

MINORITY SHAREHOLDER PROTECTION IN UZBEKISTAN AND THE UNITED STATES: LESSONS FROM U.S. CASE LAW FOR EMERGING MARKETS

Raxmatillayev Elyorbek Oybek o'g'li

the graduate of The Pennsylvania State University, school of Penn state law

Annotation: *This article examines the legal protection of minority shareholders through a comparative analysis of the corporate law frameworks of the United States and the Republic of Uzbekistan. Focusing on fiduciary duties, derivative litigation, and enforcement mechanisms, the study highlights how minority shareholder rights operate not only as formal legal entitlements but as practical tools of corporate governance. The U.S. model, particularly as developed under Delaware corporate law, demonstrates how judicially elaborated fiduciary standards and clearly defined procedural mechanisms empower minority shareholders to act as private enforcers of corporate accountability. By contrast, while Uzbekistan's corporate legislation formally recognizes shareholder rights and reflects ongoing reform efforts aligned with international standards, practical enforcement remains constrained by procedural uncertainty and limited judicial development. Drawing on statutory analysis, case law, and international governance principles, the article identifies structural and institutional factors affecting minority shareholder protection and offers targeted legal recommendations aimed at strengthening enforcement without undermining domestic legal coherence. The study contributes to comparative business law scholarship by illustrating how enforcement-oriented reforms can enhance investor confidence and corporate accountability in emerging legal systems.*

Keywords: *Minority Shareholder Protection, Corporate Governance, Fiduciary Duties, Derivative Actions, Abuse of Corporate Control, Comparative Corporate Law, Delaware Corporate Law, Uzbek Corporate Law, Shareholder Rights, Business Law Reform, Investor Protection,*

Introduction

Minority shareholder protection is a core element of modern corporate governance and a critical determinant of investor confidence, market efficiency, and long-term economic development. In jurisdictions with developed capital markets, such as the United States, legal mechanisms protecting minority shareholders—most notably derivative suits, robust disclosure obligations, and well-defined remedial frameworks—have evolved through a combination of statutory regulation and extensive judicial interpretation. U.S. corporate law, particularly as developed under Delaware jurisprudence, provides minority shareholders with procedural tools to hold controlling shareholders and corporate directors accountable for breaches of fiduciary duty, self-dealing, and abuses of corporate control. By contrast, Uzbekistan represents a legal system in transition, where corporate governance norms and shareholder protection mechanisms are undergoing gradual reform as part of broader efforts

to improve the investment climate and align domestic law with international standards. Uzbek corporate legislation formally recognizes shareholder rights, including access to information, participation in corporate decision-making, and protection against unlawful actions by corporate bodies. However, in practice, minority shareholders often face structural and procedural challenges, including limited access to effective remedies, underdeveloped judicial practice, and a comparatively narrow use of derivative litigation. This article undertakes a comparative analysis of minority shareholder protection in Uzbekistan and the United States, with particular emphasis on derivative actions, disclosure obligations, and available legal remedies. By examining how U.S. courts have shaped minority protection through case law, the article seeks to identify transferable principles and practical lessons that may inform the continued development of Uzbek corporate law.

I. Legal Framework Governing Minority Shareholder Rights

The legal protection of minority shareholders is rooted primarily in statutory corporate law, but its effectiveness depends on how those statutory rights are structured, interpreted, and enforced. A comparison between the United States and Uzbekistan reveals two fundamentally different approaches to minority shareholder protection, shaped by distinct legal traditions, institutional capacities, and market maturity.

In the United States, corporate law is largely state-based, with Delaware occupying a dominant position due to the high concentration of publicly traded corporations incorporated under its law. Minority shareholder rights are primarily governed by state corporate statutes—most notably the Delaware General Corporation Law (DGCL)—and are extensively developed through judicial interpretation. While the DGCL provides the statutory framework for shareholder rights, U.S. courts, particularly the Delaware Court of Chancery, play a central role in defining the scope and content of minority protection through case law. This judge-made dimension allows minority shareholder rights to evolve dynamically in response to new forms of corporate control, financial innovation, and governance challenges. Under U.S. law, minority shareholders are not protected merely as passive investors; they are recognized as enforcement actors within the corporate governance system. Statutory provisions grant shareholders voting rights, access to corporate information, and the ability to bring direct or derivative claims against directors and controlling shareholders. Importantly, these statutory rights are reinforced by fiduciary duties—especially the duties of loyalty and care—owed by directors and, in certain circumstances, controlling shareholders. As a result, minority protection in the U.S. is not limited to formal entitlements but is deeply integrated into a broader system of accountability enforced by courts.

By contrast, minority shareholder protection in Uzbekistan is primarily codified in legislation governing joint-stock companies and civil law relations. Uzbek corporate law formally recognizes shareholder rights, including participation in general meetings, voting on key corporate decisions, and access to certain corporate information. These rights reflect a civil-law approach that emphasizes detailed statutory regulation rather than judicial development. In recent years, Uzbekistan has undertaken legislative reforms aimed at improving corporate governance standards and attracting foreign investment, including clearer articulation of shareholder rights and obligations of corporate bodies. However, the

Uzbek legal framework remains more prescriptive than adaptive. Unlike the U.S. system, where courts actively shape minority protection through precedent, Uzbek courts operate within a system where judicial decisions have limited precedential authority. As a result, minority shareholder rights tend to be defined narrowly by statute, with less room for judicial interpretation in response to complex governance disputes. This statutory rigidity can limit the practical effectiveness of minority protection, particularly in cases involving indirect control, related-party transactions, or subtle forms of shareholder oppression.

Another key distinction lies in the institutional role assigned to minority shareholders. In the United States, minority shareholders are viewed as an essential monitoring mechanism within the corporate structure, capable of initiating litigation to enforce fiduciary standards when managerial or controlling shareholder misconduct occurs. In Uzbekistan, while shareholders formally possess certain enforcement rights, the legal framework places greater emphasis on internal corporate procedures and regulatory oversight, with comparatively limited reliance on shareholder-driven litigation. Overall, the comparison demonstrates that minority shareholder protection is not determined solely by the existence of statutory rights, but by the interaction between legislation, judicial practice, and enforcement culture. The U.S. model illustrates how a flexible statutory framework combined with strong judicial interpretation can empower minority shareholders as active participants in corporate governance. Uzbekistan’s framework, while increasingly aligned with international norms at the legislative level, continues to face challenges in translating formal rights into effective legal protection.

II. Fiduciary Duties and Abuse of Corporate Control

Fiduciary duties constitute one of the most important legal mechanisms for protecting minority shareholders against abuses of corporate control. By imposing standards of conduct on directors and controlling shareholders, fiduciary law seeks to mitigate agency costs and prevent the extraction of private benefits at the expense of minority investors. A comparison between the United States and Uzbekistan demonstrates how differences in fiduciary doctrine and enforcement significantly affect the practical level of minority shareholder protection. In the United States, fiduciary duties are a central pillar of corporate governance and are primarily developed through judicial interpretation. Directors owe the corporation and its shareholders two core fiduciary duties: the duty of care and the duty of loyalty. The duty of care requires directors to act on an informed basis and with the level of diligence that a reasonably prudent person would exercise under similar circumstances. The duty of loyalty, by contrast, prohibits directors and controlling shareholders from engaging in self-dealing, conflicts of interest, and transactions that improperly benefit them at the expense of the corporation or minority shareholders. U.S. courts have repeatedly emphasized that breaches of the duty of loyalty represent the most serious threat to minority shareholders, particularly in closely held corporations and controlled firms. Judicial standards of review play a critical role in enforcing these fiduciary duties. Under U.S. law, most board decisions are protected by the business judgment rule, which presumes that directors acted in good faith, on an informed basis, and in the best interests of the corporation. However, this presumption is rebutted where a controlling shareholder dominates the transaction or where a conflict of

interest exists. In such cases, courts apply enhanced scrutiny or the “entire fairness” standard, requiring defendants to demonstrate both fair dealing and fair price. This doctrinal framework provides minority shareholders with a powerful tool to challenge abusive conduct, particularly in mergers, freeze-outs, and related-party transactions.

In contrast, Uzbek corporate law approaches fiduciary-type obligations primarily through statutory duties and general civil law principles rather than a developed fiduciary doctrine. Uzbek legislation imposes obligations on directors and members of executive bodies to act in the interests of the company, exercise reasonable care, and avoid actions that cause harm to the legal entity. The concept of “abuse of rights,” embedded in civil law doctrine, serves as a formal constraint on controlling shareholders who act in bad faith or misuse their corporate powers. While these provisions resemble fiduciary standards in function, they lack the doctrinal refinement and judicial elaboration found in U.S. law.

The practical enforcement of these obligations further distinguishes the two systems. In the United States, courts have developed a rich body of case law clarifying what constitutes disloyal conduct, improper control, or unfair transactions. Minority shareholders may rely on established legal tests and evidentiary standards when bringing claims. By contrast, Uzbek courts tend to apply statutory provisions more narrowly and often require clear and direct proof of unlawful conduct. This evidentiary burden can make it difficult for minority shareholders to challenge indirect forms of control abuse, such as tunneling, preferential transactions, or de facto domination by controlling shareholders. Another important difference lies in the treatment of controlling shareholders. U.S. law explicitly recognizes that controlling shareholders may owe fiduciary duties to minority shareholders when they exercise control over corporate decision-making. This recognition allows courts to scrutinize transactions involving controllers with particular rigor. Uzbek law, while regulating shareholder conduct, does not consistently articulate a distinct fiduciary standard for controlling shareholders, which may limit judicial intervention in cases where control is exercised informally or through contractual arrangements.

The comparative analysis shows that fiduciary duties serve not merely as abstract standards of conduct, but as enforceable legal tools that shape corporate behavior. The U.S. experience demonstrates how a robust fiduciary doctrine, combined with flexible judicial standards, can meaningfully constrain abuses of corporate control and protect minority shareholders. Uzbekistan’s statutory framework provides a formal basis for such protection, but its effectiveness depends on further doctrinal development, judicial interpretation, and procedural accessibility for minority investors.

III. Derivative Actions as an Enforcement Mechanism

The effectiveness of minority shareholder protection depends not only on the existence of substantive rights, but also on the availability of procedural mechanisms that allow those rights to be enforced. Shareholder derivative actions represent one of the most significant enforcement tools in corporate law, enabling minority shareholders to pursue claims on behalf of the corporation when those in control fail to act. A comparative examination of derivative litigation in the United States and Uzbekistan highlights the central role of procedural design and judicial practice in shaping minority protection. In the United States, derivative actions

are a well-established feature of corporate governance and serve as a primary mechanism for policing breaches of fiduciary duty by directors and controlling shareholders. Although the cause of action belongs to the corporation, individual shareholders are granted standing to sue derivatively where the corporation’s management is unwilling or unable to enforce its own rights. U.S. courts have developed detailed procedural requirements governing derivative suits, including shareholder standing, contemporaneous ownership rules, and the demand requirement. These procedural filters are designed to balance minority shareholder enforcement with the need to prevent frivolous or opportunistic litigation.

A central doctrinal element of U.S. derivative litigation is the demand requirement, under which a shareholder must either make a demand on the board of directors to pursue the claim or demonstrate that such a demand would be futile. Courts assess demand futility by examining whether a majority of the board is disinterested and independent and whether the challenged transaction was a valid exercise of business judgment. While this requirement imposes a significant threshold, it also provides minority shareholders with a structured and predictable pathway to judicial review when board-level conflicts exist. In addition to procedural clarity, U.S. derivative actions benefit from a mature body of case law that defines the scope of permissible claims and available remedies. Successful derivative suits may result in monetary damages, injunctive relief, or corporate governance reforms, with recoveries accruing to the corporation rather than directly to the plaintiff shareholders. This framework reinforces the role of minority shareholders as private enforcers of corporate norms, complementing regulatory oversight and internal governance mechanisms.

By contrast, derivative litigation in Uzbekistan remains underdeveloped and is far less prominent as a tool of minority shareholder enforcement. Uzbek corporate legislation formally allows shareholders to challenge unlawful actions of corporate bodies and to seek compensation for damages caused to the company. However, the procedural rules governing such claims are less explicit, and the concept of a derivative action as a distinct form of shareholder litigation is not as clearly articulated as in U.S. law. As a result, minority shareholders often face uncertainty regarding standing, procedural requirements, and the allocation of recoveries. Moreover, the practical use of derivative-type claims in Uzbekistan is limited by structural and institutional factors. Courts may be reluctant to recognize shareholder standing where the harm is framed as belonging to the corporation rather than the individual shareholder. Procedural costs, evidentiary burdens, and limited judicial specialization in corporate disputes further constrain the effectiveness of shareholder-driven enforcement. These factors reduce the deterrent effect of litigation and may allow managerial or controlling shareholder misconduct to go unchallenged.

The comparative analysis underscores that derivative actions function not merely as a litigation device, but as an integral component of the corporate governance ecosystem. The U.S. experience demonstrates that clearly defined procedural rules, supported by consistent judicial interpretation, can empower minority shareholders while maintaining safeguards against abuse. For Uzbekistan, strengthening derivative enforcement does not require wholesale adoption of U.S. doctrine, but rather targeted clarification of shareholder standing, procedural pathways, and judicial authority to grant effective remedies. Such reforms could

significantly enhance the practical protection of minority shareholders and reinforce confidence in corporate governance mechanisms.

Conclusion

Effective minority shareholder protection is a defining feature of a credible and investment-friendly corporate governance system. The comparative analysis of the United States and Uzbekistan demonstrates that minority protection is not determined solely by the formal recognition of shareholder rights, but by the interaction between substantive legal standards, procedural enforcement mechanisms, and judicial practice. The U.S. model illustrates how fiduciary duties, derivative actions, and disclosure obligations operate as an integrated system that empowers minority shareholders to act as private enforcers of corporate norms, thereby complementing regulatory oversight and market discipline.

Uzbekistan’s corporate law framework reflects meaningful progress toward international standards, particularly in the formal articulation of shareholder rights and the regulation of corporate bodies. Nevertheless, the analysis reveals a persistent gap between statutory protection and practical enforcement. Limited judicial elaboration of fiduciary-type duties, underdeveloped derivative litigation, and procedural uncertainty continue to constrain the ability of minority shareholders to challenge abuses of control effectively. As a result, minority protection in Uzbekistan remains largely formal rather than functional. This article does not suggest wholesale transplantation of U.S. corporate law doctrines into the Uzbek legal system. Instead, it highlights the importance of targeted, institutionally appropriate reforms that strengthen enforcement, enhance legal certainty, and improve the practical usability of minority shareholder rights. Incremental development—rather than radical restructuring—offers the most realistic pathway for aligning Uzbek corporate governance with global best practices while respecting domestic legal traditions.

References:

- I. Books and Legal Texts (Primary Sources)
 - A. Delaware General Corporation Law (DGCL).
 - B. Law of the Republic of Uzbekistan “On Joint-Stock Companies and Protection of Shareholders’ Rights” (as amended).

- II. Case Law (U.S. Corporate Governance & Minority Protection)
 - A. *Guth v. Loft, Inc.*, 5 A.2d 503 (Del. 1939).
 - B. *Aronson v. Lewis*, 473 A.2d 805 (Del. 1984).
 - C. *Zapata Corp v. Maldonado*, 430 A.2d 779 (Del. 1979).
 - D. *In re Walt Disney Co. Derivative Litigation*, 907 A.2d 693 (Del. 2005).
 - E. *Benihana of Tokyo, Inc. v. Benihana, Inc.*, 906 A.2d 114 (Del. 2006).
 - F. *In re Citigroup Inc. Shareholder Derivative Litigation*, 964 A.2d 106 (Del. Ch. 2009).

- III. Articles and Practitioner Sources

- A. About Delaware’s General Corporation Law (DGCL) – Delaware Division of Corporations (Official description of DGCL).
- B. Delaware Law on Fiduciary Duties and Stockholder Agreements, Foley & Lardner (2025).
- C. Section 220 Books and Records Demands – Harvard Law School Forum on Corporate Governance.
- IV. Academic and Legal Analysis (Uzbekistan & Comparative Law)
 - A. Joint-Stock Companies in Uzbekistan: Legal Regulation and Shareholder Protection — Ryskiyeva & Partners (2025).
 - B. Corporate Governance in Uzbekistan – EBRD Assessment — EBRD Corporate Governance Summary Report.
 - C. Changes to the Legislation to Improve the Rights of Minority Shareholders — UzDaily (2020).
 - D. Amendments to the Law on Shareholder Protection (2025) — UzDaily.
- V. Internet Sources & Legal Guides
 - A. Delaware Minority Shareholder Rights & Legal Protection — ShareholderOppression.com.
 - B. Doing Business in Uzbekistan — Baker McKenzie Guide (PDF).
 - C. Corporate Derivative Suit Standards in Delaware — IX-Legal.com (2023).