

Financial Characteristics of Holding Companies

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Abstract: *This paper gives information about financial characteristics of holding companies, moreover information is given on how the holding company owns the control package of banks, firms and enterprises, controls and manages their activities, and for what purpose the excess profit is used. It is connected through ownership, each subsidiary's finances, obligations, and liabilities are separate. Holding companies allow shareholders to gain control of businesses in cost-efficient ways and allows their subsidiary businesses to access more capital than they would be able to on their own. The benefits of this relationship for both holding companies and their subsidiaries are numerous but complex.*

Keywords: holding companies, trading, investments, subsidiaries, partnerships, banking accounts, financial industry, ownership, business, controlling, financial management.

Introduction

This study is about the main characteristics of a financial company, how to finance a holding company, the main characteristics of financial management, trading, investments, subsidiaries, partnerships, banking accounts, financial industry, ownership, business, controlling. There are sector and industry classification of holding companies: 1) if a company undertakes holding company functions as well as production in its own right, it should be classified to institutional sector on the basis of the predominant function; 2) if a holding company has the sole function of controlling and directing subsidiaries, a majority concluded that the company should be classified to sector and industry on the basis of the owning or managing function, not on the basis of the activities carried out by its subsidiaries; 3) a majority supported classifying holding companies to the institutional subsector “other financial intermediaries” (OFIs).¹

Analysis of literature on the subject

There are a number of books about holding companies and their financial characteristics. One of them is called “Holding Companies' Strategies and their Distinction from Large Organizations, Investment, Trust and Merger”. The differences among various types of companies' associations including merger, consolidation, resource sharing, etc., and their difference from holdings, and similarities of holding companies and investment companies in terms of utilizing their own resources and acquisition of profit, have made these companies unknown and unfamiliar in Iran. In this study, attempt was made to review and differentiate holdings from investment companies, larger companies, trust, merger, and consolidation, and the existing differences among them in addition to introduce holding companies.

Another book is Holding Companies Complete Guide - 2020 Edition that is written by Gerardus Blokdyk. In this book it was written about what will drive Holding companies change, what are the key enablers to make this Holding companies move, what are the business goals Holding companies is aiming to achieve and what are the expected benefits of Holding companies to the stakeholder.

Analysis and results

First of all, a holding company is an entity that is not involved in the operational aspects of a business but exercises complete control over it based on its stock ownership. The firms entities supervise and keep a hold on are referred to as their subsidiaries. As the subsidiaries grow, they have the liberty to decide and begin their own activity independently without a controlling authority.² There are a number of well – known holding companies in the world: JPMorgan Chase, Bank of America, Goldman Sachs, Berkshire Hathaway, Morgan Stanley, Microsoft, Alphabet, Apple, National Australia Bank Limited.

Table 1.

¹ Balance of payment technical expert group (BOPTTEG), Outcome Paper (BOPTTEG) # 9B, January 2005, Topic: Sector and Industry Classification of Holding Companies.

² <https://www.wallstreetmojo.com/holding-company>

Largest Financial Holding Company Rankings by Total Assets.³

Profile	Total Assets	Type	Region
JPMorgan Chase & Co	\$3,868,240,000,000	Financial Holding Company	North America
Bank of America	\$3,123,198,000,000	Financial Holding Company	North America
Mitsubishi UFJ Trust and Banking Corporation	\$3,079,150,000,000	Financial Holding Company	Asia
HSBC Holdings	\$3,041,476,000,000	Financial Holding Company	Europe
BNP Paribas	\$2,909,076,379,860	Financial Holding Company	Europe
Japan Post	\$2,701,580,000,000	Financial Holding Company	Asia
Credit Agricole	\$2,612,639,693,160	Financial Holding Company	Europe
Citigroup	\$2,455,113,000,000	Financial Holding Company	North America
Sumitomo Mitsui Financial Group	\$2,195,330,000,000	Financial Holding Company	Asia
Wells Fargo	\$1,959,543,000,000	Financial Holding Company	North America

It is given the largest Financial Holding Companies, their total assets, types and regions in that table. It shows Profile JPMorgan Chase & Co is the largest Financial Holding Company and its total asset is \$3,868,240,000,000 and the smallest Financial Holding Company is the company of North America called Wells Fargo. It includes \$1,959,543,000,000 total asset. The total asset of Wells Fargo is 50.7 % of the total asset of JPMorgan Chase & Co.

What is a holding company? What is the connection between a holding company and a subsidiary company? Holding companies behind owning maximum shares of another company referred to as its subsidiary. The former, however, enjoys full control over the management of its subsidiaries. Some companies that typically do not produce anything or provide any service themselves but control it direct all the directions and policies of the subsidiary. Pure, mixed, immediate, and intermediate are some forms of holding firms found in the business sector. Such holding companies are not necessarily the parent companies of the subsidiaries.⁴

Conclusion

We learn about holding companies and their financial characteristics while writing this article. At the same time, A non-bank company that generates 85% of its gross income from financial services can be an FHC. Services that FHCs may offer include insurance underwriting, securities trading, merchant banking, securities underwriting, and investment advisory services. Its main assets are its shares in other companies, rather than physical assets or production facilities. In general, this article is written with the following directions:

- Features of Holding Company
- Purpose of Holding Company
- Role of Holding Company
- Examples of Holding Company
- Structure of Holding Company
- How to create of a Holding Company?

References:

1. Holding Companies' Strategies and their Distinction from Large Organizations, Investment, Trust and Merger
2. Grardus Blokdyk. Holding Companies Complete Guide - 2020 Edition

³ <https://www.swfinstitute.org/>

⁴ <https://www.wallstreetmojo.com/holding-company>

3. Balance of payment technical expert group (BOPTEG), Outcome Paper (BOPTEG) # 9B, January 2005, Topic: Sector and Industry Classification of Holding Companies.
4. <https://www.wallstreetmojo.com/holding-company>
5. <https://www.wallstreetmojo.com/holding-company>
6. <https://www.swfinstitute.org/>