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Development Trends of the Securities Market in Ukraine

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Abstract. The relevance of the research is due to the rapid development of the securities market. Financial instruments have been improving in Ukraine for a long time, new intermediaries and market participants have been appearing. Consequently, there is a growing need for effective regulation of changes that are mainly intra-economic and can affect various spheres of public life. The work aims to identify modern features of the functioning of the Securities Market on the territory of Ukraine. Taking into account the interdisciplinarity of this topic, analysis, synthesis and induction were chosen as the leading research methods. These systems of procedures were combined primarily to form ideas about the relationship between economics and law. In this context, the first method contributed to the objectification of the properties of securities; thanks to the synthesis, it was possible to draw complete conclusions and generalisations about the directions of development of the relevant market. At the same time, the induction was used to obtain a general conclusion about the possibilities of regulating the securities market. The article provides an essential description of the concepts of "securities market" and "stock market". In addition, the structure of the financial market was determined: the main organisers of trade and its participants. The main laws were also presented in the field of legal regulation of the securities market of Ukraine and the EU. Finally, the development was justified of the Ukrainian stock market in the context of European integration processes. The article materials are of theoretical and practical importance for bank employees, financial management specialists, credit brokers, auditors and insurance agents. Due to the availability of a description of the international practice of using financial instruments, the study may be of interest to representatives of public authorities and educational organisations. However, the approximation of the legislation of Ukraine in the field of securities circulation to European standards will remain a controversial issue for each of these groups of people

Keywords: stock market, capital, financial services, investment, Europeanisation

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Introduction

The securities market is an integral part of the financial market of any country, which is also sometimes called the stock market. By its economic origin, the securities market belongs to the group of specialised functional markets, which was formed in the second half of the twentieth-century under the influence of the development of credit relations and Joint-Stock Ownership. Historically, the functional purpose of the securities market has been the promotion of investment capital from those who have free financial resources to those who feel such a need. That is, the securities market is an effective mechanism for redistributing investment resources and transforming savings into investments in a market economy [1; 2].

The formation of the securities market and the specifics of its development have been studied by many foreign and Ukrainian economists who have formed their approaches to this issue. So, for example, the study of theoretical and practical problems of integration of the state stock market into the world community was carried out by such scientists as N. Chaudhry, D. Roubaud, W. Akhter and M. Shahbaz [3]. Analysis of the definitions of "securities market" and "stock market" given in works of C. Bourne [4], A.M. Syed and I. A. Bajwa [5] do not find significant differences that would indicate fundamental content aspects of their essence. They show an almost identical approach to understanding the securities market as a set of economic relations regarding the issue and circulation of securities – a specific commodity sold in a separate segment of the financial market. Another work demonstrates the securities market as a set of economic relations related to the production, turnover and redistribution of securities to ensure the distribution of free funds between different economic entities [6]. However, despite the transparency of these concepts, other economic categories also need to be explained, in particular, this applies to securities as a separate object of economic relations.

In the most general sense, security is a document that embodies some of its owner's rights against the issuer of that document. This opinion is shared by L. Macíková, who adds that security is a record of the owner or claim against the issuer of security [7]. However, according to B. Chovancová security belongs to the associate property and other rights of an authorised person defined and established by the Securities Law [8]. In general, there is a double view of securities in foreign encyclopedic literature. Some authors note that security is a certain value of an asset that allows converting money into capital through its functioning in the Financial Market [9]. A set of interactions between economic entities related to the issue and sale of securities can form a securities market. If we analyse this from a legal point of view, we can see that the regulatory aspects of regulating relations are ignored between investors and issuers. For example, T. Tavor and Sh. Teitler-Regev see this as a serious drawback, since force majeure events (technological and natural disasters, terrorist acts, economic recessions and ascents, etc.) can hinder the processes in the stock market, and therefore there will be requirements for its legal significance [10].

Undoubtedly, these studies have made a significant contribution to the development of the concept of managing economic processes, but the problem is still relevant of functioning and prospects for the development of financial sectors in Ukraine. That is why the paper focuses on the specific problems of the Ukrainian securities market and attempts to determine its effective model.

Materials and Methods

This scientific article used various methods of scientific research: theoretical methods (analysis, synthesis and induction) and empirical (comparison). With the help of analysis, it was possible to decompose the object under study into separate parts and determine the properties of this object. As for the synthesis, it was used to represent basic approaches to the formulation of the theoretical essence of economic categories. Further, general conclusions were obtained on the regulatory and legal regulation of the securities market in Ukraine using the inductive method. However, such a generalisation is incomplete and its truthfulness is problematic. Therefore, a combination of general research methods was used, which were later supplemented with a comparison. The last cognitive operation helped to group the objects of research. We are talking, in particular, about the provisions of the national currency legislation on investing in stock assets of Ukraine.

The consistent transition from a holistic description of the securities market to finding out its structure and participants was the initial stage of research. At this stage, the specifics of the purchase and sale of securities were not only recorded but also the relationship between them was established. The securities market was then considered as part of the capital market or financial market. As a result, several provisions became the methodological basis of the study. The first of them is that the securities market is not at its full power in Ukraine due to some problems with public confidence in the financial market and the narrow range of instruments. The second is based on the idea that effective involvement of the Ukrainian securities market in the EU's international financial and investment processes is impossible without liberalising capital flows. Therefore, the problems of legislative regulation and the lack of public confidence in the financial market were the key issues when analysing trends in the securities market development.

It is worth noting that most Ukrainian authors focus their attention on the general topic of the functioning of the stock market, but neglect the legislation regulating the behaviour of market participants [1; 2]. Such studies allow us to understand better the reason for the low activity in the market of individuals, who are mainly the main investors. However, this is not enough to form ideas about the direction of development of a special sphere of market relations. In this regard, the text of the article was structurally divided into separate sections and paragraphs after a preliminary definition of the three stages of the study. As mentioned earlier, the structure of the stock market was analysed and its main participants were identified. At this stage, the personal interest aroused the need for efficiency and fairness of relations in the securities market, so the study of relevant regulatory practices of Ukraine and the EU continued. The second stage of the study involved processing statistical data on the current state of the securities market. Thanks to this, it was possible to record a partial repetition of trends in the development of the European market, which emphasizes Ukraine's dependence on the development directions of international financial institutions. Finally, recommendations were formed to improve the efficiency of the securities market in Ukraine. Thus, the results of each stage correlated with the capabilities of the state apparatus as a means of overcoming the identified shortcomings in the country's financial sector.

Results and Discussion

In the modern conditions of the development of scientific literature, several normative approaches have been formed to determine the economic content of the concepts of "securities market" and "stock market". According to Article 2 of the Law of Ukraine "On Securities and Stock Market", these concepts are considered equivalent, since "the stock market (securities market) is a set of participants in the stock market and legal relations between them regarding the placement, circulation and accounting of securities and derivatives" [11]. We agree with this approach and emphasize that securities are a reflection of tangible or monetary funds.

It is worth noting that the terms "securities market" and "stock market" are mainly used as synonyms in the Ukrainian economic literature. However, there are some works where there is no interpretation of the concept of "stock market" at all, although this economic category iswidely used abroad [12]. In particular, some researchers consider the stock market only as a market for classic long-term exchange-traded securities, including stocks and bonds [12]. In addition, Ukrainian scientists use completely different approaches to their explanation, so the definitions of "securities market" and "stock market" have an unbalanced content. A detailed study of the regulatory framework for the securities market opens up prospects for solving this problem. Here it is appropriate to pay attention to the fact that the legal theory of sources of knowledge differs from the economic one, but not entirely without exceptions. Thus, proponents of the normative approach characterise the securities market as a kind of mechanism by which it is possible to establish legal and economic relations between participants in the general financial market [13]. Nevertheless, the research results indicate significant shortcomings in the functioning of the Ukrainian securities market. For example, one of the problems remains the attitude of the National Bank of Ukraine (NBU) to operations with foreign currency. This is primarily because the state regulation is based on the norms of the early 1990s and shows a fixed exchange rate policy, limiting the outflow of foreign currency from the country. As a result, there is a slowdown in operations with securities – if a resident wants to purchase a security of foreign origin that is not traded in Ukraine, he must obtain an individual currency license from the NBU. To do this, they must provide a purchase and sale agreement, a certificate of securities in a seller's account, and a certificate of money in a resident buyer's account. Under these circumstances, the money and security will be "frozen" for the entire period of obtaining a license, which in practice is more than 30 days. As a result, trading in foreign securities in Ukraine is possible only through a dealer with a currency license.

In general, due to the weakness of Ukrainian legislation, commodity and financial exchanges have been misused for many years, causing significant damage to the country's economic interests. Commodity exchanges were often part of tax evasion or tax optimisation schemes [14]. In this regard, the state should provide financial and commodity markets with reliable exchange infrastructure for organised trading and high-quality financial instruments. At the legislative level, the concept of netting is already being introduced – a system of both pre-trade and post-trade reporting on operations with underlying assets; a procedure for authorising key infrastructure facilities and supervising their activities to counteract manipulation and other abuse in the markets is being introduced. This mechanism is introduced following the Law of Ukraine "On Capital Markets and Organised Commodity Markets" (Draft Law No. 2284 on amendments to certain legislative acts of Ukraine concerning simplification of attracting investment and introduction of new financial instruments), which was adopted by the Verkhovna Rada of Ukraine on June 19, 2020, and signed by the President of Ukraine on August 12, 2020 [15]. The liquidation netting procedure will allow the parties to derivative contracts to pay off if the partner defaults or insolvency occurs [16]. The main elements of such a new infrastructure of capital and commodity markets will be the central counterparty, repository and operators of trading platforms.

In the course of the analysis, it was found out that the economic development of the securities market in modern conditions implies the presence of other participants. For example, the above-mentioned NBU belongs to professional participants in the securities market, because it not only distributes government securities but also independently conducts operations for the purchase and sale of securities, acts as a dealer; creates a secondary securities market; performs the functions of a depository, clearing and settlement centre, that is, remains a specialized organization for accounting, storage and settlement of operations with government securities [17]. Other banking institutions regulated by the NBU are also active participants in the stock market, so the National Securities and stock market Commission should regulate them. These banking institutions also form financial groups with non-bank financial institutions that are regulated by the National Commission regarding the sphere of financial services markets. However, the powers of these bodies are very diverse, and therefore it is difficult to monitor participants in these sectors of the financial market. Given these circumstances, the reform of the securities market should take place together with the change of the banking system, because banks occupy a central place here and they are allowed to combine ordinary banking operations with operations on the stock market.

Analysis of recent studies and publications that have started solving economic problems has shown that the securities market has just begun to form in Ukraine and is slowly gaining momentum. Thus, the current situation on the Ukrainian stock market is characterised by a low level of liquidity, low capitalisation of listed companies, the dominance of domestic government bonds of Ukraine (government bonds), as well as the main trading volume in the OTC segment (more than 60% in 2019). Prime Minister of Ukraine Denis Shmygal called a crime the lack of a full-fledged stock market in the country in the 30th year of independence [18]. According to local media, the government intends to restart the Securities Market by 2023 [18]. By this time, the capitalisation of issuers on Ukrainian exchanges was at a record low UAH 1.61 billion (approximately 59 million USD). For example, this figure was 3 37.6 trillion USD in the United States in 2019 and 151.62 billion USD in neighbouring Poland. The volume of securities issued in Ukraine in 2020 amounted to UAH 113.4 billion, which is 79 million less compared to 2019. Companies issued shares for UAH 32.98 billion, bonds for UAH 32.95 billion; for 9.4 million USD and 3 million EUR in foreign currency. The issue of local loan bonds amounted to UAH 3.9 billion (UAH 3.1 billion more than in 2019), the issue of mutual fund investment certificates – UAH 5.05 billion, which is UAH 7.9 billion less than in 2019, the issue of CIF shares – UAH 38.52 billion (UAH 13.53 billion more than in 2019).

Based on the capitalisation indicators of European stock exchanges, comparing them with the PFTS of Ukraine, we once again state a negative trend in the Ukrainian market. In particular, was by LSE (London Stock Exchange) took 1st place in 2019 with 3.86 trillion euros, Euronext – 2nd place with 3.4 trillion euros, and Deutsche Börse – 3rd place with a capitalisation indicator of 1.9 trillion euros [19]. In the end, the PFTS indicator of Ukraine was then equal to 0.17 trillion euros, although it serves more than 85% of the total trading volume, while the Ukrainian Stock Exchange (USE) is about 14 % [20]. The PFTS Stock Exchange is the leading stock exchange in Ukraine, which was legally considered a trading system for a long time (until 2006), hence its name is the first stock tradinsecurities market (leading investment companies and banks) were members of the stock exchange. The PFTS is a corresponding member of the World Federation of Stock Exchanges and a member of the International Association of exchanges of the CIS countries. At the end of 2015, its shareholders were 37 Ukrainian banks, 30 individuals and 77 legal entities – non-banking institutions [21]. Although the PFTS actively conducts securities auctions, some problems of Ukrainian stock exchanges remain unresolved.

The problems of the current state of development of the securities market are mainly caused by the adoption of the Law of Ukraine of June 19, 2020, No. 738-IX "On Amendments to Certain Egislative Acts of Ukraine Concerning Simplification of Attracting Investment and Introduction of New Financial Instruments" [15]. This Act regulates procedural issues related to the issue and placement of securities, including domestic bonds. However, the implementation of this law does not guarantee the full participation of foreign investors in the purchase of Ukrainian securities. In addition, instead of stock exchanges, the bill introduces two types of markets – a regulated market with more stringent requirements, which will ensure centralised execution of transactions and a less regulated market for alternative trading platforms (Multilateral Trading Facilities (MTFs) and Organized Trading Facilities (OTFs) [22]. As mentioned above, there will be a central counterparty on the territory of Ukraine, which will reduce the risks of non-fulfilment of contracts between counterparties. Further changes in the Ukrainian securities market will be coordinated with European standards, including Directive 2014/65/EC (MiFID II) [23] and Regulation (EU) No. 648/2012 (EMIR) [24]. It is not about copying the acts, but about adapting them to Ukrainian realities, taking into account all the features of the Ukrainian market.

Over time, the Securities trader will be transformed into a full-fledged investment company model, which is widespread in Europe, and will get more business opportunities. Licensing will be carried out according to the principle: less responsibility – fewer requirements for obtaining a license, more responsibility – more requirements. The investment company will be able to use so-called related agents in its activities, who will act on behalf of, under the control and at the expense of such a company. In addition, the "know your client" model will be introduced for all financial institutions, which in Europe is used by all financial market participants – banks, exchanges, and other companies working with private money. This practice will help to resist fraud, embezzlement, money laundering and financing of illegal operations. The establishment of clear obligations accompanies legal regulation of the securities market when participants in financial and legal relations are strictly recommended to choose a certain behaviour option. The efforts of the European Economic Community are aimed at bringing together the legislative framework of member states and liberalising the International provision of investment services. Legal regulation of the securities market in the EU countries is implemented through a set of elements such as regulation, supervision and enforcement measures [25].

Several years ago, the process of reviewing all current legislation of Ukraine in the field of functioning of capital and goods markets and adapting it to EU standards was launched. First, experts focused on key European legislation, such as MiFID, MIFIR [26] and EMIR [27]. They are mandatory for all EU member states, as well as the countries of the European Economic Area.

The start of the integration process was marked by the coronavirus pandemic, which is still the subject of discussion for many foreign researchers. There is reason to believe that the coronavirus has had a significant impact on the global economy. Changes in the global financial market are well described in the literature [28], as well as in the literature devoted to regional financial markets [29]. As for the concept of Europeanisation, it is gradually becoming more and more significant in both academic and political circles involved in integration processes related to the EU. Scientists have repeatedly tried to find explanations for understanding the impact of the EU in both EU member states and non-EU countries. It is worth noting that the integration of the financial market with Europe implies the liberalisation of financial flows. This is an important source for stimulating the economy of a developing country, as it helps attract foreign investment both inside and outside the country. The development of the financial market at the level of one country requires passing through several stages: the creation of financial institutions, taking into account the need to move the country's financial resources; attracting foreign investment to expand financial globalisation; the development of created financial instruments; the liberalisation of financial operations [30]. Thus, Europeanisation can be defined as the internal influence of Europe in the sense that EU members and non-eurozone countries adapt and change internal institutions in response to EU rules and regulations.

In this context, the capital market of Ukraine cannot differ in any way from the capital markets in European countries and be part of these markets. To do this, Ukrainian companies should be able to invite financing freely for their development through various financial instruments. Currently, Ukrainian securities holders are not able to manage risks effectively. If the adopted Law No. 738 is successfully implemented in modern realities and the legislative field, Ukrainian investors will have more opportunities to invest and accumulate funds than government bonds, and the current rules of the game will provide basic protection against risks [15]. In this regard, our observations and special studies have shown that the state has prepared additional projects to create an effective securities market. In particular, former chairman of the National Securities and Stock Market Commission Timur Khromaev presented a draft memorandum on the establishment of the UIFC (Ukrainian International Financial Centre) at a meeting of the Cabinet of Ministers of Ukraine on January 20, 2020. This initiative was made possible by the adoption of the aforementioned law on simplifying the attraction of foreign investment and new financial instruments. The UIFC will be fully integrated into the Ukrainian legal system, as well as provide equal opportunities and privileges to every local and international participant [31]. The project provides for the creation of a new land-based Regional Center for capital and commodity markets, which will consist of five institutions: an Advisory Council, an Investor Relations Bureau, an Arbitration Centre, a Universal Exchange and a Financial and Infrastructure Holding. Timur Khromaev stressed that the development of capital markets and commodity markets would lead to an acceleration of economic growth and an increase in the standard of living of Ukrainians [31]. This is the essence of the reform programme.

Today, experts on economic policy issues actively make assumptions about the effectiveness of the state initiative [31; 32]. They note that the main advantages of the project are: transparent rules and regulations; increasing the competitiveness of Ukrainian businesses in the international arena; increasing market activity – increasing the amount of taxable profit; improving competition – increasing foreign direct investment and GDP growth; improving the standard of living of Ukrainians; a stable pension system and raising pension rates; fair energy prices, etc. The launch of this project is scheduled for autumn 2023, but work is already underway to develop a legislative framework [31]. If Ukraine's access to the EU financial services market is expanded because of the creation of the UIFC, the initial effect is likely to be limited, since Ukrainian financial firms do not actively use the available opportunities to enter the EU market. Barriers to market entry for standard banking and insurance providers will also not change much: major players dominate the EU market, the cost of real estate and labour is high, and capital is expensive.

Expanding access to Ukraine's financial services markets may also have a limited impact on EU companies. European banks and insurance companies already have a significant presence in the Ukrainian market and were able to enter the market almost without problems. In the financial sector, Ukrainian financial companies have long been competing with foreign market participants. However, reducing barriers to entry for new players can increase competition in the market and reduce the share of the largest players. In the end, significant progress was observed in the implementation of EU standards in the field of financial services only with the participation of the NBU. Among financial services regulators, the NBU has more freedom of action in regulating banks, so it can implement most of the EU banking regulations without making changes to the relevant laws. Given that the parliament is slow to consider the necessary bills, the NBU can significantly speed up the European integration processes in Ukraine.

In the future, the EU and Ukraine need to find out the prospects for future integration between their financial services markets, choosing one of three possible options:

1. To implement the same mechanism in Ukraine that was proposed to the countries of the European Free Trade Association (EFTA). It should be noted that it provides for the introduction of EU legislation within the European

Economic Area [32-33]. Formally, the functions of the European supervisory bodies will be transferred to the EFTA super-visory body, and the regulators themselves will participate in the consideration and preparation of draft decisions for the EFTA supervisory body.

2. To propose a compromise that will expand the integration of financial services markets and reduce the regulatory burden associated with the full implementation of EU legislation. For example, Ukraine will be able to introduce all EU standards, except those that are the most difficult for market participants, in exchange for simplifying the procedures for Ukrainian companies to enter the EU market.

3. To abandon the idea of creating a single financial market. This will make the establishment of EU rules optional for Ukraine in this sector, and therefore more attention will have to be paid to the possible increase in the regulatory burden for market participants. At the same time, greater flexibility will be provided in the application of EU norms, which will become optional sources of regulatory practice.

Therefore, to maintain the proper level of development of the securities market, the legislation of Ukraine should be close to the EU legislation regulating financial services and should provide the necessary level of opportunities for the work of supervisory authorities and control mechanisms. Under such conditions, the process of Europeanisation will contribute to the spread of European values in Ukraine, and therefore increase the number of foreign participants in the securities market. In addition, the commitment of the Ukrainian population to Europe will help to adopt part of the EU's sectoral legislation.

Conclusions

The results of the analysis allow drawing some conclusions that are of interest for scientific research:

- The development of the Ukrainian securities market has recently been under pressure from global processes that determine the main challenges and trends of its further change. It cannot meet the needs of the Ukrainian economy, and therefore prevents Ukraine from taking a leading place in the international financial system. The main problem with the functioning of the market is its low competitiveness, due to the lack of transparent operations in the market and undeveloped infrastructure;
- In the context of instability in the socio-economic sphere, financial flows to the real sector are reduced, and the problems of economic development of the country are aggravated. That is why European integration is one of the key national priorities that are emphasised and actively by political leaders promoted at the official level. Ukrainian economists, together with experts from Western European countries, hope for an effective redistribution of financial resources to the real sector of the economy. In addition, they form a set of measures to prevent duplication of functions of various financial market regulators and poor coordination between them.

The materials of this article can be useful for specialists who carry out state regulation in the field of financial services markets. In addition, this work deserves attention from managers, economists, financiers, those who plan to engage in entrepreneurship or already manage assets. However, the analysis of regulatory legal acts of Ukraine and the EU can arouse interest among political analysts, experts and consulting advisers. As for holders of securities, after reading them, they will be more aware of raising funds for the implementation of certain processes in the market. We plan to use the results of the study for future scientific research. Ways to improve the regulatory and methodological framework for regulating the securities market are among them. At the same time, we see the need to study the reasons for the low investment attractiveness of the national economy. We can assume that this is due to the lack of a coordinated strategy for the development of the securities market. Negative foreign economic factors reduce the ability of the model of economic development created in recent years (in particular, the securities market model) to guarantee the country's economic security, especially in the context of a sharp aggravation of disagreements in the global financial system. Accordingly, the analysis of unique factors that, combined with an efficient infrastructure, will contribute to the development of the Ukrainian economy is a priority in further scientific research.

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Тенденції розвитку ринку цінних паперів в Україні

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Анотація. Актуальність теми дослідження зумовлена стрімким розвитком ринку цінних паперів. Вже протягом тривалого часу в Україні відбувається вдосконалення фінансових інструментів, з'являються нові посередники та учасники ринку. Відтак зростає потреба в ефективному регулюванні змін, що мають переважно внутрішньоекономічну спрямованість і здатні впливати на різні сфери суспільного життя. Метою роботи є виявлення сучасних особливостей функціонування ринку цінних паперів на території України. З огляду на міждисциплінарність вказаної теми, провідними методами дослідження було обрано аналіз, синтез та індукцію. Ці системи процедур були об'єднані насамперед задля формування уявлень про зв'язок між економікою і правом. У цьому контексті перший метод сприяв об'єктивізації властивостей цінних паперів; завдяки синтезу вдалося зробити повні висновки та узагальнення щодо напрямів розвитку відповідного ринку. Заразом індукцію було використано для отримання загального висновку про можливості регулювання ринку цінних паперів. У статті було надано сутнісну характеристику понять «ринок цінних паперів» і «фондовий ринок». Крім того, було визначено структуру фінансового ринку: основних організаторів торгівлі та його учасників. Також було представлено основні закони у сфері правового регулювання ринку цінних паперів України та ЄС. Насамкінець було обґрунтовано розвиток українського фондового ринку в контексті євроінтеграційних процесів. Матеріали статті мають теоретичне та практичне значення для банківських працівників, спеціалістів фінансового управління, кредитних брокерів, аудиторів і страхових агентів. У зв'язку з наявністю опису міжнародної практики використання фінансових інструментів, дослідження може викликати інтерес у представників органів державної влади та освітніх організацій. Натомість наближення законодавства України у сфері обігу цінних паперів до європейських стандартів залишиться дискусійним питанням для кожної зі вказаних груп людей

Ключові слова: фондовий ринок, капітал, фінансові послуги, інвестиції, європеїзація