theoretic. The expected cost of an insider transaction is the probability of detection and sanction multiplied by the severity of the sanction. Raising severity therefore affects expected cost in proportion to that probability; where it is near zero so is the effect, and a jurisdiction answering a zero count by enlarging its penalty schedule is multiplying a large number by a very small one. Del Guercio et al. (2017) supply the corresponding evidence: what moves pre-announcement run-ups is enforcement intensity — the probability limb — not the statutory maximum.

Disclosure-timeliness regulation operates on a different quantity and escapes that multiplication. Shortening the interval between the creation of price-sensitive information and its public release reduces the stock of exploitable private information directly, irrespective of whether anyone is watching the tape; its effect does not run through a detection probability at all. Bushman, Piotroski and Smith (2004) supply the empirical foundation for treating timeliness as separable and policy-responsive: their decomposition of corporate transparency separates the intensity and timeliness of financial disclosure from the governance and dissemination channels, and relates the disclosure dimension to the legal and regulatory regime — establishing timeliness as a distinct and regime-responsive dimension, which is all the present argument requires. A supervisor with no detection capacity can still require prompt publication, verify compliance from the filing record alone, and sanction lateness on a strict-liability basis needing no proof of intent — which is why the instrument comes first in the sequence and why its evaluation, unlike that of insider-trading sanctions, is not vulnerable to Proposition 6.

Proposition 9. *The informational value of disclosure-timeliness regulation for reducing information asymmetry exceeds that of sanction expansion at low levels of detection capacity, because timeliness reduces the stock of exploitable private information directly while sanction severity operates only through a detection probability that is near zero; the ordering reverses only once surveillance coverage is substantially complete.*

7. Applying the protocol: the case of Uzbekistan

7.1. The setting

Uzbekistan supplies an instance of the configuration the framework addresses, and the protocol's first step can be executed on it now from public sources. The market is governed by the Law "On the securities market", No. ZRU-163 of 22 July 2008, restated in a new edition approved by Law No. ZRU-387 of 3 June 2015 and amended since; the consolidated text comprises nine chapters and sixty-four articles (Law of the Republic of Uzbekistan, 2008/2015). Supervision has moved twice in five years: the Agency for Capital Market Development was abolished from 1 May 2021, its functions passing to the Ministry of Finance (Presidential Resolution No. PP-5073, 2021), and capital-market regulation was transferred to the National Agency for Prospective Projects from 1 October 2023 (Presidential Resolution No. PP-291, 2023). A replacement statute, prepared with international financial institutions, is reported to contain sixteen chapters and one hundred and twenty-three articles and to align the regime with IOSCO principles (Presidential Decree No. UP-254, 2025); it passed its first reading on 28 July 2026 and was not yet adopted when this article was completed (Gazeta.uz, 2026; Spot.uz, 2026 — press reports of parliamentary proceedings).

The market these instruments govern is small and concentrated. Trading on the Republican Stock Exchange "Toshkent" totalled 21.95 trillion soum in 2024, of which equities were 19.18 trillion, and 142 instruments issued by 93 companies were traded (Republican Stock Exchange "Toshkent", 2025). Against some 680 registered joint-stock companies (Central Securities Depository of the Republic of Uzbekistan, 2024), most of the sector does not trade at all. State participation remains large: state-owned enterprises and banks account for more than half of gross domestic product (European Bank for Reconstruction and Development [EBRD], 2024), and state-owned banks hold about sixty-five per cent of banking system assets (International Monetary Fund [IMF], 2025). The configuration in Proposition 8 is therefore present.

The structural diagnosis is not new to the regional literature. Ruziev and Ghosh (2009) argue that Uzbekistan's state-led financial development produced a bank-dominated system that crowded out market-based capital allocation, and Amonboev (2018), writing before the recent expansion in turnover, reports securities trading of roughly 1.6 per cent of gross domestic product and identifies weak corporate governance and low disclosure as the binding constraints. Work on neighbouring markets converges (Akanayeva, 2024; Kurash et al., 2024). What none of it addresses is what the absence of enforcement in such markets should be taken to mean.

7.2. The legal audit

Proposition 2 requires the audit to establish three things: an operational definition of insider information, a defined class of addressees, and a sanction attaching in the administrative or criminal code.

On the first two limbs, a dedicated provision exists. Article 54 of the securities law in its 2015 new edition is headed "Manipulation and use of insider information on the securities market" and sits in the chapter on market regulation (Law of the Republic of Uzbekistan, 2008/2015, Art. 54). The prohibition is therefore not absent, and Uzbekistan is not a case of the classical prohibitive void. Two features bear on how operational it is: Article 3, the definitions article, does not list "insider information" among the concepts it defines, so any definitional content must be carried by Article 54 itself; and the subordinate rules in force — those on the prevention of manipulation registered on 27 May 2025, replacing the 1999 rules from 1 July 2025 (National Agency for

Prospective Projects, 2025) — address manipulation, false information and artificial price formation, and their published account does not extend to insider information.

On the third limb the position is stated by the supervisor itself. In March 2026 the First Deputy Director of the National Agency for Prospective Projects said publicly that although insider trading is prohibited by the securities law, neither the Criminal Code nor the Code of Administrative Liability provides full sanctions, and that amendments establishing liability for insider dealing and market manipulation were being prepared (Podrobno.uz, 2026 — press report of an official statement). A search of the two codes is consistent with that account: the securities offence located in the Criminal Code concerns counterfeiting rather than abusive trading, and no market-abuse article was identified in the Code of Administrative Liability. The finding on this limb accordingly rests on the supervisor's own statement corroborated by a negative search, not on a provision the author has read; it is stated as such.

The audit therefore returns a result the original taxonomy did not anticipate: the prohibition is neither absent nor, so far as the public record shows, hopelessly general, but fails on the sanction limb. Conduct is unlawful and unpunishable at once, so no case can be constructed and the count is zero for reasons unconnected with market behaviour. Standard comparative coding cannot see this, since it reads an insider-trading article in a securities statute as evidence of a prohibition; it would record Uzbekistan as a prohibiting jurisdiction with zero enforcement — exactly the combination the literature interprets as low asymmetry.

7.3. What the protocol can and cannot yet establish

The remaining steps are only partly feasible on published data, and Table 3 sets out the position. The exchange publishes daily trading results, so a price audit is possible in principle; what is not published in consolidated dated form is the corporate-event series against which pre-announcement windows would be defined, and constructing one is the precondition for any empirical extension. Proposition 4's cross-sectional test faces a further constraint: with 93 companies traded in 2024 and a joint-stock sector in which state participation is large, the matched sample of privately controlled issuers comparable in size and liquidity to the state-linked ones is likely to be small, though the split is not published and would have to be constructed from ownership filings. Proposition 5's ownership audit requires dated block-transfer and related-party filings, which exist within the depository system but are not published as an aggregated series.

As to the enforcement record, no insider-trading investigation, penalty or conviction was identified in preparing this article. In March 2026 unusual price movement in a listed state-linked issuer, followed by a suspension during which material board information reached the market, drew supervisory comment; the agency said it was monitoring the situation, had received no formal shareholder complaint, and stated that no adequate sanction existed (Podrobno.uz, 2026). No enforcement action followed, and nothing in the public record establishes that a violation occurred. The episode is reported not as an allegation but as an illustration: a zero count coexisting with an unexamined price signature is the observation Proposition 1 declares uninformative.

Table 3. Applying the protocol to Uzbekistan: evidentiary position as at August 2026

Protocol step	Requirement	Position	Diagnostic status
Legal audit (P2), limbs 1–2	Operational definition of insider information; defined class of addressees	Art. 54 of the securities law addresses use of insider information; Art. 3 does not define the term; subordinate rules in force cover manipulation only	Prohibition present; definitional adequacy not established on the public record
Legal audit (P2), limb 3	Sanction attaching in the administrative or criminal code	Supervisor states that neither code provides full sanctions; no	Fails: sanctionless prohibition

		market-abuse article identified in either	
Price audit (P3)	Daily prices plus dated corporate-event records	Daily trading results published by the exchange; no consolidated dated event series	Feasible once an event series is constructed
Cross-sectional test (P4)	Matched state-linked and private issuers of comparable size and liquidity	Split between state-linked and private issuers not published; comparable private issuers likely few	Feasible on a small matched sample
Ownership audit (P5)	Dated block-transfer and related-party filings	Filings exist within the depository system; not published as an aggregated dated series	Not currently feasible
Enforcement record	Recorded cases, penalties or convictions	None identified	Zero count; uninformative under P1

Read against Table 2, the Uzbek evidence identifies the prohibitive void in its sanctionless form as operative and leaves the other three undetermined pending the price and ownership audits. The policy implication follows from Table 1 rather than from the enforcement record: the binding constraint is the missing sanction, and expanding surveillance before supplying one would generate alerts that cannot terminate in an enforcement action. The draft statute is addressed to the right limb, provided the liability provisions the supervisor describes are enacted alongside it and, consistently with Proposition 8, supervision is insulated from the state's position as owner of the issuers it supervises.

8. Discussion

The framework revises the standard reading of comparative enforcement data in three respects. First, it identifies a selection problem: because zero-count jurisdictions are dropped or coded as low-enforcement, samples are truncated on a variable correlated with the outcome, and the excluded frontier cases are those in which the mechanism of interest operates most strongly. The Uzbek audit adds a second-order point: even a coding that retains such jurisdictions will misclassify a sanctionless prohibition as a prohibition, because it inspects the securities statute while the sanction lies elsewhere.

Second, it separates two prescriptions the enforcement literature tends to bundle. The conclusion that enforcement rather than legislation matters is often translated into advice to prosecute; but where the binding constraint is a surveillance void, prosecution is not available as an instrument at all, and where it is a prosecutorial-incentive void, adding sanction authority to a body that will not use it changes nothing. Sequencing matters, and two things the literature runs together must be kept apart: establishing a sanction, without which no case exists, and expanding its severity, which is worth little until detection improves. The order implied by the four mechanisms is definition and attaching sanction, then separation of the supervisory from the ownership function, then detection capacity, and only then prosecution and any expansion of severity.

Third, it reframes what the absence of cases tells an investor. Conventionally, no cases signals either integrity or irrelevance; on the mechanism reading it signals that the market's asymmetry is unmeasured and — given the structural correlates of frontier status — probably high, consistent with the finding that price informativeness is lower in markets with synchronous price movement and weak investor protection (Morck, Yeung & Yu, 2000).

9. Implications

9.1. For research

Studies using enforcement counts should report detection capacity alongside them and treat zero-count jurisdictions as censored rather than low-enforcement observations. The protocol offers a route to classifying such jurisdictions without enforcement data, and that classification is itself a variable comparative work lacks. Coding practice should also change in one respect: an insider-trading provision should not be coded as a prohibition unless a sanction is traced to the code where liability actually attaches.

9.2. For regulators and policymakers

Three prescriptions follow. Publish dated corporate-event records, on which the price audit depends and against which compliance with a timeliness rule can be measured rather than merely required. Separate supervision from ownership before expanding detection capacity, since Proposition 8 implies the latter merely generates alerts that are never acted upon without the former. And commit in advance to evaluating reform on intermediate indicators, so that the rise in recorded violations predicted by Proposition 6 is read as evidence of a functioning surveillance system rather than of decline.

9.3. For market participants

For institutional investors assessing frontier venues, the absence of enforcement history should be treated as an unpriced risk rather than an absence of risk, and Proposition 4's cross-sectional test is a feasible due-diligence instrument requiring only public price and announcement data.

10. Limitations and future research

The article is conceptual and its propositions require empirical adjudication (Jaakkola, 2020). Four limitations bound it. The price audit requires issuers with adequate traded days, which the thinnest markets may not supply. The four mechanisms are treated as analytically distinct although they co-occur. The framework addresses exchange-traded equity, whereas in several frontier markets the significant transfers occur through privatisation tenders governed by separate rules. And Section 7 executes only the first protocol step on one jurisdiction, illustrating the protocol rather than testing any proposition.

A caveat attaches to Section 7's sources. The legislative facts rest on the official legal database and are verifiable by instrument number, but four elements — the supervisor's account of the sanctions regime, the contents and parliamentary progress of the draft statute, the exchange's 2024 trading figures and the count of registered joint-stock companies — reach the author through press reports of official statements rather than through the issuing bodies' own publications. Each should be re-verified against the primary record before being relied on quantitatively, and the verbatim text of Article 54 should be read in full in any empirical extension.

Table 4 sets out the research agenda. Priority attaches to a detection-capacity index, which Proposition 1 makes a precondition for the valid use of enforcement counts anywhere in the comparative literature.

Table 4. Research agenda

Research question	Suggested design	Data requirement
Can detection capacity be indexed independently of enforcement output (P1)?	Construct an index from surveillance coverage, staffing, data access and alert procedures; validate against known enforcement in mature markets.	Regulatory disclosures and IOSCO assessments.
Do the four mechanisms produce the predicted signatures (P2–P5)?	Apply the protocol to a set of frontier markets differing in ownership structure and legal maturity.	Legal texts; daily prices; dated event and ownership records.

How common is the sanctionless prohibition (P2, limb 3)?	Code securities statutes jointly with the administrative and criminal codes across frontier jurisdictions and compare the classification with existing insider-trading law indices.	Consolidated legal texts in each jurisdiction.
Is drift concentrated in state-linked issuers (P4)?	Matched-sample event study comparing state-linked and private issuers of similar size and liquidity.	Ownership register and announcement dates.
Is enforcement non-monotonic in integrity (P6, P7)?	Panel study of jurisdictions across surveillance-building episodes, with counts as dependent variable.	Long-horizon cross-country enforcement data.
Does the alert–investigation–sanction gap widen under a coincident enforcer and owner (P8)?	Compare alert, investigation and sanction series across supervisors differing in their separation from state ownership.	Supervisory activity statistics disaggregated by stage.
Does disclosure-timeliness regulation dominate sanction expansion at low capacity (P9)?	Staggered-adoption difference-in-differences across reform types.	Reform chronologies and market-quality indicators.

11. Conclusion

Comparative securities research has established that enforcement, not legislation, is what moves the cost of capital. The corollary usually drawn — that jurisdictions without enforcement records are jurisdictions without effective prohibitions — holds for three of the four mechanisms set out here and fails for the fourth. Under a prohibitive, surveillance or prosecutorial-incentive void it is sound, since in each the prohibition is inoperative in practice whatever its nominal status. Under an absent precondition it is false: an operational and sanctioned prohibition can coexist with a permanent zero count, because the offence is not worth committing on-market and informed transactions have migrated beyond the prohibition's reach. The distinction matters because the two call for opposite responses — building enforcement capacity in the first three, extending the regulatory perimeter in the fourth.

The further inference frequently made — that zero-count jurisdictions are markets in which insider trading is not a first-order problem — does not follow under any of the four mechanisms and is probably reversed. Enforcement silence is an equilibrium with identifiable causes; those causes leave signatures in legal texts, price behaviour and ownership records readable without a single prosecuted case; and the mechanisms imply sharply different reform sequences. The Uzbek audit demonstrates the first step and returns a result standard coding would have missed: a prohibition that exists and cannot be enforced because no penalty attaches to it. The natural evaluation metric is meanwhile invalid, because building detection capacity converts unrecorded offences into recorded ones, so a successful reform first appears to reveal a deteriorating market. Recognising that pattern in advance is a precondition for sustaining reform through the interval in which its measured effects run opposite to its real ones.

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