

# FORMATION OF THE MECHANISM OF DEVELOPMENT OF JOINT INVESTMENT INSTITUTIONS AND VENTURE BUSINESS IN UKRAINE

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Creation of appropriate conditions for activities of investment funds will make it possible for Ukraine to have an effective mechanism represented by such funds to develop the market of securities, which play a significant role in intersectoral redistribution of capital, enhance the stock market stability, stimulate both the domestic and foreign investments, promote expansion of the governmental opportunities as for domestic borrowings. A positive role of the joint investment institutions in macroeconomic terms is confirmed by the preferential nature of taxation of investment funds, which is peculiar to the national law of overwhelming majority of countries.

In addition to the aforesaid results of joint investment in Ukraine, which are positive for the economy, there are several more. The joint investment institutions mean an efficient tool for accumulating significant capitals, circulation of which ensures a harmonious development of the national economy. The joint investment funds are not directly involved in production. However, as it is known, the production and financial market are the elements of one and the same system. Development of the manufacturing sector causes a revival in the stock market, and vice versa, an efficient capital market stimulates development of the economy as a whole. The joint investment institutions are the tool that can make the public savings work for the benefit of the country and its nationals.

The inflow of money into the area of joint investment will not relieve the state of the problems connected with the budget deficiency or necessity to raise foreign loans, but it will expand the potential of domestic borrowings, whereas the joint investment institutions are the major buyers of governmental debts worldwide.

Development of the joint investment industry is one of the indirect incentives for development of the stock market; in particular it is a prerequisite for raising capital to the national economy [1].

The Development Program of the National Securities and Stock Market Commission for 2020 as developed by the experts of the Change and Risk Management Committee determines and sets out in more detail the regulations of the National Program of Economic Reforms on the Securities Market, in particular, the draft laws "On Virtual Assets", "On Depository System of Ukraine" (as amended), "Improvement of Activities of Joint Investment Institutions in order to implement the EU Law".

The stock market development program is aimed at solving the following major tasks: increase of capitalization, liquidity and transparency of the securities market; improvement of the market infrastructure and provision of its reliability and efficient functioning; improvement of the mechanisms for state regulation, stock market supervision and protection of the investors' rights; tax and currency incentive for further development of the securities market.

A specific role in the document is given to the issues of educational activities as regards the mechanisms of the stock market's functioning and its benefits, as well as the new methods of interaction between the regulator and market participants and self-regulatory organizations.

One of the vital issues in development of the domestic stock market is to stimulate emergence of new financial instruments. This process, in particular, should be facilitated by the Law "On Joint Stock Companies", which provides for mandatory inclusion of shares of the public joint stock companies into the listing of trade organizers.

Moreover, it is necessary to promote development of the derivatives market. Introduction of trading by futures on trade index by one of the Ukrainian stock exchanges, which is a very attractive

financial instrument, can be treated as positive. At the same time it is necessary to promote development of the underlying assets market.

It is also essential to increase the amount of the existing financial instruments and to encourage issuers to issue them, which fact will stimulate development of investment activities.

An acute problem is improvement of the currency regulation mechanisms at the stock market, whereas an unbalanced currency policy is one of the factors hindering its development. The program contains a number of arrangements to improve the situation in the area. Without improving the currency regulation system, it will be impossible to integrate the Ukrainian capital market into the world market. Failing the above, the domestic issuers will not be able to sell their securities to foreign investors efficiently, and the domestic investors will not be able to buy foreign securities.

Development of the rating system is the key matter. The rating system's improvement will be based on the best world practices. It is planned to intensify supervision of the rating agencies, as well as the requirements as for disclosure of information about their activities and their clients.

It is planned to introduce incentives, in particular, the tax ones, for implementation of IPO (Initial Public Offering) by the Ukrainian companies, in the area of development of the organized securities market. Alongside, it is important to expand access to stock exchanges for individual investors. It is expedient for the exchange trade to be focused, as only a few exchanges carry out actual full-fledged activity in Ukraine. In particular, it is scheduled to increase the requirements for organizers of securities trading. Particular steps in this direction have been prescribed legislatively in a number of the recent instruments adopted by the Commission. However, this process will be effective provided that only appropriate changes are made to the law.

There is a considerable unrealized investment potential of individuals in Ukraine [2]. Development and improvement of the joint investment institutions can become one of the key mechanisms for mobilizing savings from public and for directing them to meet the investment needs of the economy.

The major legal instrument regulating activities of the joint and corporate investment funds in Ukraine is the Law of Ukraine "On Joint Investment Institutions" (hereinafter JII) [3]. Features of functioning of Law of Ukraine "On Joint Investment Institutions" in Ukraine are as follows:

- corporate investment funds are created as open joint-stock companies with an exceptional type of activity, and joint investment funds as a set of assets owned by investors under the joint partial ownership and do not have the status of a legal entity;

- depending on the term of redemption of securities, JII are divided into the closed, open and interval ones. The first two kinds have existed before. The interval fund, in contrast to others, for some time operates as a closed one, but on certain dates it practically fulfils the responsibilities of an open fund to meet the demands of the investors to repurchase securities JII from them;

- depending on the type of assets, where the money of JII is invested, the funds are divided into the diversified and non-diversified ones. The latter can invest in more risky assets, but they can also be more profitable. An example of a completely non-diversified JII is the venture fund, which is from the very beginning focused on investing into the non-market, high-risk, but potentially profitable and growth-enhancing assets.

As for the diversified JII, the law clearly defines their characteristics, as well as it introduces a direct prohibition for certain transactions of such funds. For example, it is prohibited for the diversified JII to hold more than 30.0% of the total value of assets in cash, on bank deposit accounts, in saving certificates and bonds issued by commercial banks, or to purchase the securities of one issuer for the amount exceeding 5.0% of the value of the assets. They are also permitted to hold not more than 25.0% of the total value of their assets in government securities, 20.0% of their assets in corporate bonds, and not more than 40.0% in shares. That is why the venture funds are currently extremely popular. However, the law prohibits them to accept money from individuals [4].

The law introduces the concept of JII asset management as a separate type of professional activity at the stock market to be licensed by the National Securities and Stock Market Commission (NSSMC) and strictly controlled by the state. The activity of the asset management companies is quite clearly regulated; openness of information is a prerequisite of their work. The law establishes a system of restrictions on the activity of the asset manager with the aim to protect the investor's money and to

prevent improper transactions. Furthermore, the contract with the asset management company is a fixed-term one (within 3 years) and it means an additional tool of the investor control. An asset management company may simultaneously manage the assets of several JII and bears the full property liability for damages caused by JII, their actions (omission) or actions of their officials. Creation of the reserve fund for JII, which shall be kept on a separate account, is a binding condition. In case JII are wound up, the money will be returned, in the first line, to the depositors. Avoidance of double taxation of the joint investment funds and of the income from the investment transactions of JII is ensured [5].

Development and standardization of the accounting and reporting system will promote to increase of the venture funds' efficient performance. It is essential to improve the training system. It seems necessary to increase the share of accountants specially trained in the area of asset management, to introduce the general standardization of JII reporting and to improve its quality, as well as to upgrade the information disclosure system.

In order to ensure formation of the venture JII portfolio with better assets, it is proposed:

- for the Ministry of Economy regularly to post information, on the official website of the Ministry, about the companies, which have been declared bankrupt, and about the companies, in respect of which the financial recovery procedure has been commenced;

- for the National Securities and Stock Market Commission regularly to publish information, on its website and on the website of the Ukrainian Association of Investment Business (UAIB), about the cancelled issues of the securities and about the securities, the circulation of which has been suspended;

- to prepare explanations of the Commission as for the types of assets that cannot be used to form the venture fund portfolio;

- it is proposed in the UAIB directorate to introduce a system of control over compliance<sup>0</sup> by the members of the Association with the current law and internal standards and regulations of UAIB. In particular, to determine a set of the arrangements that create a single system of control of SRO (self-regulatory organization), over activities of its members without interfering with their business, and to develop specific regulations, rules, standards for performance of the above tasks;

- to enhance the level of information to the public about activities of venture funds;

- to direct joint efforts for adoption of the laws regulating the stock market, in particular, the amended version of the Law of Ukraine "On Securities and Stock Market", Law of Ukraine "On Joint Stock Companies", amendments to the Law of Ukraine "On Joint Investment Institutions";

- to work out a partnership between the business and the state for development of the innovative component of the economy and assignment of money from venture funds to implementation of innovative projects.

Thus, the researches confirm that the joint investment institutions, in particular the asset management companies, corporate and joint funds, play an increasingly important role in the Ukrainian economy. In recent years, the actions by both the state and the financial market participants have contributed to development of the investment market. The current system of income taxation of the joint investment institutions promotes development of investment processes through such a mechanism. Joint investment acquires special interest in the period of technical re-equipment of companies, transition to energy-saving technologies.

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