

## ECONOMIC STRATEGIES FOR THE DEVELOPMENT OF SOCIETY

comments and suggestions of the subjects of the legislative initiative and submit it to the Verkhovna Rada of Ukraine in the second reading.

It is hoped that the deputies will reach an agreement and make the right decisions in adopting these bills.

The derivatives market is a young segment of the Ukrainian RCP, represented mainly by futures contracts, options and option certificates. It should be noted that in 2016 the volume of issuance of option certificates increased sharply compared to previous years. The volume of trades in option certificates compared to the total volume of trades in other market instruments is extremely meager, and is used only to meet the needs of the construction industry of Ukraine's economy. But, unfortunately, this type of instrument is the only one whose trading volume increased in 2016, as the volume of trading in other types of securities decreased so much that it reached a six-year low.

We offer the following ways to improve the regulatory regulation of the RCP:

- regulate the process of transferring RCP instruments serviced by the NBU to the competence of the Central Depository; to improve the work of the Central Depository in the direction of expanding its functions, in particular: updating and modernization of depository accounting; guarantees for securities transactions; creation of a single information database on the activities of securities issuers, etc. ;

- regulate the activities of rating agencies, as well as monitoring and control over the quality of rating construction; - to improve the legislation on taxation of financial transactions on the RCP, to regulate the process of circulation of derivatives on the RCP, as well as tax incentives for long-term investment in RCP instruments.

Effective regulatory and legal regulation of investment processes is the key to successful development and functioning of the securities market in Ukraine. The world's leading economists believe that Ukraine's investment market has significant potential for successful development, but emphasize the need to clearly harmonize relations between all stakeholders in the securities market, as well as the need to ensure proper judicial protection of all market participants.

### **9.2 The stock market: the entity and the definition**

The relevance of the study of the regulation of the national securities market is clearly increasing. It is the securities market that is able to ensure the efficient allocation of free financial resources to those industries that can use them most productively. Additional infusion of financial resources into the activities of enterprises will allow them to invest in the expansion of fixed assets, increase production capacity, access to international markets, intensification of research and innovation.

However, at present the securities market is not functioning effectively enough, which is due to a number of negative trends and phenomena. The level of public confidence in the securities market remains low due to the lack of transparency in the protection of shareholders, especially minority shareholders. In addition, the high volatility of the national currency leads to the fact that investing in the Ukrainian economy looks less promising in the eyes of investors than investing in the economies of foreign countries, such as Western Europe and North America. In addition, the domestic financial system is bank-centric, which means that banks account for the bulk of financial services. Most citizens are familiar with the functioning of commercial banks, but the number of private investors in the securities market remains small. Bank deposits have a high degree of protection, which is due to the state guarantee of a significant amount, which is placed on the deposit. Such a competitive advantage is not typical for the securities market, which reduces its potential to attract money.

However, the securities market is able to provide higher returns, as in this case there is the elimination of the intermediary, which aims to obtain a net profit from its activities. The bank attracts deposits from individuals and businesses, and then places them at higher interest rates, including margins. The development of the securities market will reduce this impact, which will reduce the cost of raising funds by enterprises and increase the profitability of investors. Thus, it is the stock market that can become a tool that will restore the country's economic development.

## ECONOMIC STRATEGIES FOR THE DEVELOPMENT OF SOCIETY

The stock market in developed countries is an important element of the country's financial system, as it allows companies to mobilize financial resources, individuals to more effectively accumulate their own funds compared to the deposit mechanisms of banks and more. In Ukraine, the securities market has not developed enough to effectively provide the real sector with financial resources. It is

essential for the authors to understand the technical aspects of securities market regulation, including to determine the essence of this concept, which will allow in future research to conduct a better analysis of the current state of affairs in this area.

The securities market, also called the stock market, acts as an important mechanism that ensures the efficiency of management and functioning of the economy of any country, wherever it is, but the level of efficiency will fluctuate [194]. The author gives a fairly general definition, and it identifies the securities market with the mechanism of redistribution of financial resources between different participants.

The securities market is the sphere of relations between the participants regarding the issue, circulation of securities, as well as their redemption. In the securities market there is a redistribution of financial resources between suppliers of these resources (investors) and consumers (issuers) based on the circulation of securities as a commodity. This mainly determines the functions of the market of valuables in the economy, pricing, the composition of market participants, regulation, etc. [196]. We believe that this definition is narrow, as the securities market involves a number of other entities, such as regulators, intermediaries, non-profit organizations, whose activities are aimed at ensuring uninterrupted trade between participants. Thus, the securities market or stock market is the area of relations between suppliers and consumers of financial resources, regulators, intermediaries, bidders, other parties to ensure the issuance, circulation and redemption of securities.

The concept of the securities market consists of two parts, namely the concept of the market and the concept of securities. Market means a place where there is interaction between buyers and sellers on the acquisition of certain tangible and intangible resources. In turn, a security is a document that confirms the existence of

## ECONOMIC STRATEGIES FOR THE DEVELOPMENT OF SOCIETY

property rights, such as receiving commission income, repayment of a liability or the right to part of the assets of the enterprise.

The main role of the stock market can not be identified unambiguously, as this market is very diverse and includes many elements, and its structure also includes two major markets: the capital market and the debt market [194]. The capital market is more focused on providing financial resources for a long period, for example, to finance various investment projects, the payback of which exceeds a year or more. In turn, the money market is more needed to cover cash gaps in the payment calendar, replenish working capital to ensure the smooth production and marketing activities of the enterprise, increase short-term resources for other financial purposes. Of course, the securities market in each of these cases will be different, so it can be argued that its impact on the economy is diverse.

A key factor in improving the efficiency of production and strengthening its innovation orientation in a developed economy is the ability of enterprises to flexibly use a variety of market tools and mechanisms in the process of financial support of their economic activities [198]. Providing a large number of tools to attract financial resources is one of the most important areas of influence of the stock market on the functioning of the domestic economy. On the other hand, high competition between different consumers of financial resources leads to the most attractive conditions for the placement of their free funds by their suppliers.

The main task of the securities market is to provide trade stock values to attract funds needed for enterprise development [201].

## ECONOMIC STRATEGIES FOR THE DEVELOPMENT OF SOCIETY

The easiest way to explain the impact of the securities market on the country's economy is to determine the functions that they perform (Fig. 1.1).

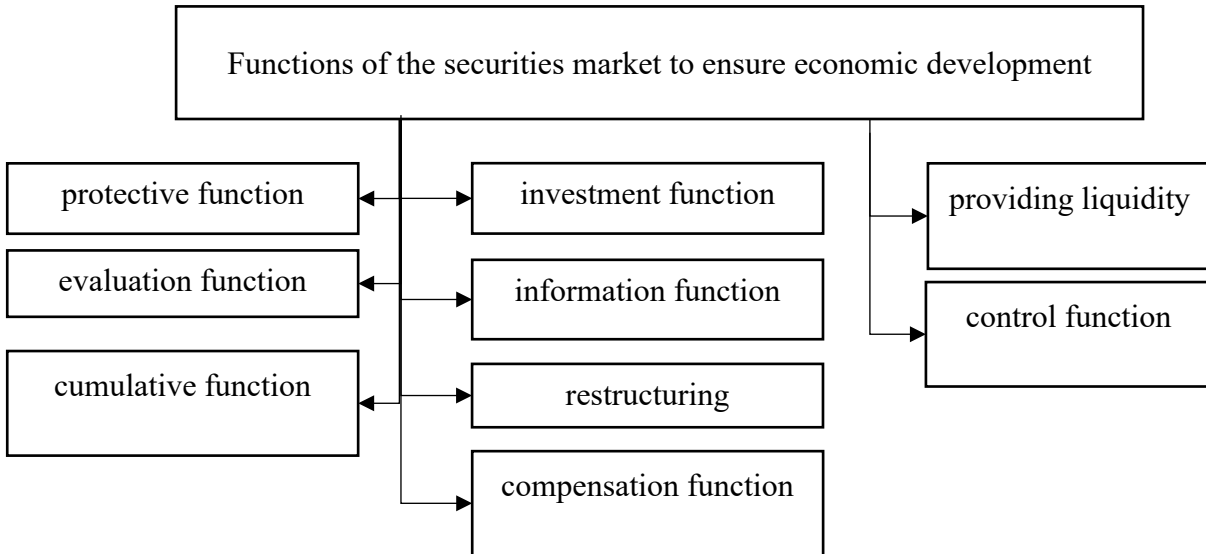


Fig. 1.1 Functions of the securities market to ensure economic development

Source: compiled by the author based on materials [195, 196, 197, 203]

Consider the presented functions of the securities market in more detail.

Investment function - the distribution of investment resources required for expanded reproduction [195]. The positive side of the securities market is that it allows you to redistribute investment resources from participants who use them inefficiently to those participants who use them most effectively in the current economic environment. For example, an individual who has received a salary and wishes to defer their funds will not be able to ensure the accumulation of these funds without the availability of appropriate financial instruments. On the other hand, the company will not be able to attract additional financial resources, and will have only the owners' funds, net profit, depreciation. The securities market allows you to connect these participants, which will increase the return on capital of an individual through the use of its funds by a profitable enterprise. Also, in the process of forming their investment portfolios, investors take on additional risk, which is associated with the possibility of non-repayment of their funds due to the bankruptcy of the enterprise. In this case, the purchase of a large number of shares and bonds of various economic entities will ensure

## ECONOMIC STRATEGIES FOR THE DEVELOPMENT OF SOCIETY

significant diversification of the portfolio, which will also minimize the level of financial risk of the market participant.

It is also important to increase the liquidity of liabilities, including government [195]. The securities market cannot function effectively without ensuring its high liquidity. Liquidity means that the owner of a security will be able to sell it quickly at the market price. Efficient market activity allows to attract a large number of potential suppliers of financial resources, which ultimately ensures stable trading and the presence of a large number of participants. On the scale of the economy, the high liquidity of the securities market allows to accelerate various financial transactions. If an investor has the opportunity to invest more effectively, he will be able to quickly sell his shares and bonds for further investment in alternative instruments. You should also pay attention to the evaluation function. In any market, the price of the product is formed, respectively, and the security receives its assessment [196]. It is not always possible to know the exact price of a particular asset. There are a large number of methods that are aimed at determining the value of enterprises. For example, this includes the cost approach, income approach and others. The results of the evaluation using these methods give different results. For the most accurate estimate, you can sell part of the asset in a competitive and unlimited market, which will determine the value of the rest of the asset. For example, if you issue 5% of the shares on the stock exchange, you can understand how the market evaluates the remaining 95% of the company. Throughout the economy, this leads to an increase in the quality of transactions of purchase and sale of assets, as it allows to obtain a realistic estimate of their value.

The information function is also important. All market participants have access to all necessary information related to market events, etc. [196]. Of course, it is impossible to ensure information asymmetry, but an effectively functioning market can minimize the negative impact of this well-known problem. Given the availability of quality regulatory support, different investors will have the same information about the current state of affairs of the company that issued the securities. In this context, the experience of the United States is especially valuable, where for providing information

## ECONOMIC STRATEGIES FOR THE DEVELOPMENT OF SOCIETY

to a journalist in a manner not prescribed by law, an official may be held liable for creating unequal conditions for investors.

The cumulative function of the securities market is performed during the formation of the authorized capital of a corporation through its placement on the primary market of its shares [199].

Restructuring of the country's economy is through the stock market, as in the absence of investment, production development slows down [203]. As mentioned, the stock market provides a redistribution of resources from less efficient enterprises to more efficient ones, which provides restructuring of the entire economy and increasing the role of the most efficient industries.

The market is also able to perform the function of control: its various quantitative indicators reflect the reproduction process through the ownership structure and capital structure [199]. It is easier for the state to control the movement of funds if the securities market is sufficiently developed.

Also important is the compensatory function, which is manifested in the financing of the budget deficit of different levels of the budget system of Ukraine on a non-inflationary basis, ie without the issuance and circulation of additional funds [200]. The securities market allows the state to quickly raise funds, which ensures the smooth implementation of socio-economic functions of government at the central and local levels.

Securities are of great importance in the economy, namely, legal entities and individuals use them as a tool for investing free cash. In addition, placing securities, the investor mobilizes resources to develop production and meet their needs [202].

To summarize, the analysis formulates our own opinion on the essence of the securities market - a sphere of relations between suppliers and consumers of financial resources, regulators, intermediaries, bidders, other parties to ensure the issuance, circulation and redemption of securities. It is determined that the influence of the securities market on the country's economy occurs through the implementation of appropriate functions: protective, investment, liquidity, valuation, information, accumulation, restructuring, control and compensation.