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**FINAL QUALIFYING PAPER**  
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**Development of the stock market in the context  
of the financial global trends**

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## INTRODUCTION

**Relevance of research.** The development of the modern stock market in Ukraine is a mandatory factor for the transition to a full-fledged market economy and improve the money supply system. In a market economy, the securities market is the main mechanism for redistribution of savings.

The stock market is an important element of the country's economy, which has a list of its functions in the country's economic system. As part of the infrastructure, it can greatly simplify several tasks that the state sets itself to achieve economic growth. It also helps to transform the savings of the population into investments, thus helping to adapt the national economic system to the international environment.

Developed infrastructure of the financial market of Ukraine is the main condition that is a challenge of today. And the effective functioning of the stock market allows for active social and economic development of the country and meeting the financial needs of entities. At the same time, the efficiency of the financial market depends on many objective and subjective factors, among which a special place is occupied by the creation of infrastructure adequate to the level of economic growth and financial relations.

The development of the stock market at the present stage indicates that it does not perform its functions effectively. Therefore, the study of the stock market of Ukraine is a truly relevant topic.

Analysis of recent research and publications. Stock market research was conducted by foreign and domestic scientists – such as Alford M., Cresson J., Lee S. Sepergdust H. [20], Kharun O.A. [13], Melnyk O.I. [24], Plastun A.L. [38] etc. Studying the works of these scholars allows us to thoroughly approach the study of this topic.

Agreeing with scientists, we note that the results of these scientists cannot fully meet the needs of practice and theory of the securities market. Incomplete functioning of the stock market complicates the work of the entire economic



system, i.e. complicates the mechanisms of mobilization, concentration and redistribution of financial instruments. In Ukraine, there is an urgent need to address the problems of the stock market, which is a confirmation of the relevance of the topic and the practical significance of our study.

**The purpose of paper.** Disclosure of theoretical principles, study of the current state and development of proposals for the development of the stock market in Ukraine in accordance with financial trends, development of proposals for improving these aspects.

**Tasks of the research:**

1. Investigate the theoretical foundations of stock market development;
2. Investigate the peculiarities of the functioning of the national stock market, assess the current state of the stock market and identify problems and shortcomings;
3. Analyze the experience of foreign countries in the field of stock markets;
4. Carry out an analysis of state regulation in the securities market;
5. Develop proposals for improving the stock market.

**The object of research:** the stock market of Ukraine.

**The subject of research:** a set of theoretical, legal, organizational and analytical aspects of trends in the functioning and development of the stock market in Ukraine.

**The research methods:** in the course of the research were used: the method of theoretical generalization and comparison (to generalize the content and characteristics of the stock market); method of systematic and spatial approach (for various assessment of the stock market); method of logical generalization (for the sequence of research) and economic – statistical methods (to consider the dynamics of the stock market of Ukraine); scientific methods of deduction and induction.

**The information base of the study** is laws and regulations on the issues of stock market regulation in Ukraine; scientific publications on the researched problem; analytical reports; foreign online sources and publications.

**The scientific novelty** of the obtained results is as follows:

- *formulated scientific hypothesis* on the impact of global trends in the development of the stock market on the stock market of Ukraine, also determined the effectiveness of the implementation of international requirements for the development of the stock market of Ukraine.
- *received further development* of proposals for improving the stock market in Ukraine, based on the economic and legal characteristics of the state;
- *improved* study of the regulatory framework for stock market regulation in Ukraine.

**The practical significance of the obtained results.** The obtained results can be used by public authorities to improve the regulation of the stock market in Ukraine. In particular, the recommendations developed by the author may be useful to the National Commission on Securities and Stock Market (NSSMC) in developing strategies for the development of the stock market of Ukraine or the implementation of national economic and financial reforms.

**Personal contribution of the master.** The final qualifying work is an independent completed research of the author.

**Publications.** Some results of the study are reflected in the scientific article: Mishyna A. Features of regulation of the Ukrainian stock market in the context of international requirements // Business processes in credit and financial institutions: Coll. of scientific art. of full-time and part-time stud. / resp. ed. N.P. Shulga. – K.: KNUTE. – 2020. – 426 p. Also some results were published in the abstracts of the report at the All-Ukrainian Student Conference: Mishyna A. Features of regulation of the Ukrainian stock market in the context of international requirements // Financial and credit systems: problems of theory and practice: All-Ukrainian. stud. conf. of science (Kyiv, March 16, 2020): thesis add. / resp. ed. N.P. Shulga – K.: KNUTE. – 462 p. – P.: 447–449.

**Scope and structure of work.** The work consists of 3 parts, introduction, conclusions, list of used sources and appendices. The volume of work is 48 pages. The paper presents: 10 tables, 8 figures, 6 appendices, and used 56 scientific sources.



## **PART 1**

### **THEORETICAL AND LEGAL ASPECTS OF THE FUNCTIONING OF THE UKRAINIAN STOCK MARKET**

Development of the modern stock market in Ukraine is a mandatory factor for the transition to a full-fledged market economy and improves the money supply system. In a market economy, the securities market is the main mechanism for redistribution of savings.

In modern conditions, the stock market of Ukraine can still be considered developing. Despite some shifts in the development of the national stock market in both operations and regulatory activities, the Ukrainian market still has many problems and shortcomings.

Currently, the economic, legal and organizational-managerial bases of the stock market have been formed, and its infrastructure has been created. However, the stock market does not sufficiently perform its functions to attract investment for the development of the domestic economy.

The Ukrainian stock market is characterized, first, by the unstable efficiency of the existing mechanism of its state regulation and self-regulation; secondly, the distrust of potential domestic investors in the securities market and its instruments; thirdly, the insufficient development of the regulatory framework that establishes liability for offenses in the stock market.

In connection with the above, the state regulation of the mechanism of the stock market is an inevitable and extremely important issue for the market itself and for the entire economy of Ukraine.

Many foreign and domestic scientists have studied the directions of development of the world stock market, as well as national stock markets. Domestic scientists who have studied this problem include: Menshikova A. [25], Kharun O.A. [13], Melnyk O.I. [24], Plastun A.L. [38] and others. Foreign scholars who have covered this problem in their works include Alford M., Cresson J.,

Lee S., Sepergdust H., and others. The study of the works of these scientists allows a thorough approach to the study of this topic [20].

According to the Law of Ukraine «On Securities and Stock Market», «Stock Market (Securities Market) – a set of stock market participants and legal relations between them on the placement, circulation and accounting of securities and derivatives (derivatives)» [34].

Some authors believe that the concept of the stock market, which is found in the economic literature today, can be used in narrow and broad contexts. In the table 1.1 we analyzed the scientific and methodological approaches of scientists to the definition of «stock market».

Table 1.1

**Scientists' approaches to defining the essence of the concept of «stock market»\***

<b>Author / Source</b>	<b>Definition</b>
V.M. Grinyova [13]	The stock market is a set of civil law relations that mediate the movement of capital in the form of securities.
Y.Y. Kravchenko [18]	Stock market (securities market) – a system of economic relations for the issuance and circulation of securities between its participants.
V.V. Osokolskii [13]	The stock market (securities market) is the part of the capital market where securities are bought and sold.
A.B. Kondrashikhin, V.G. Rozhmanov, T.V. Pepa [13]	The stock market is a segment of the financial market in which financial assets are traded in the form of securities and their derivatives (derivatives, futures, options) with the vast majority of the latter.
A.G. Zavgorodnii [55]	The stock market accumulates money savings of legal entities and individuals and directs them to productive and non-productive investment.
V.I. Kushlin [13]	The stock market is one of the main mechanisms for accumulating savings and transforming them into investments.

\* Formed by the author based on sources [13, 18, 55]



The above definitions of the essence of the stock market cannot be considered final and complete. After all, they need to be supplemented based on the realities of today. Formulations of the concept of «stock market» indicate that its complex nature has various manifestations and makes it possible to analyze it from different positions [14].

Depending on the degree of development, the stock market can be a more or less effective mechanism for the accumulation, distribution and redistribution of free financial resources among sectors of the economy. The efficient functioning of the stock market ensures the efficient use of free financial resources and sustainable economic growth.

The purpose of the stock market is to accumulate financial resources and provide market participants with opportunities for their redistribution through various securities transactions. Thus, the stock market is an intermediate link in the movement of temporarily free funds from the investor to the issuer of securities.

The main task of the stock market is to ensure the outflow of capital from financially surplus sectors in the economy to those areas of activity where these funds are most needed. This is done through trading in securities, because they are a commodity in the stock market [22].

Currently, on Fig. 1.2 the interests of the following entities are represented on the stock market of Ukraine:

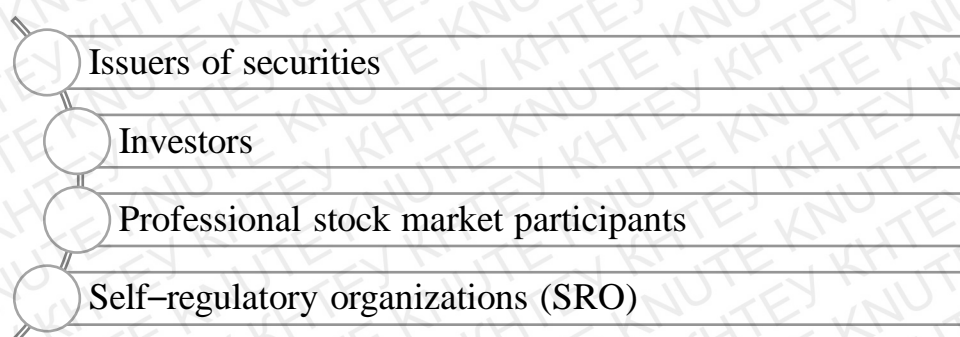


Fig 1.2. Ukrainian stock market participants\*

\* Formed by the author based on source [34]

The infrastructure of the stock market of Ukraine is represented by a significant number of professional participants, among which the most important

link is the organizers of trades – stock exchanges, whose activities are aimed at creating organizational, technological, informational, legal and other conditions for collecting and disseminating information on supply and demand. financial instruments and dispute resolution between members of the auction organizer, etc. [14].

In order to comprehensively regulate relations arising in the securities market, to protect the interests of citizens of Ukraine and the state, to prevent abuse and violations in this area by the Decree of the President of Ukraine of 12.06.1995 № 446/95 «On the State Commission on Securities and Stock Market» was then formed the State Commission on Securities and Stock Market as the central body of state executive power (now the NCSSM).

The main tasks of the Commission as a main regulator of stock market described on Fig 1.3:

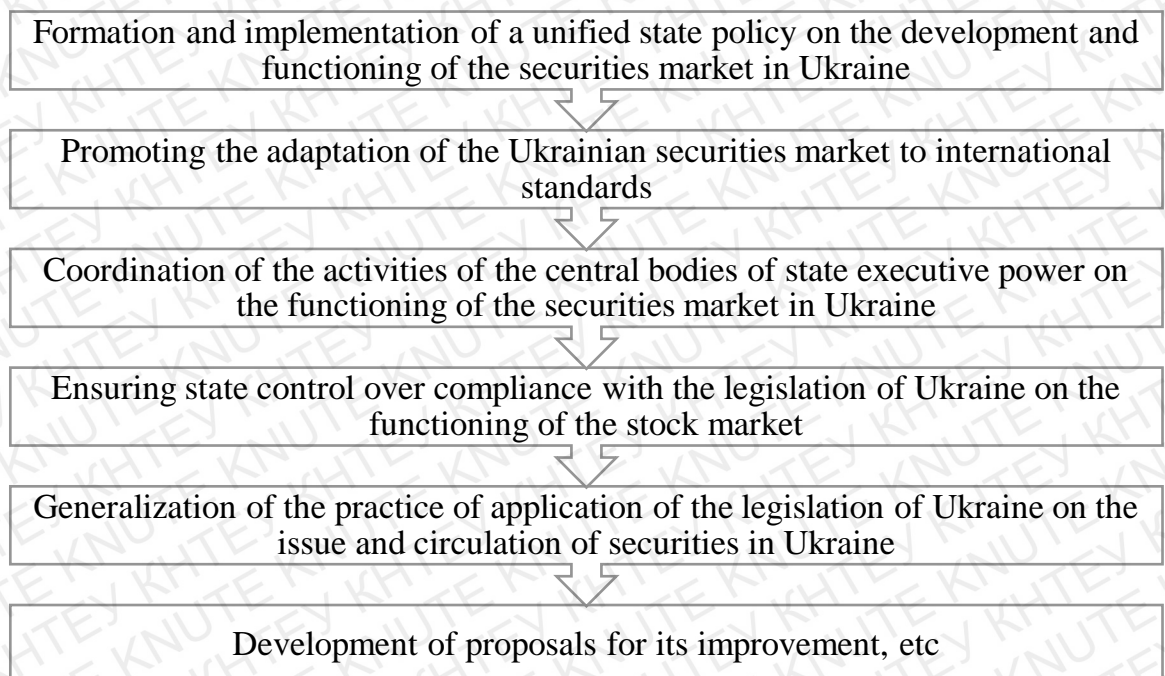


Fig 1.3. Main tasks of the NCSSM as a regulator of stock market\*

\* Formed by the author based on source [37]

It should be noted that the Law of Ukraine of 30.10.1995 № 448/96–VR «On state regulation of the securities market in Ukraine» laid down the legal basis for state regulation of the securities market and state control over the issuance and circulation of securities and their derivatives in Ukraine [35].

At the legislative level, the powers of the National Commission on Securities and Stock Market are enshrined. This law also developed for the secondary professional securities market. It should be emphasized that during the period of the Law, numerous changes and additions were made to it, which was related to the improvement of state regulation of the securities market of Ukraine.

In addition, an important component of the stock market is the depository system of Ukraine. It is a set of its participants and the legal relationship between these participants in the accounting of securities, rights to securities and rights to securities and their restrictions established in the system of depository accounting of securities, including as a result of settlements on securities transactions. .

«The main task of reforming the depository system in Ukraine is to create a reliable system of accounting for securities ownership, introduction of a modern model of clearing and settlement of securities transactions, which corresponds to world best practice, taking into account national characteristics and the need to integrate into international capital markets» [17].

Thanks to the activity of the National Depository of Ukraine, the speed and reliability of execution of agreements on the stock market is increased, as well as the cost of relevant services is fairly and reasonably established. NDU considers the ownership rights to securities, makes settlements between market participants and establishes the rules of interaction between them.

In 2018, the National Commission on Securities and Stock Market (NSSMC) presented the concept of legislative changes that will relate to the functioning of capital market infrastructure in Ukraine. This concept is aimed at developing a more efficient and modernized infrastructure of capital markets, which will lead to compliance with international standards and world practices [28].

According to the Concept, the reform of market infrastructure involves the implementation (compliance by international law) of important EU acts, such as Directive 98/26/EU on the finality of payments in payment systems and securities settlement systems (Settlement Finality Directive); Directive № 2002/47/EU on mechanisms for the application of the Financial Collateral Directive;



Regulation № 648/2012 on OTC Derivatives, Central Counterparties and Trading Repositories (EMIR) [10].

However, it should be noted that today the regulatory framework is actively developing, infrastructure development is not stopped, monitoring and disclosure systems have been introduced, the system of investor protection has been improved, and the level of knowledge of the population about the stock market is increasing.

Therefore, in order to develop and strengthen the position of the Ukrainian stock market, it is necessary to improve the legal and organizational framework for the functioning of the stock market of Ukraine. Unfortunately, over the years of its formation, the Ukrainian stock market has not become an effective investment mechanism. It is obvious that the state must develop strategic measures for the development of the domestic stock market. However, it should be borne in mind that state intervention should not be total, so as not to restrict the freedom of entities. Measures and the degree of state influence on the stock market must be rational and scientifically sound.

## **PART 2**

# **RESEARCH OF FEATURES OF FUNCTIONING OF MODERN STOCK MARKET OF UKRAINE**

### **2.1. Analysis of trends in the stock market of Ukraine**

The stock market is an integral and important element of the financial system of a market economy, so the formation of an efficient and effective stock market is an important stage in the development of each state, as this structure is a mediator in the implementation of credit and joint ownership of securities.

At the present stage of development of world economies, one of the most important roles is played by the stock market, which reflects the level of economic development of the country as a whole. Ukraine's stock market began to take shape only after independence, so it is still quite young and has many weaknesses and problems. Compared to world stock markets, it is underdeveloped, but the implementation of the necessary set of measures can not only ensure its formation, but also significantly affect the pace of its development.

We aim to analyze the main indicators of the Ukrainian stock market and determine the features of its functioning.

The stock market of any country is an important and necessary element of the financial market, which directly affects the development of all subjects of the national economy. Although the stock market and the real sector of the economy are relatively autonomous systems, there are some interrelationships between them. Particularly strong influence of the stock market on the real sector is observed in crisis situations. Analysis of the stock market is necessary to increase the efficiency of the financial system of Ukraine and determine the strategy for its development in the future.

The stock market in a country can be characterized primarily by capitalization, the volume of exchange trading in securities, the number of securities traded on stock exchanges, and others.

In recent years, Ukraine has seen a decrease in capitalization, which is largely due to a decrease in the number of issues of shares listed in the stock exchange register as meeting the requirements of the listing. This trend negatively affects the level of development of the stock market as a whole.

Comparative data on the volume of trades in the securities market and GDP are provided by us in Figure 2.1.

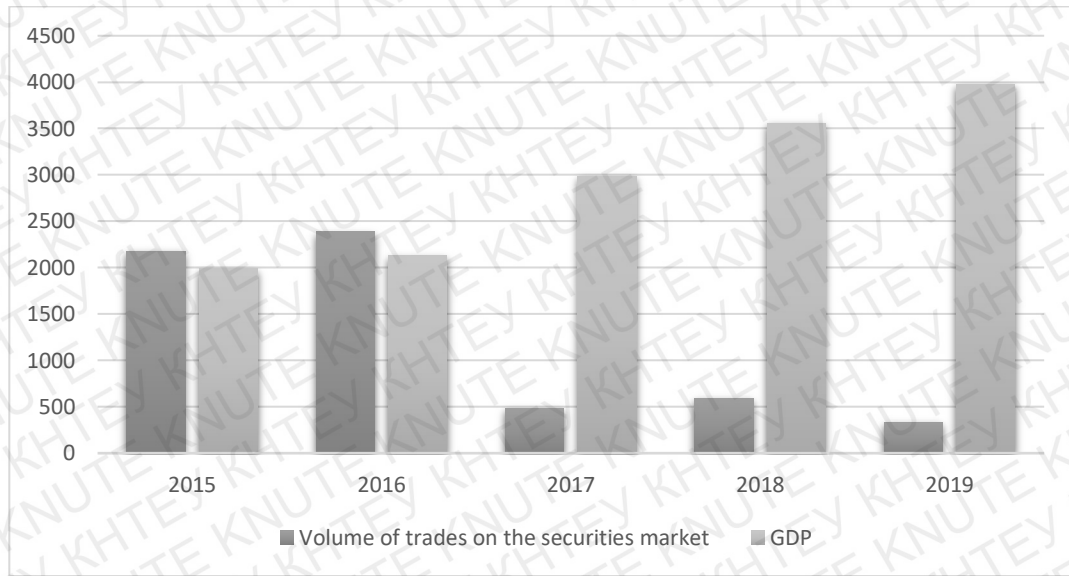


Fig. 2.1. Comparative data on trading volumes on the securities market and GDP, UAH billion, in 2015–2019\*

\* Formed by the author based on source [2]

As can be seen from Fig. 2.1., As well as according to the annual report of the NSSMC in 2019 compared to 2018 there was a decrease in trading on the securities market by 43% – up to 258.18 billion UAH.

This reduction in trading can also be attributed to the introduction of a number of pieces of legislation aimed at improving regulation and transparency in the securities market, thus eliminating some unscrupulous stock market participants [16].

According to the results of trading on the organized market during January–June 2020, the volume of exchange contracts with securities amounted to UAH 156.60 billion. During January–June 2020, compared to the same period in 2019, the volume of exchange contracts with securities on trade organizers increased by 5% (January–June 2019 – UAH 148.48 billion) [36].



Today there are 5 stock exchanges in Ukraine: the PFTS Stock Exchange, the Perspective Trading and Information System, the Ukrainian Exchange (UE), PJSC «Ukrainian Stock Exchange», Ukrainian Interbank Currency Exchange (UICE).

An important indicator of the stock market is the index, which makes it possible to assess the general situation in the securities market. We can note that the volume of the PFTS index is much smaller than the volume of the UB index, but have similar dynamics. Appendix A shows a comparative graph of the two Ukrainian indices.

According to the results of 2019, there is a redistribution of trading volumes among trade organizers. In appendix B, we can see that the share of trading volumes of PJSC Perspektiva Stock Exchange in 2019 increased by 12.3 percentage points and amounted to 61.11%, while the share of trading volumes of JSC PFTS Stock Exchange increased by 5.5 percentage points to 37.63%.

The total amount of trades on the trade organizer, which are included in the exchange lists of trade organizers as of 31.12.2019 is provided by us in Figure 2.2.

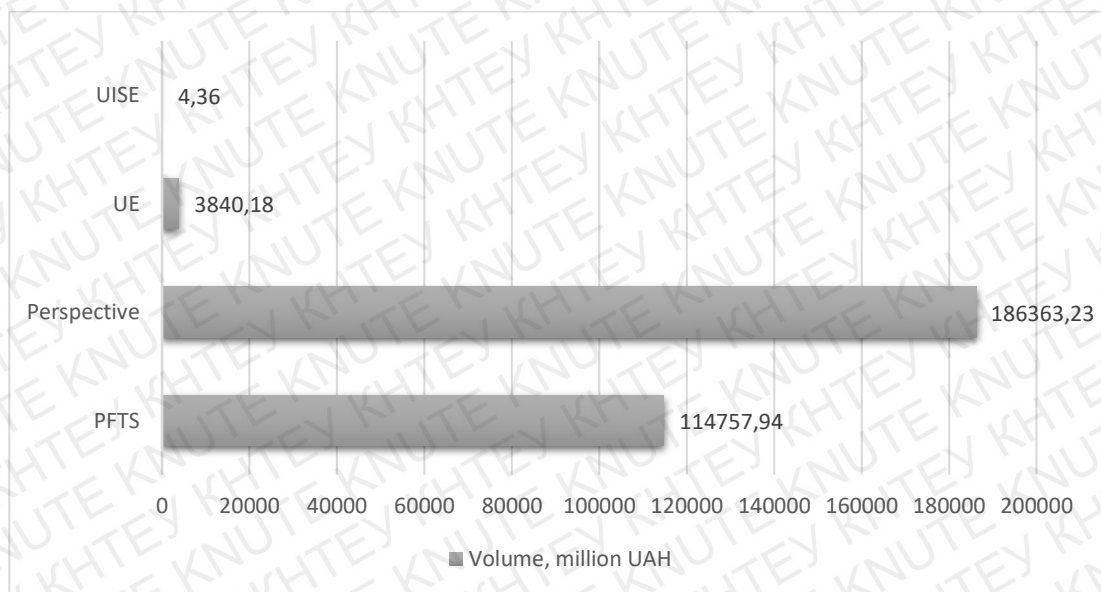


Figure 2.2 Total volume of exchange contracts with trade organizers in 2019, UAH million\*

\* Formed by the author based on source [40]

As you can see in Fig. 2.2, during 2019 on the stock market there was a consolidation of securities trading. Only two stock exchanges – «PFTS» and «Perspective», were marked by significant trading volumes – more than 98% of the value of exchange contracts. The volume of exchange contracts with securities on trade organizers with distribution by type of financial instrument in 2019 is given in appendix C.

The stock market provides the movement of capital through the circulation of various types of securities and their derivatives. It is through the mechanisms of the stock market that the supply and demand for investment resources are formed, their accumulation and redistribution take place with the aim of economic growth.

*Table 2.1*

**Volume and number of issues of shares registered by the NSSMC during 2015–2020, UAH million\***

<b>Period</b>	<b>Volume of shares issued, UAH million</b>	<b>Number of issues, pcs.</b>
2015	128 554,79	158
2016	209 361,94	128
2017	324 844,24	118
2018	22 263,97	93
2019	63 539,38	78
6 months 2020	3 263,40	26

*\* Formed by the author based on source [2]*

As can be seen in Table 2.1, the total volume of issues of securities registered by the National Commission on Securities and Stock Market in January–June 2020 amounted to UAH 52.52 billion, which is UAH 35.96 billion more than in the corresponding period of 2019 ( UAH 16.57 billion).

During 2019, the Commission registered 78 issues of shares worth UAH 63.5 billion. (Table 2.3). Compared to 2018, the volume of registered issues of shares increased by UAH 41.3 billion.

Analyzing the structure of securities issuance in Ukraine for 2015–2019, it should also be noted that today there is a tendency regarding the share of each of the other types of securities in the total volume of their issue.

Thus, the stock market provides the movement of capital through the circulation of various types of securities and their derivatives. It is through the mechanisms of the stock market that the supply and demand for investment resources are formed, their accumulation and redistribution take place with the aim of economic growth.

Based on analysis of the issue and circulation of securities in Ukraine for 2015–2019 we conducted it makes possible to determine the directions and their characteristic features in the current financial and economic conditions.

Indicators of the current state of the national stock market have shown disappointing results, and in general, it has the potential to develop, despite the low percentage of shares in circulation.

Further development of the stock market depends on specific measures of the state in the field of financial system development.

## **2.2. Regulation of the Ukrainian stock market in the context of international requirements.**

The study of international stock market trends shows that the parameters of the domestic securities market do not correspond to similar global ones. In general, the current stock market model in Ukraine is characterized by a number of institutional disparities.

The main task of state regulation of the stock market is to reconcile the interests of all market participants by establishing the necessary restrictions and prohibitions in their relationships, as well as indirect interference in their activities.

The main legislative acts regulating the Ukrainian securities market are presented in Table 2.2.



Table 2.2

**Regulatory base of the stock market of Ukraine\***

<b>Legislation / Source</b>	<b>The main content</b>
Law of Ukraine «On Securities and Stock Market» dated February 23, 2006 № 3480–IV [34]	Defines the concept of securities, their types; regulates the activity of issue and circulation of securities; determines the legal status and organizational principles of stock exchanges
Law of Ukraine «On state regulation of the securities market in Ukraine» dated 30.10.1996 № 448/96–VR [35]	Identifies areas of state regulation of the securities market in Ukraine
Law of Ukraine «On the Depository System of Ukraine» dated 06.07.2012 № 5178–VI [36]	Defines the legal basis for the circulation of securities in the depository system and the rules of electronic circulation
Law of Ukraine «On Joint Investment Institutions» dated 15.03.2001 № 2299–III [33]	Aims to ensure the attraction and effective allocation of financial resources of investors and determines the legal and organizational basis for the creation, operation, termination of mutual investment entities, features of asset management
Law of Ukraine «On Financial Services and State Regulation of Financial Services Markets» dated 12.07.2001 № 2664–III [32]	Establishes general legal framework in the field of financial services, implementation of regulatory and supervisory functions for the provision of financial services
Decision of the National Commission on Securities and Stock Market «On approval of the Regulation on certification of stock market specialists» 13.08.2013 №1464 [31]	Establishes the procedure for certification by the National Commission on Securities and Stock Market of persons performing actions related to the direct conduct of professional activities in the stock market
Law of Ukraine «On Amendments to Certain Legislative Acts of Ukraine Concerning Simplification of Attracting Investments and Introduction of New Financial Instruments» dated 19.06.2020 №738–IX [30]	Aimed at introducing the best legal norms and standards, including acts of European legislation, on the capital markets of Ukraine.

\* Formed by the author based on sources [30–36]

The NSSMC, as the national regulator of the securities market, is steadily fulfilling the functional responsibilities assigned to it by the state in order to streamline the stock market and increase the discipline of its participants, maintain confidence in the stock market and its dynamic development. The Commission

regulates the issuance and circulation of securities, issues licenses for professional activities in the market and provides control over such activities, creates a system of protection of investors' rights and control over the observance of these rights by issuers and persons engaged in professional activities in the securities market. It also establishes the rules of operations and control over their observance and carries out other measures concerning state regulation and control over the issue and circulation of securities [42].

Without a clear and relevant legal framework, the effective operation of markets is impossible, and the task of establishing liquid, reliable and transparent national capital markets is much more complicated. Therefore, this area of work is one of the Commission's priorities. The key areas in this area are the implementation of measures to fulfill Ukraine's obligations under the Association Agreement between Ukraine and the European Union, as well as measures aimed at promoting investment and protecting the rights of investors.

The capital market of Ukraine continues to develop actively and this was preceded by intense rule-making activities of the Commission.

In 2019, the Commission approved and submitted for state registration to the Ministry of Justice of Ukraine 45 normative legal acts, of which: 37 – make changes to the current normative legal acts; 5 – regulate new legal relations; 3 – regarding the expiration of normative legal acts [40].

In June 2020, the Verkhovna Rada of Ukraine adopted, and in August the President signed, the Law «On Amendments to Certain Legislative Acts Concerning Simplification of Attracting Investments and Introducing New Financial Instruments» [30].

In Table 2.3, we analyzed the main changes related to the stock market of Ukraine.

Table 2.3

**The list of the main innovations according to the Law «About modification of some legislative acts concerning simplification of attraction of investments and introduction of new financial instruments»\***

№	Innovation
1.	A new structure of capital markets has been introduced in Ukraine. Under the new law, capital markets are the stock market, the derivatives market and the money market.
2.	In accordance with the best international practices, the possibility of trading in relevant assets on different platforms has been introduced: a regulated market, a multilateral trading platform (MTP), an organized trading platform (OTP).
3.	The list of financial instruments was expanded by including money market instruments, as well as new types of securities were introduced – bank certificates of deposit, green bonds, option certificates, depository receipts, etc.
4.	Differences between qualified and unqualified investors are fixed.
5.	The concept of Master Agreements, typical of the North American and European capital markets, is being introduced.
6.	The concept of a systemically important professional participant – a participant that is too big to fail, or «too big to fail» – has been introduced.

*\* Formed by the author based on source [30]*

The new Law of Ukraine enters into force on July 1, 2021 (considering the transition periods for the implementation of certain provisions), which is a fairly reasonable time to create the preconditions for its implementation.

The introduction of these changes brings the legislation of Ukraine in line with the provisions of the Association Agreement between Ukraine and the European Union on the need to harmonize Ukrainian legislation with EU standards in the field of financial services, companies and corporate governance.

Monitoring of stock market participants is carried out to ensure the functions of the NSSMC to control stock market participants. Monitoring is carried out in accordance with the Law of Ukraine «On State Regulation of the Securities Market in Ukraine» and regulations of the Commission.



Professional activity in the securities market is carried out based on a license issued by the Commission in accordance with the law. In recent years, there has been a downward trend in the number of licensed entities due to the regulator's requirements for their activities.

The dynamics of the number of entities that have licenses to conduct professional activities in the stock market is provided by us in Table 2.4.

*Table 2.4*

**Dynamics of the number of entities that have licenses to conduct professional activities in the stock market 2016–2019\***

Professional participants	2016	Change, %	2017	Change, %	2018	Change, %	2019	Change, %
Securities traders	302	-18,20%	270	-10,60%	242	-10,40%	221	-8,68%
Depository institutions	232	-9,00%	210	-9,50%	198	-5,70%	186	-6,06%
Asset management companies	300	-6,30%	299	-0,30%	299	0,00%	297	-0,67%
Persons conducting clearing activities	1	0,00%	1	0,00%	1	0,00%	1	0,00%
Stock exchanges	8	-20,00%	5	-37,50%	5	0,00%	4	-20,00%

*\* Formed by the author based on source [40]*

As can be seen from Table 2.4, as of December 31, 2019, the number of entities that have licenses to conduct professional activities in the stock market (securities market) was 70. Their number is gradually decreasing, which is primarily due to increased requirements regulator to professional participants.

In order to reform the system of training and certification of stock market specialists, on February 2, 2017, the NSSMC signed a Memorandum of Intent with the Association of Investment Professionals, licensed by the CFA Institute and representing the CFA Society Ukraine, to build a transparent system of certification of stock market specialists in Ukraine.

Table 2.5 shows the training programs for stock market specialists approved by the NSSMC.

*Table 2.5*

**Dynamics of the number of entities that have licenses to conduct professional activities in the stock market 2016–2019\***

№	Educational programs
1.	Basic training program for stock market specialists
2.	Specialized training program for securities trading specialists
3.	Specialized training program for depository specialists
4.	Specialized training program for asset management specialists
5.	Specialized training program for specialists in clearing activities
6.	Specialized training program for specialists in the organization of trading in the stock market
8.	Specialized training program for chief accountants of professional stock market participants

*\* Formed by the author based on source [28, 31]*

Each of the specialized programs consists of a basic training program for specialists and a specialized training program in a specific area.

In our opinion, the proposed approach will address the issue of providing market participants with highly qualified personnel. The proposed system considers the necessary aspects of training stock market specialists such as thorough knowledge and understanding of legislation and current market trends, considering ethical standards of the stock market.

An important condition for the successful functioning of the capital market is a perfect system of its regulation, which covers all participants and ensures that they carry out their activities in accordance with established rules. According to the Law of Ukraine «On Securities and Stock Market», market regulation is carried out by the state and self-regulatory organizations.

In recent years, the Commission has worked effectively to establish a common approach to the establishment and operation of SROs, in particular:

- creation of a unified legal framework for each type of professional activity in the securities market, aimed at ensuring market stability and security of activity in it for both professional participants and investors;
- strengthening control over the compliance of capital market participants with regulatory requirements, unified rules and standards;
- increasing the effectiveness of self-regulation and improving interaction with government agencies.

In Fig. 2.3. shown the following SROs operated in Ukraine (as of December 31, 2019):

<b>SROs operated in Ukraine:</b>	Professional Association of Capital and Derivatives Market Participants (by type of professional activity – depository activity and activity on securities trading);
	Ukrainian Association of Investment Business (by type of professional activity – asset management activities of institutional investors);
	Association «Ukrainian Stock Traders» (by type of professional activity – depository activity and activity on securities trading).

Fig. 2.3. SROs operated in Ukraine, as of December 2019\*

\* Formed by the author based on source [40]

The purpose of the SRO is to strengthen the effectiveness of self-regulation, order in the capital market, discipline of market participants and protect the interests of their members. The main tasks set by SROs shown on Fig. 2.4.



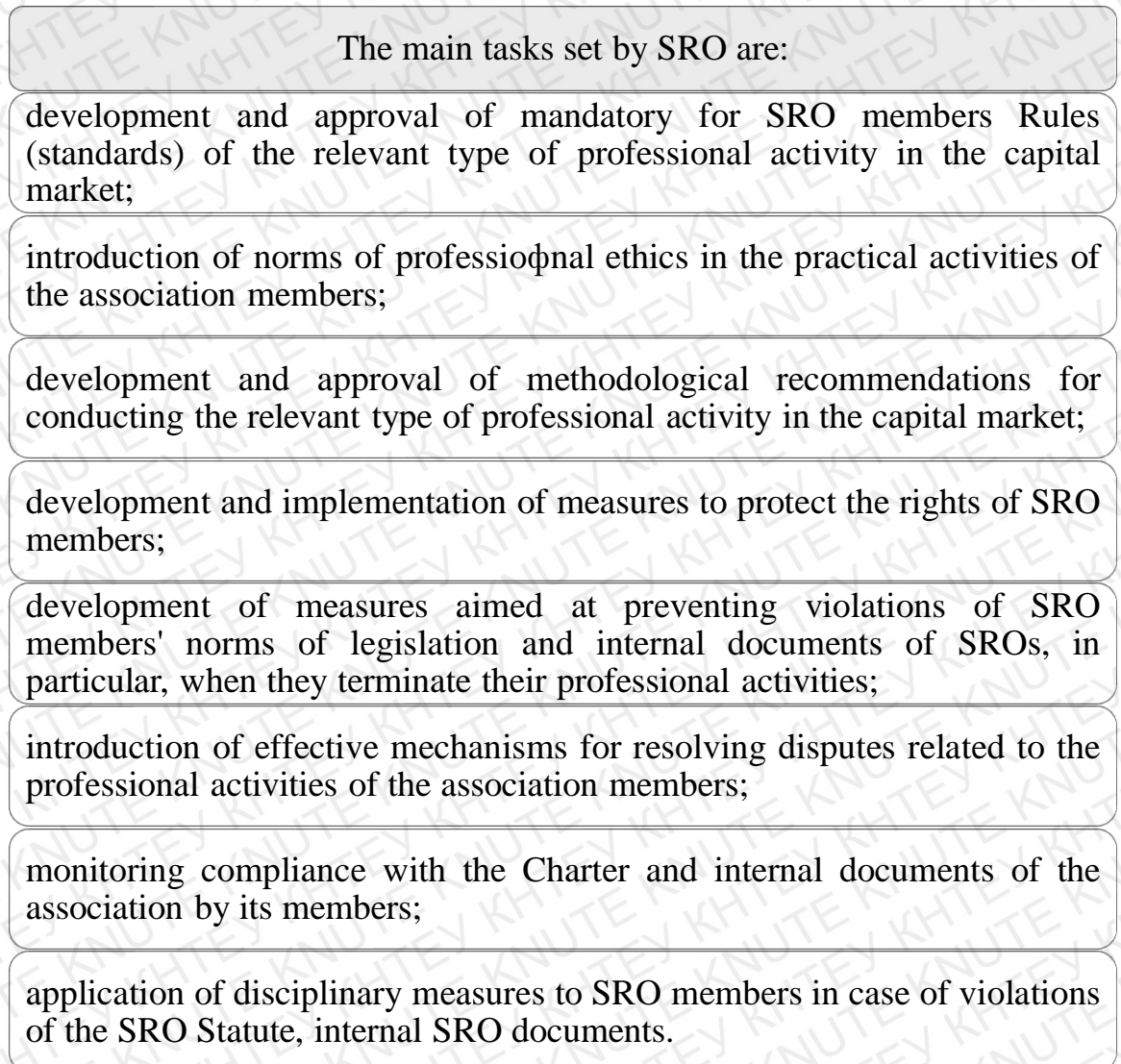


Fig. 2.4. The main tasks set by SRO\*

\* *Formed by the author based on source [40]*

Depository and clearing activities are the most important segments of professional activity in the stock market and cover the full range of economic issues and legal relations to ensure ownership of securities, the definition of obligations to be fulfilled under securities transactions, as well as the creation of a guarantee system, securities and other financial instruments. The effective functioning of the depository system is a guarantee of the implementation of the principles of transparency and fairness in relation to prices for investment resources. As of December 31, 2019, 186 legal entities had licenses to conduct depository activities. In the reporting period, 5 and 20 licenses for depository activities were issued and revoked [29].

The state has already taken the first steps to solve the problem of forming a depository and clearing infrastructure. On September 30, 2019, a new IT platform of the Central Depository DEPEND Q was put into commercial operation, which should lead to qualitative changes in the operation of the depository accounting system of the Ukrainian securities market. Information on 3 million accounts with a nominal value of UAH 1.7 trillion was transferred to the new system. The new platform allows depository institutions to choose alternative software for customer service. The industrial launch of the new IT platform is another step towards the introduction of advanced technologies in the operation of the depository system of Ukraine and integration into international capital markets.

The introduction of a new technology platform has created new functionality and opportunities for the entire market, significantly improved the quality of services received not only by national players but also by non-residents. For market participants, the new IT platform of the Central Depository (hereinafter – CD) has provided a high level of information protection. The new platform has allowed depository institutions to choose alternative software for customer service, and as a result, the emergence of new services for both companies and owners of securities.

During the year, the CD team continued to improve the system, refining the functionality for maximum convenience and creating new services for customers [13].

And in early January 2020, the financial market regulators approved the Strategy for the development of the financial sector of Ukraine until 2025. For the development of the stock market directly, the main focus of coordinated efforts will be to increase the requirements for sustainability of professional stock market participants. Regulators will also work on the creation of a comprehensive stock market monitoring information system, application of international standards of functioning of the capital markets infrastructure (requirements of CSDR, EMIR, MIFID II, MIFIR, PFM) and more [45].



Implementation of the Strategy for the Development of the Financial Sector of Ukraine until 2025 and other measures to address the problems of the domestic stock market will provide an opportunity to achieve such results as: significant expansion of the supply of securities with high investment performance; improving the principles of the debt and mortgage market; activation of the secondary securities market; improving the information transparency of the stock market; attracting a wide range of investors to the stock market; creation of a consolidated exchange system; concentration of trading in securities and other financial instruments mainly on the stock exchange market; modernization of the depository system in accordance with international standards; creation of a reliable clearing and settlement system; awareness of the population about the investment opportunities of the stock market; improvement of the system of training, retraining and advanced training of stock market specialists.

In order to ensure the modernization of capital market infrastructure in Ukraine in accordance with international standards, including the requirements of EU acts CSDR, EMIR, MiFID II, MiFIR, with the support of the EBRD developed and approved the Concept of capital market infrastructure reform in Ukraine. As part of the implementation of the concept, work has begun on developing a target model for reforming the depository, settlement and clearing infrastructure of capital markets.

It is also worth noting the increasing role of information technology in the stock market. For example, several years ago, a new electronic reporting system for securities issuers was introduced, as well as a unified information database for stock market participants.

«Today, at the legislative and organizational and institutional levels, the vast majority of measures outlined in the relevant regulations on the development of the Ukrainian stock market have been implemented [27].



In accordance with the Concept of Legislative Changes on the Functioning of the Capital Markets Infrastructure in Ukraine, the reform of the capital markets infrastructure provides for the implementation of the important EU acts listed in Table 2.6.

Table 2.6

**Characteristics of the EU Acts to be implemented\***

<b>Act of the EU</b>	<b>Meaning</b>
Directive 98/26 / EC (Settlement Finality Directive)	on the finality of settlements in payment systems and settlement systems in securities
Directive 2002/47 / EC (Financial Collateral Directive)	on the mechanisms for applying the financial collateral
Regulation No 648/2012 (EMIR)	on OTC derivatives, central counterparties and trading repositories
Directive 2014/65 / EC (MiFID II)	on financial markets
Regulation No 600/2014 (MiFIR)	on financial markets with corresponding changes
Regulation No. 909/2014 (CSDR)	on improving securities settlement in the EU and central securities depositories

*\*Formed by the author based on sources [26, 28]*

Considering these normative acts, according to the Commission, it can be considered that stock market infrastructure is fully formed and functioning in Ukraine.

«It is important that we not only identified the tasks and directions of financial infrastructure reform, but also identified specific technical steps, in particular to consolidate the depository account and reform the Settlement Center, which will subsequently lose its monopoly status and become a full-fledged clearing institution that will compete with others on an equal footing. market participants», – said NCSSM Chairman Timur Khromayev [28].

Also, in April 2019, there was a transition to the introduction of a model of regulatory supervision based on risk assessment. The appropriateness of

inspections and inspections of market participants will henceforth be determined by the potential impact of possible distortions on capital markets. The first issue of the Ukrainian issuer was registered according to the rules adapted to the EU standards. Taskombank became the first issuer of securities to issue corporate bonds in Ukraine.

It should be noted that the current development of the securities market is accompanied by the transition from the «classic» model to the «digital», which was laid down by the European Payment Services Directive PSD2 (Payment Services Directive revised), which entered into force on January 13, 2016. to «digital», for this purpose a new type of financial institutions is introduced – financial technology companies. The main directions of the transition of the securities market from the «classic model» to the «digital» are presented in Appendix D [12].

Therefore, investor confidence is a prerequisite for the development of the securities market. Therefore, in addition to the adoption of regulations governing certain transactions with securities and facilitating access to foreign capital in Ukraine, it is very important to comprehensively strengthen legislation to protect the rights of investors (including minority shareholders) and improve supervision of the securities market. securities to protect investors from fraud and price manipulation.

We can conclude that despite the analytical performance, the legal framework of the stock market of Ukraine is rapidly modernizing. The NSSMC is actively implementing measures to implement the requirements of EU directives to ensure that the Ukrainian stock market meets the world market.

Further development of the stock market depends on specific measures of the state in the field of financial system development. To stimulate the development of the stock market of Ukraine and a favorable investment climate, it is necessary to actively implement a number of measures, namely:

- improving the competitiveness of the stock market by creating favorable conditions for government policy on taxation in the stock market;

- coordination of contradictions in the legislation, adjustment of internal work of regulators and clear division of powers between them, the decision of contradictory situations between participants of the stock market using direct and indirect methods of influence;
- market expansion to attract more investors and ensure its liquidity and turnover, to accelerate capital turnover in the market;
- ensuring a sufficient level of protection for investors who could invest in securities, thereby improving the stock market situation;
- improving the functioning of investment and pension funds through the introduction of international investment performance standards GIPS, reforms to improve market infrastructure;
- expand the range of investment instruments traded on the stock market to improve the diversification of the investment portfolio; – to create preconditions for gradual centralization of the national stock market, centralization of liquidity, transition of competition in the stock market segment from the local to the interstate level.



## **PART 3**

### **ADOPTION OF GLOBAL FINANCIAL TRENDS FOR THE DEVELOPMENT OF THE STOCK MARKET OF UKRAINE**

#### **3.1. Global trends in stock market development in the world**

Undoubtedly, given the slight evolution of the national stock market, it is impossible to compare it with the stock markets of developed countries, but it makes sense to focus on them.

We aim to explore the peculiarities of the functioning and development of global stock markets, to determine the necessary measures for implementation in Ukraine, based on international experience.

In world practice, there are three main models of stock market organization: American, European and mixed. The appendix E provides a comparative description of stock market models.

Under the American model, banks are prohibited from engaging in certain types of professional and non-professional activities in the stock market. Investment banks, funds, companies occupy a central place in the American stock market. This model is characterized by the state's strict regulation and supervision of the behavior of market participants in securities transactions. For the United States is characterized by a complete distinction between commercial and investment activities of banks [9, p. 5].

Note that the American model is ultimately available only in the United States. Europeans praise it for its effectiveness. This model is a role model for many countries seeking to create a civilized stock market. The strong side of the regulation of the American stock market is the creation of a special institution: a commission on securities and stock exchanges, which ensures the achievement of goals [6, p. 159].

The American stock market model is more dynamic than the European one and is able to adapt to any changes in the global economic situation. There are no

two countries in Europe that have exactly the same mechanisms of state regulation of stock markets. However, there are European specifics. High legal culture of doing business, including in the stock markets, is one of the main features of the European model. Also, widespread self-regulation, i.e. voluntary support of the adopted legislation and ethical norms, rules and agreements does not release from liability any of the subjects of the securities market that violated the law [39].

The most striking example of the European model is the German stock market model, so it is often called «Germa» Such a system also operates in Great Britain, Switzerland, Belgium, Italy, Austria, etc.

The considered models in pure form are available only in Germany and the USA. However, the most common in the world is a mixed model, which combines the features of the two previous models. The mixed model operates in most countries, including France, Japan, South America, Southeast Asia, and others. According to this model, both professional participants and banking institutions operate in the stock market in the form of universal and specialized [9].

According to the data, in about 10% of countries in the world there is a European model, in 30% – the American model, in other countries (60%) there is a so-called «mixed» model.

Intensive development of stock markets in EU countries is an important factor in intensifying law-making processes in those countries that see their future in the single economic and European space, provide a legal basis for integration of national stock markets into the single European economic space by removing internal legal barriers. securities circulation and legal regulation of the stock market, but each stock market of the EU has its own characteristics.

Since its inception, the stock market of the European Union has been largely regulated by the state with limited control over the participants in the exchange process. However, the processes of integration, liberalization of the economy and unification of legislation have led to the gradual granting of increasing self-regulation to stock market participants [15].

The EU's largest stock market is Euronext, a union of Brussels (Belgium), Paris (France), Amsterdam (Netherlands), Portuguese and Irish stock exchanges headquartered in Paris. By the beginning of 2020, more than 80% of the income from European stock exchanges falls on Euronext and the London Stock Exchange (LSE). However, the UK's exit from the EU (Brexit) on 31 January 2020 introduced significant changes in the structure of the EU stock market. Currently, the second place in the EU is occupied by the Frankfurt Stock Exchange, which is operated by Deutsche Borse (Germany). Accordingly, against the background of both Brexit and the crisis caused by the COVID-19 pandemic, in 2020 a significant decline in the EU stock market is expected [50].

Despite the UK's exit from the EU, its stock market is still one of the largest in Europe, and the process of formation and development of stock exchanges occurred during the period of its membership in the EU. Thus, the British stock market has a historical, organizational and ideological unity with the stock market of the EU and therefore also serves as a subject of analysis.

The main stock market in the United Kingdom is the London Stock Exchange (LSE), the official name of which is the International Stock Exchange of Great Britain and the Republic of Ireland. Like all other European exchanges, with the exception of the Stockholm Stock Exchange and Easdaq (European Association of Securities Dealers Automatic Quotation System), the Brussels-based stock market uses a computer trading system that consists of member firms – broker-dealer firms that buy and sell shares among themselves and for their clients. The London International Financial Futures Exchange (LIFFE), the second largest stock exchange in the United Kingdom, trades in financial futures and options trading [54].

The UK Stock Exchange has a structure based on the volume of investments of its clients. Small companies do not compete with large corporations, which helps to stimulate both small business and increase the amount of money that will be invested in securities, due to the dual structure of the stock market.



As already mentioned, after the UK left the EU, Germany ranked second in terms of stock market in the EU.

A characteristic feature of the German stock market is the significant influence on the stock market of monopoly banks that issue and place securities, operate on the secondary market and own large packages of securities. The specificity of the German bond market is the absolute predominance of bank bonds in the debt structure and a ridiculously small, albeit growing, share of bonds of industrial companies. German bond yields are generally the same as those of other European countries. This is one of the achievements and advantages of the creation of the Eurozone – the formation of a single capital market.

The exchange of securities on German stock exchanges can take place in electronic or traditional forms. When using the traditional form, market participants meet in person at the trading floor at a certain time to carry out transactions on their own account or with customers. There are 8 stock exchanges in Germany, which use the traditional system of trading platforms. The largest of these is the Frankfurt Stock Exchange (FWB). When using the electronic form, the exchange takes place with the help of an electronic exchange – a trading platform on which online entry, coordination and forwarding of sales orders, price determination, calculations, market surveillance and publication of relevant information. There are two electronic exchanges in the country: Eurex – for derivatives and Xetra – for the cash market [42].

Unlike a trading platform, which requires the physical presence of participants, electronic exchange can take place from anywhere. Thus, the advantages of the e–exchange are low costs, error–free settlement, quick response, flexible markets and access from anywhere in the world. A similar system of division into traditional and electronic forms is used in Ukraine, where the electronic exchange (PFTS Stock Exchange) increases the relative volume of its assets every year compared to the traditional (Ukrainian Exchange) [22].

The German securities market is a shining example of success and stability, which allows Ukraine to gain experience in reforming its own market.

Another feature of the European stock market is the existence of Euronext – a union of several national stock exchanges, which occupies a leading position in the market. Thus, the integration of securities legislation takes place not only at the global, union level, through regulations and directives, but also at a more local, specific level, through rules developed by Euronext for both the merger as a whole and for individual national markets.

Self-regulatory organizations play an important role in the securities market in all countries. We selected several countries for the comparative characteristics of foreign SROs, which we present in Table 3.1.

*Table 3.1*

**Comparative characteristics of SROs\***

<b>Country</b>	<b>Amount</b>	<b>Features / Example</b>
USA	Many	have broad powers to oversee the activities of professional market participants (National Association of Securities Dealers, stock exchanges, clearing corporations).
France	One	The Financial Markets Council is the only self-regulatory organization in France. It has the following main tasks: development of basic regulations governing this area; supervision of compliance with the rules of securities trading, market, application of sanctions for illegal actions and bringing the perpetrators to justice
Japan	Many	Japan Securities Dealers Association, Investment Trust Association, Bond Underwriters Association. In order to participate in securities trading, JASD membership is an important condition, the main tasks of JASD are: establishing rules and regulations for joint stock companies, as well as monitoring compliance, reviewing complaints by members of the association, studying the securities market, etc.
Germany	None	In German law, the concept of SRO does not exist at all, and professional activities with securities are entrusted exclusively to banking institutions.

*\* Formed by the author based on sources [6, 49]*

If we consider such countries as the United States, Japan, Great Britain, the state does not participate much in the regulation of market securities, and, accordingly, self-regulatory organizations have a place to be.

It should also be noted that in the United States there is a regulatory body – the Securities and Exchange Commission (SEC), which develops and monitors the implementation of laws relating to the stock market. Other regulators perform functions related to protecting investors from financial losses. First of all, it is to ensure the registration of all subjects of the securities market (candidates must have a minimum equity), as well as to provide participants with complete accurate information [49].

If we talk about Ukraine, we believe that it is necessary to strengthen the transfer of powers of state bodies to self-regulatory organizations in the stock market. In turn, this will create a single legal framework for each type of professional activity in the market, which will contribute to its stability and security of work there for professional participants, as well as for, and strengthen control over financial institutions of the state. Stock market with regulatory requirements, unified rules and standards.

The depository system plays an exceptionally special role in the securities market. Foreign experience shows that this is not possible without the presence of a central depository at the local level within each state, which would act as a guarantor of efficient, reliable and timely settlement of securities transactions.

To compare the existing world practice, consider the ownership structure of central depositories in the EU, which is quite diverse. Experts identify a high degree of fragmentation of the EU's clearing and regulation infrastructure.

For example, there are 19 central depositories and international central depositories in the EU, which provide different types of services and have different management structures. Thus, in some EU Member States, clearing houses operate independently of central depositories, while others clearing and settlement associations are merged into a single organization.



In Table 3.2, we present the characteristics of the studied central depositories of European countries

*Table 3.2*

**Comparative characteristics of some central depositories operating in EU countries\***

<b>Country</b>	<b>Name</b>	<b>Features / Ownership structure</b>
Great Britain	Euroclear UK & Ireland Limited	Euroclear SA / NV is a subsidiary of Euroclear Plc, whose shareholders are participants (86.9%) and Sicovam Holding SA (13.1%)
France	Euroclear France	Euroclear SA / NV is a subsidiary of Euroclear Plc, whose shareholders are participants (86.9%) and Sicovam Holding SA (13.1%)
Germany	Clearstream Banking Frankfurt (CBF)	Deutsche Borse (100 %)
Hungary	KELER	Central Bank (53%), Budapest Stock Exchange (46.7%)
Poland	KDPW SA	State Treasury (33% of shares), Warsaw Stock Exchange (33%), National Bank of Poland (33%)

*\* Formed by the author based on sources [25]*

In Germany, the activities of depositories are under close scrutiny by regulators. Issuers' securities are settled through the CBF's Central Depository Clearstream Banking (CBF), as the central depository clears and settles for all types of securities traded on the stock exchange and over the counter in Germany.

Holders of accounts of the Central Depository of Germany can only be professional participants in the stock market: investment companies, credit institutions, brokers, i.e. entities that represent the interests of investors engaged in securities transactions on the stock exchange.

An important feature of the Polish depository system is the availability of only uncertificated securities in circulation. The key element is the country's

Depository System – the Central Securities Depository of Poland, its main tasks are: registration and storage of securities, assignment of codes to securities, servicing of issuers and realization of rights to securities [25].

It should be noted that an important subject in the stock market are shares and their circulation. Thus, at the present stage there are a significant number of exchanges in the world, but there are historically recognized leaders in the world. Again, the most influential trade organizers are in the United Kingdom, the United States, China and Japan.

In fig. 3.1 presents the levels of capitalization of the world's largest exchanges.

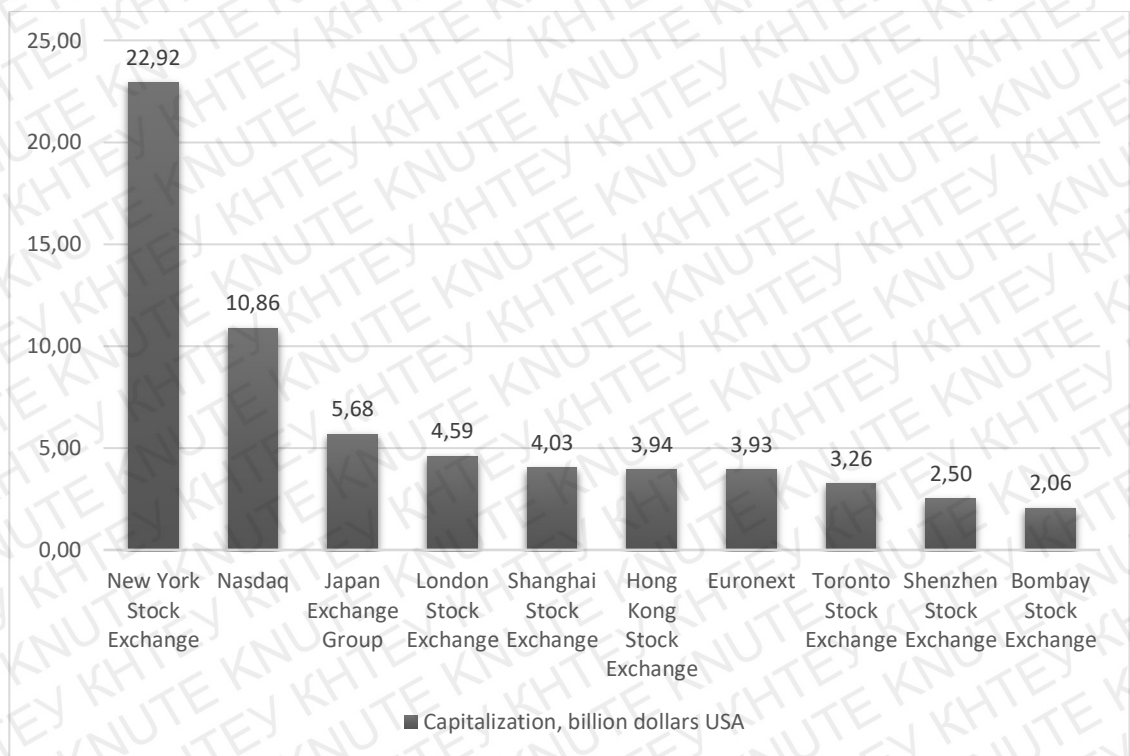


Figure 3.1. The largest exchanges in terms of capitalization in 2019, billion dollars USA\*

\* Formed by the author based on sources [11, 21]

As we see in Fig. 3.1, the largest and most well-known stock exchange is the New York Stock Exchange (NYSE). The market capitalization of the NYSE at the end of 2019 amounted to \$ 22.92 billion – almost 40% of the total value of shares in the stock market. More than 2,400 companies from various sectors are registered here: for example, finance, healthcare, consumer goods and energy. The

Dow Jones index is most commonly used to track the value of the NYSE, but some corporations are also included in the NASDAQ index.

At the end of 2019, the market capitalization of NASDAQ reached \$ 10.86 billion, making it the second largest after the NYSE. However, most of all existing technological operations are traded here. The leading NASDAQ corporations include Apple (APPL), Microsoft (MSFT), Facebook (FB) and Tesla (TSLA). The index used to measure its effectiveness is called the NASDAQ 100.

The market capitalization of the LSE at the end of 2019 was \$ 4.59 billion. Traders can track its dynamics using the FTSE 100 index, published by the Financial Times. You can also use other indexes to track dynamics, including FTSE 250, FTSE Small Cap, and FTSE All–Share [24].

Over the last three to four years, many financial market regulations have emerged that revolve around different types of contracts (such as the Qualified Financial Contracts rule, the QFC balance rule, the IM rule, LIBOR, the EU General Data Protection Regulation and the California Privacy Act. consumers (CCPA)). This has created an urgent need for organizations to digitize and process their contracts (in addition to measuring, monitoring, and understanding the breadth and depth of their contracts).

One of the most important requirements for transformation is the need to address regulatory issues and avoid the wrong steps to comply with the capital market. The US Securities and Exchange Commission (SEC), the Financial Regulators Authority (FINRA) and the US Commodity Futures Trading Commission (CFTC) have established technology innovation–focused offices to better understand, adapt and regulate new technologies. financial services industry. As firms think about technological changes in their infrastructure, it is important for them to consider their current and expected regulatory and compliance commitments.

On June 5, 2019, the US Securities and Exchange Commission (SEC) adopted new rules on financial markets governing the conduct of broker–dealers and related parties, including the manner in which securities are provided and other



advice to retail clients. Reg BI imposes principles-based standards on broker dealers and requires the broker dealer to act in the interests of its retail clients in making such recommendations. To meet these best interests standard, broker-dealers must, among other things, meet a number of requirements and specific obligations related to disclosure, standard of care, conflict of interest, and compliance [8].

As of July 12, 2020, notable SEC rules that are in the Proposed Rule phase include amendments to various disclosure requirements, including those related to the issuer's business description, litigation and risk factors, as well as those related to the discussion of financial issues the results contained in the discussion and analysis of the management of securities offering documents and periodic submissions. In addition, the SEC is expected to adopt significant changes to the regulatory framework governing exempt (or unregistered) bids [4].

Also, one of the key areas of world experience is the international investment performance standards GIPS (The Global Investment Performance Standards) – these are the standards of data organization and reporting on the results of investment activities. World practice has long proved the need to create uniform rules for the preparation and presentation of reports on investment results, but the path to the development and recognition of a globally acceptable option has not been easy. The first official version of GIPS was approved by the European Investment Performance Committee (EIPC) only in 1999, and the most recent version of GIPS was adopted in February 2005. Currently, national standards for investment performance based on GIPS have been adopted in 25 countries [39].

Based on the above, we can conclude that the global stock market is gradually becoming a global resource of capital, accompanied by harmonization of national laws of the world, bringing them to common international standards, standardization of market operators and financial instruments. Ukraine needs to adapt to new international standards, challenges and trends in this area. This is what the domestic legislative policy should be aimed at.

In our opinion, the creation of a strong integrated pan-European Ukrainian stock market, harmonization of domestic legislation with EU standards in the field of legal regulation of stock markets, its integration into the single economic and European space will increase the competitiveness of the state in investing in international capital markets. to create a developed and powerful securities market. The study can serve as a basis for further research on the approximation of Ukrainian legislation to EU standards in the field of securities circulation and the functioning of stock markets.

In addition, given the potential of technology in the modern world, Ukraine also considers the technology of exchange trading and the development of e-commerce, which allows trading more often and makes them much more convenient, which, in turn, stimulates investor interest. It is also correct to conclude that the legislative deregulation of exchange activity in the EU and the United Kingdom has significantly improved the state of the financial market in these regions. Giving more freedom of regulation to stock exchanges and their associations, such as Euronext, makes the system of stock exchange regulation more efficient and flexible, able to adapt to changes in the stock market faster than would be the case under legislation. The implementation of such an approach in Ukraine can have a positive impact on the development of the Ukrainian economy.

In view of the above, it can be argued that there are a number of issues that can be adapted to the domestic realities of the stock market, to ensure its effective functioning.

### **3.2. Propositions for the development of the stock market of Ukraine**

Given the above, we can conclude that the Ukrainian stock market is underdeveloped, provides limited investment needs of companies in the real sector of the economy, is speculative in nature due to the high share of unlisted securities and therefore practically does not facilitate the movement of capital to competitive enterprises and industries. These circumstances significantly complicate the

integration of the domestic stock market into the European and global financial space.

Table 3.3 shows the main problems of the stock market of Ukraine, as well as the main measures to improve, strengthen and stabilize the Ukrainian stock market:

*Table 3.3*

**Problems of the stock market of Ukraine and proposed measures to solve them\***

<b>Problems</b>	<b>Propositions</b>
1) the presence of the shadow economy, which circulates a significant amount of resources withdrawn from circulation in the official financial market;	1) stabilization of the legal framework, creation of an appropriate system of protection of the rights of investors, owners of securities;
2) lack of full transparency and openness of the stock market macroeconomic instability and non-diversification of the economy, which does not allow to form a class of fundamental (or passive) long-term investors;	2) improving the quality of professional activity and increasing the level of competence of specialists in the securities market, acquainting them with the world experience of stock market organization through international exchange and internships;
3) limited number of liquid and investment-attractive financial instruments (for example, most shares of Ukrainian issuers are too risky for investors);	3) ensuring the development of liquidity of the organized market primarily through the consolidation and growth of the share of the organized market;
4) low liquidity and stock market capitalization;	4) unification of securities accounting, centralization of the depository system and its integration into the international securities market;
5) the underdeveloped stock market does not encourage new companies to raise the capital they need by publicly placing shares	5) introduction of an effective system of financial responsibility for violators, professional participants in the securities market;



*Continuation of Table 3.3*

6) imperfect Ukrainian judicial system, which does not protect the property rights of small investors (shareholders);	6) creation of a universal national stock exchange, which will operate on the principles of regulated EU markets and will be able to integrate into the global financial space;
7) insufficient level of financial literacy of the population and other problems;	7) development of an effective system of state regulation of capital markets in order to monitor compliance with legislation, fraud prevention, etc.;
8) underdevelopment and disproportion in the structure of the stock market;	8) increasing the transparency of stock market operations and information of the issuer on its financial condition and performance in accordance with the requirements of the International Organization of Securities Commissions and European Union Directives.
9) repressive regulation of infrastructure, investors and issuers.	

*\* Formed by the author based on sources [15, 16, 42]*

To our opinion, it is advisable to group the development of the stock market in such areas of government regulation as increasing the capitalization and liquidity of the stock market; improving mechanisms for protecting investors' rights; improvement of market infrastructure; development of self-regulatory institutions, ensuring their reliable and effective functioning; improving the conditions and rules of state regulation and supervision of the stock market.

Regulators should additionally monitor a number of indicators of such transactions that indicate an increase in the level of transparency of the stock market, including liquidity transactions, the cost of placement, the ratio of placement costs and borrowed financial resources. The state should also sometimes control the amount of funds raised under IPO programs, especially when it comes to placing a large package of securities of strategically important for Ukraine business entity.

In fig. 3.2 presents our proposed set of reform measures, which should be aimed at overcoming the existing problems of development of the domestic stock market and ensuring its effective functioning.

Reform measures proposed for implementation:

- 1) stimulating the activity of individuals in the stock market through the development of Internet trading, simplification of the procedure for participation in trading of both residents and non-residents, as well as the use of tax incentives that would be applied to income in the form of dividends on ordinary shares;
- 2) introduction of the newest financial instruments for increase of liquidity of the stock market which are characterized by investment attractiveness and higher reliability in comparison with traditional;
- 3) reforming the system of state regulation of the market, especially its normative part, for more balanced and transparent decisions by state institutions, in particular the NSSMC, which will guarantee predictability of state actions for foreign investors, as well as introduction of European principles and standards of market participants supervision;
- 4) stimulating the process of merging stock exchanges and developing market infrastructure in accordance with the Comprehensive Program for the Development of the Financial Sector of Ukraine until 2025 and EU directives provided by the Association Agreement as a condition for ensuring reliable accounting of securities ownership through improving the communication system between the central depository, other market participants and operators, dissemination of international standards for clearing and settlement, etc.;
- 5) increase and use of investment potential of the stock market in the direction of not only increasing financial inclusion, business activity and raising money (quantitative growth), but also improving the financial culture, professionalism of participants and financial literacy of households (qualitative growth).

Fig. 3.2. Proposed measures to reform the stock market development\*

\* *Formed by the author based on sources [15, 16, 42]*

In our opinion, the proposed measures should be implemented on the basis of a systematic approach in order to comprehensively interact with the elements of the mechanism of state regulation and self-regulation of the stock market. This will create a basis for the creation of a favorable environment in order to intensify its development and successful integration into the global financial space, will

overcome the challenges and threats facing Ukraine, and increase the level of financial security of the state. Transformation of the domestic stock market into a liquid and competitive segment of the financial market is possible only in the case of consistent implementation of current and strategic objectives, which should be reflected in radical changes in legislation, ethics of senior management in the state and corporations, based on European traditions and norms.

Thus, the creation of a strong integrated pan-European Ukrainian stock market, harmonization of domestic legislation with EU standards in the field of legal regulation of stock markets, its integration into the single economic and European space will increase the competitiveness of the state in investing in international capital markets. to create a developed and powerful securities market.

The study can serve as a basis for further research on the approximation of Ukrainian legislation to EU standards in the field of securities circulation and the functioning of stock markets.



## CONCLUSIONS AND RECOMMENDATIONS

The global stock market is gradually becoming a global resource of capital, accompanied by harmonization of national laws of the world, bringing them to common international standards, standardization of market operators and financial instruments. Ukraine needs to adapt to new international standards, challenges and trends in this area. This is what the domestic legislative policy should be aimed at.

In our work we studied the state of the modern stock market of Ukraine, features of regulation and compliance with international standards.

During the study, we analyzed the activities of the stock market during 2017–2020, based on the obtained indicators identified the features of the functioning and problems. We also researched the issues of market infrastructure, peculiarities of its regulation, and based on the experience of foreign countries and the results we formulated proposals for improving and developing the stock market of Ukraine in the context of international requirements and standards.

Based on the results of research conducted in this work, the following conclusions can be drawn.

- 1) There are several approaches to defining the essence of the stock market of Ukraine, according to the works of scientists who have studied this issue. But under the Law of Ukraine «On Securities and Stock Market», Stock Market (Securities Market) – a set of stock market participants and legal relations between them on the placement, circulation and accounting of securities and derivatives (derivatives).
- 2) It should be noted that the Law of Ukraine of 30.10.1995 № 448/96–VR «On state regulation of the securities market in Ukraine» laid down the legal basis for state regulation of the securities market and state control over the issuance and circulation of securities and their derivatives in Ukraine.
- 3) Unfortunately, over the years of its formation, the Ukrainian stock market has not become an effective investment mechanism. It is obvious that the

state must develop strategic measures for the development of the domestic stock market. However, it should be borne in mind that state intervention should not be total, so as not to restrict the freedom of entities. Measures and the degree of state influence on the stock market must be rational and scientifically sound.

- 4) Analyzing the structure of securities issuance in Ukraine for 2015–2019, it should also be noted that today the stock market provides the movement of capital through the circulation of various types of securities and their derivatives. It is through the mechanisms of the stock market that the supply and demand for investment resources are formed, their accumulation and redistribution take place with the aim of economic growth. Indicators of the current state of the national stock market have shown disappointing results, and in general, it has the potential to develop, despite the low percentage of shares in circulation.
- 5) Despite the analytical performance, the legal framework of the stock market of Ukraine is rapidly modernizing. The NSSMC is actively implementing measures to implement the requirements of EU directives to ensure that the Ukrainian stock market meets the world market.
- 6) The global stock market is gradually becoming a global resource of capital, accompanied by harmonization of national laws of the world, bringing them to common international standards, standardization of market operators and financial instruments. Ukraine needs to adapt to new international standards, challenges and trends in this area. This is what the domestic legislative policy should be aimed at.
- 7) Giving more freedom of regulation to stock exchanges and their associations, such as Euronext, makes the system of stock exchange regulation more efficient and flexible, able to adapt to changes in the stock market faster than would be the case under legislation.

- 8) In view of the above, it can be argued that there are a number of issues that can be adapted to the domestic realities of the stock market, to ensure its effective functioning.

In order to eliminate the shortcomings and problems of the stock market of Ukraine identified during the study, we have developed a number of proposals for their elimination and bringing the stock market to a new level in accordance with international trends:

- 1) stimulating the activity of individuals in the stock market through the development of Internet trading, simplification of the procedure for participation in trading of both residents and non-residents, as well as the use of tax incentives that would be applied to income in the form of dividends on ordinary shares;
- 2) introduction of the newest financial instruments for increase of liquidity of the stock market which are characterized by investment attractiveness and higher reliability in comparison with traditional;
- 3) reforming the system of state regulation of the market, especially its normative part, for more balanced and transparent decisions by state institutions, in particular the NSSMC, which will guarantee predictability of state actions for foreign investors, as well as introduction of European principles and standards of market participants supervision;
- 4) stimulating the process of merging stock exchanges and developing market infrastructure in accordance with the Comprehensive Program for the Development of the Financial Sector of Ukraine until 2025 and EU directives provided by the Association Agreement as a condition for ensuring reliable accounting of securities ownership through improving the communication system between the central depository, other market participants and operators, dissemination of international standards for clearing and settlement, etc.;
- 5) increase and use of investment potential of the stock market in the direction of not only increasing financial inclusion, business activity and



raising money (quantitative growth), but also improving the financial culture, professionalism of participants and financial literacy of households (qualitative growth).

Proposed measures should be implemented on the basis of a systematic approach in order to comprehensively interact with the elements of the mechanism of state regulation and self-regulation of the stock market. This will create a basis for the creation of a favorable environment in order to intensify its development and successful integration into the global financial space, will overcome the challenges and threats facing Ukraine, and increase the level of financial security of the state. Transformation of the domestic stock market into a liquid and competitive segment of the financial market is possible only in the case of consistent implementation of current and strategic objectives, which should be reflected in radical changes in legislation, ethics of senior management in the state and corporations, based on European traditions and norms. rights.

Thus, the creation of a strong integrated pan-European Ukrainian stock market, harmonization of domestic legislation with EU standards in the field of legal regulation of stock markets, its integration into the single economic and European space will increase the competitiveness of the state in investing in international capital markets, to create a developed and powerful securities market.

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# APPENDICES

## Appendix A

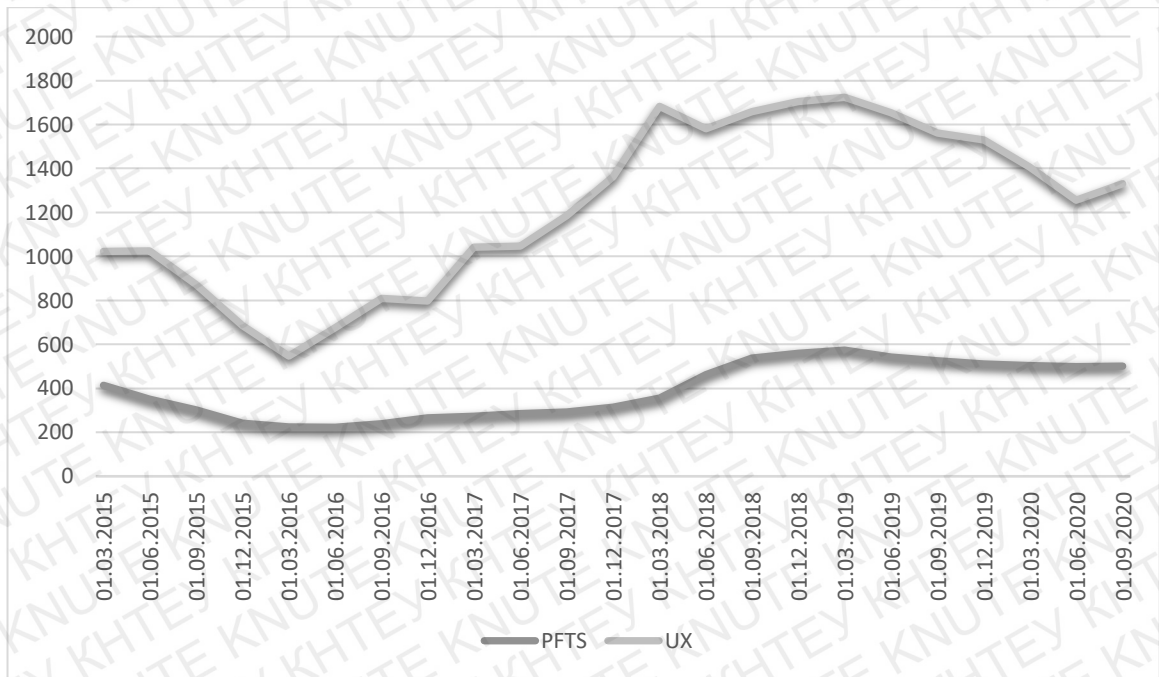


Fig. A.1. Dynamics of domestic stock indices 2015-2020, UAH\*

\* Formed by the author based on source [51, 52]

Table B.1

**Volumes of trades by trade organizers during 2015-2019, UAH million\***

Trade organizer	2015		2016		2017		2018		2019	
	million UAH	specific weight, %	million UAH	specific weight, %	million UAH	specific weight, %	million UAH	specific weight, %	million UAH	specific weight, %
Perspective	220 332,17	76,98%	136 057,62	57,80%	127410,01	61,91%	127 325,00	48,81%	186 363,23	61,11%
PSTS	53 181,80	18,58%	93 719,20	39,81%	64337,74	31,26%	112 518,17	43,13%	114 757,95	37,63%
UE	6 692,36	2,34%	3 531,20	1,50%	13412,22	6,52%	20 987,86	8,05%	3 840,18	1,25%
KISE	3 565,31	1,25%	1 743,32	0,74%	81,75	0,04%	-	-	-	-
Universal	591,29	0,21%	252,09	0,11%	399,2	0,19%	-	-	-	-
EESE	1 413,39	0,49%	59,09	0,03%	-	-	-	-	-	-
UICE	118,67	0,04%	21,71	0,01%	-	-	34,95	0,01%	4,36	0,01%
USE	301,98	0,11%	18,93	0,01%	1,16	0,00%	-	-	-	-
INNEX	5,09	0,00%	1,98	0,00%	145,43	0,07%	0,49	0,00%	-	-
UFSE	5,94	0,00%	-	-	-	-	-	-	-	-
Total	286 208,00	1	235 405,14	1	205 787,51	1	260 866,47	1	304 965,73	1

\* Formed by the author based on source [2]



Table C.1

**Volume of exchange contracts with securities on trade organizers (with distribution by type of financial instrument) in 2019, UAH million\***

Trade organizer	Shares	Shares of a foreign issuer	Enterprise bonds	Government bonds of Ukraine	Domestic local bonds	Foreign government bonds	Investment certificates	Derivatives	Total
Perspective	254,13	22,31	5 509,54	108 590,73	5,41	44,16	331,65	0,00	114 757,94
PSTS	0,86	0,00	554,50	185 602,69	0,00	0,00	0,01	205,18	186 363,23
UE	82,81	3,37	2 697,81	1 056,04	0,00	0,00	0,14	0,00	3 840,18
UICE	0,00	0,00	0,00	0,00	0,00	0,00	0,00	4,36	4,36
Total	337,80	25,68	8 761,87	295 249,47	5,41	44,16	331,81	209,54	304 965,73

\* Formed by the author based on source [2]

Table D.1

**Directions of transformation of stock market elements in the conditions of digitalization\***

<b>The main components of the structure of the stock market</b>	<b>Elements of the "classic" model</b>	<b>Elements of the "digital" model</b>
Financial intermediaries	Brokers Dealers	FinTech High frequency trading Hedge funds
Organizations that provide agreements	Stock Exchange OTC trading systems	FinTech Blockchain
Organizations that ensure the implementation of agreements	Registrars Depositories Settlement and clearing organizations	FinTech Payment services of IT platforms
Financial instruments	Equity securities Debt securities Derivative securities	Sophisticated options Multi-level securitization Bitcoin derivatives Digital tokens
Financial services	Investment Analytics	Investing, brokerage services through FinTech Digital lending Equity-based crowdfunding Robotic asset management

\* Formed by the author based on source [17]

Table E.1

**Comparative analysis of American and European stock market models\***

<b>Criteria</b>	<b>American model</b>	<b>European model</b>
Ability to combine professional activities in the securities market	Banking institutions are not allowed to carry out investment activities, but only classic banking operations. There is a restriction on the combination of professional activity in the securities market.	Banks are allowed to combine ordinary banking operations with operations in the securities market. Securities market participants can combine several types of professional activities.
The role of banks in the securities market	Provision of services exclusively for securities storage.	Provides a full range of operations, both investment and storage.
Type of securities accounting system	Separate system.	Centralized legislative system.
Availability and role of registrars	System registrars are at the first institutional level.	There are no registrars.
Degree of state regulation	Hard adjustment.	Loyal system of supervision and control.
The role of nominal owners	Division of rights to securities between the owner and the nominal holder.	Separation is prohibited. The owner is indicated in the register.

\* Formed by the author based on source [7]



**KYIV NATIONAL UNIVERSITY OF TRADE AND ECONOMICS  
BANKING DEPARTMENT**



**PRESENTATION TO THE FINAL QUALIFICATION WORK  
ON THE TOPIC:**

# **DEVELOPMENT OF THE STOCK MARKET IN THE CONTEXT OF THE FINANCIAL GLOBAL TRENDS**

Student of the 2<sup>nd</sup> year, group 5am,  
specialty 072 «Finance, banking and insurance»  
specialization «Financial intermediation»

**Mishyna Anhelina**

Scientific adviser  
PhD in Economics,  
Associate Professor

**Zhurakhovska L.V.**

Fig. F.1.1 Presentation for the defense, Slide 1

## Relevance of research



- Personally, it is not the first time that I am interested in researching the functioning of the stock market, which is why, understanding the existing problem of the stock market of Ukraine, it was decided to conduct research.
- Indicators of the stock market at the present stage indicate that it is not performing its functions effectively. Therefore, the study of the stock market of Ukraine is a really relevant topic.

### The purpose of paper.

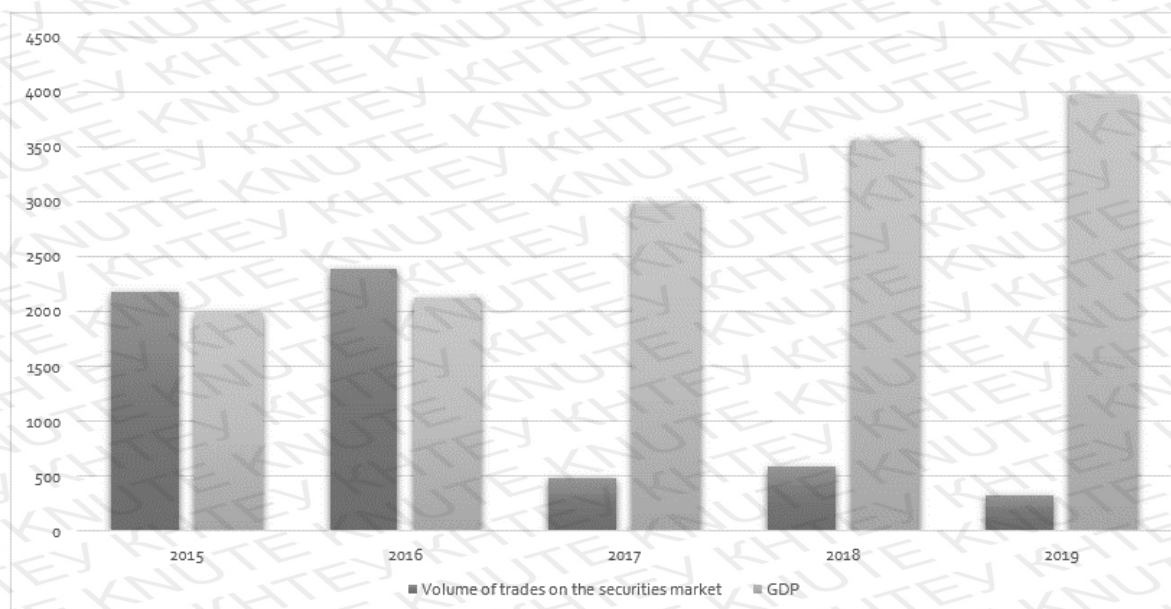
- Disclosure of theoretical principles, study of the current state and development of proposals for the development of the stock market in Ukraine in accordance with financial trends, development of proposals for improving these aspects.

### We have identified the following tasks:

- Investigate the theoretical foundations of stock market development;
- Investigate the peculiarities of the functioning of the national stock market, assess the current state of the stock market and identify problems and shortcomings;
- Analyze the experience of foreign countries in the field of stock markets;
- Carry out an analysis of state regulation in the securities market;
- Develop proposals for improving the stock market.

Fig. F.1.2 Presentation for the defense, Slide 2

## Ukrainian stock market analysis



As well as according to the annual report of the NSSMC in 2019 compared to 2018 there was a decrease in trading on the securities market by 43% – up to 258.18 billion UAH.

This reduction in trading can also be attributed to the introduction of several pieces of legislation aimed at improving regulation and transparency in the securities market, thus eliminating some unscrupulous stock market participants

Comparative data on trading volumes on the securities market and GDP, UAH billion, in 2015–2019

Fig. F.1.3 Presentation for the defense, Slide 3



# Ukrainian stock market analysis

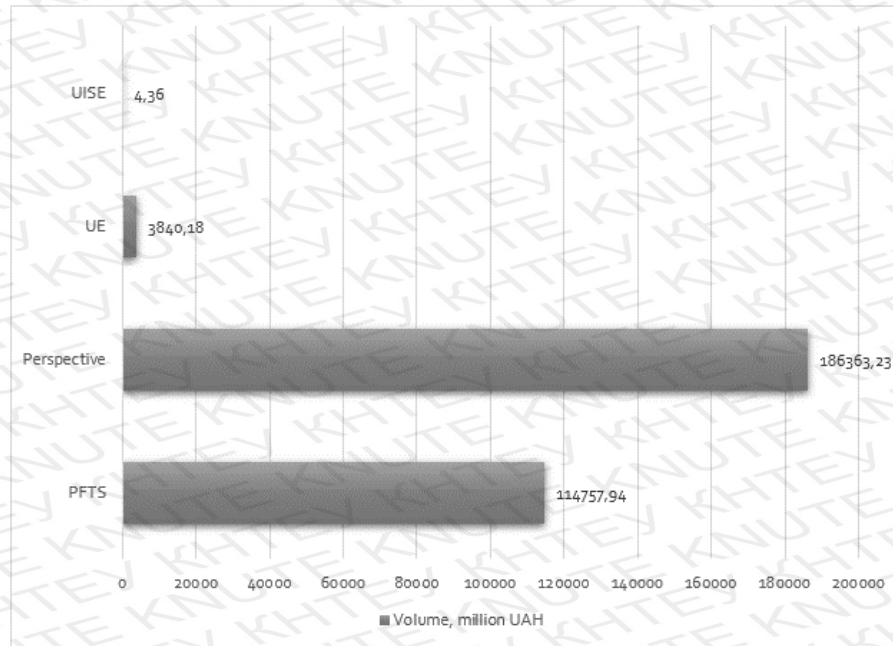


Fig. Total volume of exchange contracts with trade organizers in 2019, UAH million

During 2019 on the stock market there was a consolidation of securities trading. Only two stock exchanges – «PFTS» and «Perspective», were marked by significant trading volumes – more than 98% of the value of exchange contracts.

According to the results of 2019, there is a continuation of the redistribution of trading volumes between trade organizers, due to a decrease in the number of participants and the volume of trades.

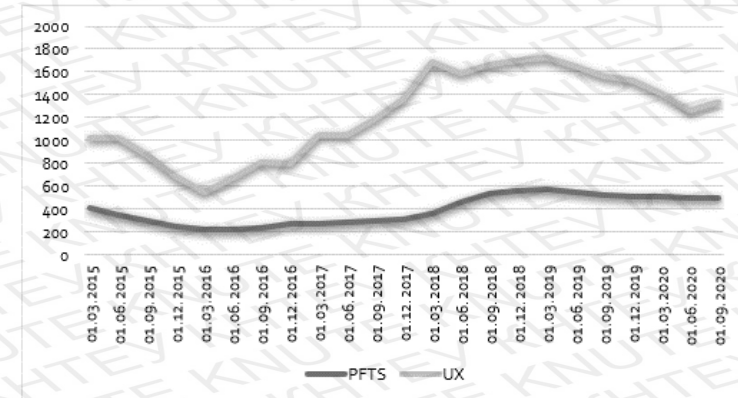


Fig. Dynamics of domestic stock indices 2015-2020, UAH

## Regulation of Ukrainian stock market

**Dynamics of the number of entities that have licenses to conduct professional activities in the stock market 2016–2019**

Professional participants	2016	Change, %	2017	Change, %	2018	Change, %	2019	Change, %
Securities traders	302	-18,20%	270	-10,60%	242	-10,40%	221	-8,68%
Depository institutions	232	-9,00%	210	-9,50%	198	-5,70%	186	-6,06%
Asset management companies	300	-6,30%	299	-0,30%	299	0,00%	297	-0,67%
Persons conducting clearing activities	1	0,00%	1	0,00%	1	0,00%	1	0,00%
Stock exchanges	8	-20,00%	5	-37,50%	5	0,00%	4	-20,00%

As of December 31, 2019, the number of entities that have licenses to conduct professional activities in the stock market (securities market) was 70. Their number is gradually decreasing, which is primarily due to increased requirements regulator to professional participants.

Fig. F.1.5 Presentation for the defense, Slide 5

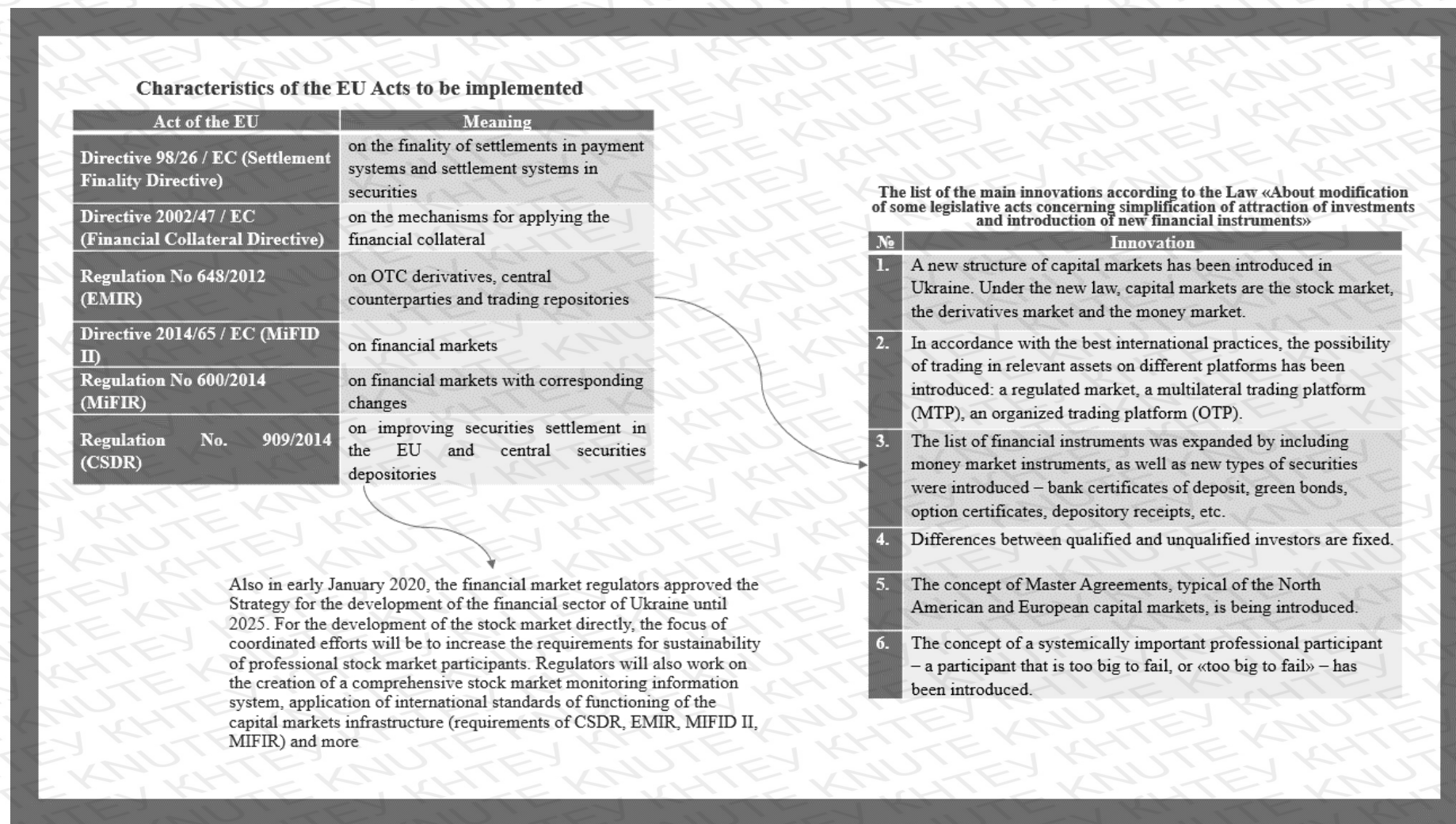


Fig. F.1.6 Presentation for the defense, Slide 6



# Conclusions and propositions

## Therefore, during our research we identified the following problems:

Lack of full transparency and openness of the stock market macroeconomic instability and non-diversification of the economy, which does not allow to form a class of fundamental (or passive) long-term investors

low liquidity and stock market capitalization

the presence of the shadow economy, which circulates a significant amount of resources withdrawn from circulation in the official financial market

the underdeveloped stock market does not encourage new companies to raise the capital they need by publicly placing shares

imperfect Ukrainian judicial system, which does not protect the property rights of small investors (shareholders);

## Developed propositions based on the results of the study:

1 Stimulating the activity of individuals in the stock market through the development of Internet trading, simplification of the procedure for participation in trading of both residents and non-residents, as well as the use of tax incentives that would be applied to income in the form of dividends on ordinary shares

2 Introduction of the newest financial instruments for increase of liquidity of the stock market which are characterized by investment attractiveness and higher reliability in comparison with traditional

3 Reforming the system of state regulation of the market, especially its normative part, for more balanced and transparent decisions by state institutions, the NSSMC, which will guarantee predictability of state actions for foreign investors, as well as introduction of European principles and standards of market participants supervision

4 Creation of a universal national stock exchange, which will operate on the principles of regulated EU markets and will be able to integrate into the global financial space

5 Improving the quality of professional activity and increasing the level of competence of specialists in the securities market, acquainting them with the world experience of stock market organization through international exchange and internships

Fig. F.1.7 Presentation for the defense, Slide 7

**THANK YOU!**

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Fig. F.1.8 Presentation for the defense, Slide 8