

Державне управління

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Het'man Larysa

*PhD in Economic, Associate Professor,
Associate Professor of the Department of Management and Administration
Kharkiv State Academy of Culture*

Kaliuha Oleh

*PhD in Public Administration, Senior Lecturer
of the Department of Management and Administration
Kharkiv State Academy of Culture*

**ECONOMIC FUNDAMENTALS OF STOCK MARKET REGULATION
IN FOREIGN COUNTRIES**

**ЭКОНОМИЧЕСКИЕ ОСНОВЫ РЕГУЛИРОВАНИЯ ФОНДОВОГО
РЫНКА ЗАРУБЕЖНЫХ СТРАН**

***Summary.** In article was considered the economic basis of regulation of the stock market in foreign countries. The article defines The European and American features of stock market regulation. The article considers The main advantages and disadvantages of placement of shares of domestic companies in the leading stock markets of the world. The article considers The rules and conditions of work of foreign exchanges and a comparison is made with Ukrainian ones.*

***Key words:** stock market regulation, infrastructure, alternative market, operator, stock exchange, listing.*

The purpose of the article is to investigate the peculiarities of the state regulation of the stock market of foreign countries, to generalize the peculiarities of work of foreign and domestic stock exchanges.

The UK stock exchanges are self-governing professional brokers associations that independently develop their own rules of conduct. These rules regulate in detail and comprehensively the activities of these organizations and their members [6].

In Belgium, the regulation of the stock market has never been an independent branch of the legal system. Regulation of any activity related to the issue and circulation of securities is regulated here by numerous laws, rules for the conduct of any business, and sometimes even the functioning of banks and the banking system as a whole.

The European specificity also lies in the fact that in all European countries the formation of state regulation of the stock market was taking place slowly, gradually, evolutionarily, depending on the practical needs of various social groups.

In small European countries, investment financing is traditionally carried out by banks (with their help or participation). Banks here are mostly universal. Most countries do not distinguish commercial and other banks, and therefore there is no separation between purely banking activities and securities business. Banks in this case are simultaneously investment companies, broker dealers, and investment advisers. Nevertheless, the central bank analyzes all banking activities equally attentively, including on the securities market.

Numerous stock exchanges in European countries are strongly influenced, and often under the full control of the largest commercial banks. Therefore, public authorities often operate on the stock market not directly, but to the extent that they regulate the activities of banks and the banking system. Consequently, the domination of banks in the stock market is the most important moment that determines the specifics of the European model. In some countries (Italy, France), the leading stock exchanges have been created by the state and under its direct supervision. Sometimes the ministries of finance closely follow the stock markets. Sometimes the regulation of stock markets occurs not at the federal, but

at the regional level: land - in Germany, cantons - in Switzerland. However, there are also no special bodies that would be responsible for the complex implementation of the legislative provisions on the issue and trading of securities [6].

The American model is in the advanced form only in the USA. its effectiveness is highly appreciated by Europeans; it is a model for imitation in many countries that are trying to create a civilized financial market (Australia, Brazil). It is with the current model of state regulation that the success of the modern functioning of the largest and most active in the world national fund market, which provides financing for investments of a powerful economy, is linked.

In the American model you can trace three main components. The first is a concept that was formulated more than half a century ago, but still preserved until now as the embodiment of the American tradition, its essence is that investment financing should rely mainly on the stock market, which functions autonomously from the banking system and appeals directly to all segments of the population, involving their capital and savings. The second - the legal basis in the form of a package of laws and form a solid foundation for the regulation of this market. The third - the social governing body of the stock market, is obliged to ensure the implementation of the adopted laws [6].

Stock exchanges. The stock exchange as the basic stock market institution, although it does not aim to obtain its own profit, but creates all the necessary (financial and legal, first and foremost) prerequisites for high-level trading by a certain type of securities and derivatives. Functions of the stock exchange, is - the creation of a permanent securities market; determination of the real value of securities launched in circulation; dissemination of information about financial instruments, their price and terms of treatment; increasing the professionalism of trading and financial intermediaries; improvement of trade

rules; financial and legal assessment of the stock market, its segments and the stock market as a whole [7, p. 14-15].

Stock traded and admitted to trading on a stock exchange are equity instruments. In other words, equity instruments are securities that contain certain property or financial rights, whose legal implementation is possible upon presentation and recognition in the stock market [7, p. 15].

Under the infrastructure of the stock market authors suggest to understand the whole complex of elements and activities, which, in the first place, financially and lawfully provide all the necessary conditions for the effective and smooth functioning of this market. Elementally, the infrastructure on the domestic securities market is made up of: trade organizers (exchanges, over-the-counter trading systems); registrars; settlement and clearing system (clearing houses); depositaries; self-regulatory organizations; system of information provision of the market; rating agencies. A special place and an extremely important regulatory role here (it should be) is the system of financial and legal support [7, p. 17-18].

It is known how many companies in Ukraine made the initial placement, but it is not known how many started the expensive preparatory process, but did not come out on the stock exchange. The answer to the question of when it comes to becoming a public company is simple: when the benefits outweigh the costs. Correctly calculate the sides of this equation is especially difficult for Ukrainian enterprises. According to Western experts, the cost of publicity in a conservative scenario for a Western company is 1-3 million dollars, depending on the size of the company. For Ukrainian companies this figure is even higher [8].

The costs consist of two parts: the first one - the administrative ones (annual fee for listing support and costs for regulatory requirements), the second - a premium demanded by investors for the risk of buying shares of private companies. Administrative costs are rising because of the growing demand for

exchanges for companies that want to place their stocks in them. The bonus is also growing, at least because the value of money is increasing all over the world.

The company will need to change the corporate culture. The strategy of its development and financial results will be evaluated publicly, and if expectations are not justified, companies will have to explain for a long time and in detail why this happened. This all involves additional responsibilities of senior management. Also, it will have to publish a lot of information about companies, but the most interested readers - not investors, and competitors. If to add to this the dependence of shares on the market situation, then Ukrainian companies need to seriously weigh all pros and cons of entering the stock exchange.

Favorable market conditions are not all that is necessary for successful placement in the public market. The more important the internal readiness of the enterprise for such a step and the awareness of its need for owners for the successful development of the company. Most companies, after making a decision in conducting a primary placement, need 2-3 years of hard work on the structure of corporate governance, organizational structure, financial strategy, and obtaining a favorable audit opinion. Therefore, despite the good situation, many local companies are still in the process of preparing for the initial placement. The market is dominated by private placement, since in this case, the requirements for the company may be less solid and frequent placement will be only a preparatory stage to the initial placement [8].

Starting an issue of shares, the owners of the companies are, as a rule, 2 long-term goals. The first is the receipt of funds for realization of long-term investment projects. The second is the sale (full or partial) of the business. The traditional stock offer, offered in the course of initial placement, ranges from 25 to 40%. It is considered that the smaller package is difficult enough to provide a further free flow of shares [3].

The offer of the market of its shares in order to attract funds for the implementation of investment projects of the company involves at least the presence of a market characteristic. Already from this position, talking about the initial placement of PFTS is still impossible. The first sale of shares on the stock exchange takes place only at privatization auctions. And the issue of shares by private business language no one even leads. About the really "first public offer" can not be said yet, because the market itself is not ready for this. He does not need infrastructure, players, investors in such cases.

More suitable in this regard - RTS. Among the conditions that should be executed to be quoted on the RTS is a three-year history of the company, the value of net assets of not less than 50 million rubles for the quotation list B (for lists of a level - 300 and 500 million rubles). The company will require the presence of a consultant (they most often become a bank), audited accounts for Russian standards (for the first-level A quotation list - also IFRS and / or GAAP reporting). No additional restrictions on the volume of additional issue of shares (except for the list A, the minimum stock of free circulation should be 25%) [3].

The London Stock Exchange with the huge margin of leadership leads the world in terms of the number of primary placements. But the basis of this success is the platform for alternative investments, which are not so strict requirements for listing. On the other hand, more conservative sites (Frankfurt-on-Main), specialize in placing stocks of large resource companies and can provide them with higher liquidity.

The rules of access to the main platforms of both exchanges are largely similar. This is a requirement to provide three-year reporting according to international standards. Reporting should also be subject to international audit and legal expertise, along with the company's business review. The mandatory list of measures also includes compliance with the corporate law of this state on transparency and quality, and further ongoing obligations. the initial placement can not be carried out even if the company is not able to guarantee the rights of

future investors. That is why domestic emitters resort to an indirect way of entering the stock exchange - through the creation of holdings in jurisdictions similar to British / German requirements.

Weiner Borse declares compliance with the "Keep or Explain" rule. The German regulatory authorities (the Federal Financial Supervisory Board) and, to an equal extent, the stock exchange pay particular attention to the company's accounting records. The stock exchange is proud to be the leader in the number of companies reporting IFRS. But also proud of its careful attention to all aspects of reporting. For the company, this means an increase in terms and costs, first of all, examination of documentation. Such long terms can be offset only with high trust in the stock exchange and, consequently, high liquidity [3].

It is also worth being prepared for more stringent requirements for detailing any information provided. Plus, in this case, is the traditional German scrupulousness: all the controversial moments or non-standardized by the law, the financial department will explain, publish and, of course, will require execution.

Smaller stock exchanges do not hide either. For example, the Russian stock market launched an alternative stock market. This market will be part of the alternative North European OMH exchanges. So far, with only 7 participants from OMH (Copenhagen, Stockholm, Helsinki, Reykjavik, Vilnius, Tallinn and Riga), only Scandinavian countries have taken the alternative market.

The alternative market is for small and medium-sized companies. There are no requirements for the company's capitalization for this site (for the OMH the threshold is 1 million euros). In addition, the release of the site does not require the provision of audited financial statements for the past 3 years. True, the requirement of the site - that in free circulation was not less than 10% of the issuer's shares.

PFTS. PFTS was not created as a stock exchange, but as a trading information platform for 2 reasons. In 1996 under the old Law "On Securities

and Stock Exchange" the stock exchange should be a joint-stock company. However, domestic securities traders, based on the experience of many countries, wanted to create a stock exchange as a non-profit partnership. In addition, in the 90's, stock exchanges in Ukraine mainly worked with a "voice" and a limited number of financial instruments. Therefore, market participants wanted to emphasize that they create a fundamentally different platform. In 2004, the European Union's Financial Markets Directive came into force, which identified all licensed trade organizers as a regulated market. In 2006, the new Law of Ukraine "On Securities and the Stock Market" named all the organizers of trade in stock exchanges and allowed to create them in various organizational and legal forms, but put forward new requirements for the practice of exchanges [2, p. 53].

Having become a stock exchange, PFTS is forced to switch to other standards of work. In April 2006, the Trade Committee of the Exchange increased the spread within which quotations are allowed. For shares of the first level of listing, this spread is not more than 15%, for the second - no more than 30% of better quotations. Two levels of listing. To get to the first level of listing can only issuers that exist not less than 3 years, with annual income and market capitalization of not less than 100 million UAH. The second level may include joint-stock companies that exist less than a year, with annual income and market capitalization of less than 10 million UAH. [8].

AIM Most often the companies conduct the initial placement on this site. So let's take a closer look at the location of companies on this site.

Initially, the Alternative Investments Market was conceived as a trading platform for young and dynamically developing companies, which would be an alternative to medium and small companies that do not meet the stringent requirements of the main London Stock Exchange [8].

This market has the largest number of primary placements in the world - more than 1300. The total volume of capitalization - about 50 billion pounds sterling

Great interest in the market, the initial placement on the part of CIS companies has led to the fact that the alternative site began to translate some of the documentation into Russian and created a separate subsection Russia / CIS.

It is popular among issuers through a simple admission procedure, a relatively low cost of placement and a flexible regulatory system that does not excessively require strong requirements for the issuer and its securities.

In this case, access to investment resources of European capital is provided. The issuer gets an opportunity to declare itself to a large circle of potential investors and receive the financing necessary for further development.

Benefits of this Exchange:

- The presence on the site allows the issuer to increase its capitalization by 60-70%;
- Quotations give an idea of the real value of the company;
- With the entry into the market the status of the firm increases and the level of trust to it, the right investment image is formed;
- The first step to official listing on the main site of the London Stock Exchange, which involves the company to attract financial resources to a much greater extent.

To admit to the alternative site, the minimum capitalization requirements are not raised to the issuer, the history of the issuer is not specifically studied, it is not necessary that the shares of the issuer were previously publicly traded or traded.

Minimum formal requirements: Shares should not have restrictions on free circulation and should be able to be offered to an uncertain stake of individuals. Another requirement is to report under US GAAP, UK GAAP, or international accounting standards. In addition, the issuer must demonstrate the

adequacy of working capital for at least 12 months after the admission to bidding. Admission to trading is impossible without the nominee issuer nomada, which determines the possibility of admission of shares to trading, and broker. In accordance with the rules of the Alternative Investment Market, neither the authorized authority on the securities market nor the stock exchange, the documents submitted are not verified, fully relying on the assessment of the nomada. In the presence of a positive assessment of the nomada, the stock exchange decides on the admission to trading, and the issuer together with the nomad begins to prepare the documents necessary for admission and placement on the site. The issuer submits a preliminary statement to the stock exchange within 10 business days before the estimated date of admission. It should indicate the basic information about the company: the name and location of the issuer, the type of activity, data on securities, management, major shareholders, the name and location of the nomad and the broker. Further, within 3 working days before the expected date of admission, the issuer issues an application for admission containing a formal application, a nomad declaration, confirmation of payment and 6 copies of the application for admission to the stock exchange. The latter is a volumetric document with a detailed disclosure of the issuer's data [8].

The admission to trading on average has to wait 3 months. For this period, of course, are factors such as the type of activity and capitalization of the issuer, the accuracy and timeliness of providing information for the application for admission and the length of the legal expertise of the issuer.

The cost of admission includes a fee for admission to trading - £ 4,000, as well as consultant fees - £ 300-400 thousand. In this case, the cost of services nomada as a key advisor in the initial placement is the most significant part of the cost of consultants. Broker's commission amounts to 3-6% of attracted funds.

When placing an issuer, consultants are assisted: nomads, broker, legal adviser, auditor, PR consultant. The key role is played by nomads. The issuer must assign a nomada from the number of structures accredited at the exchange. Nomad accompanies the issuer for the entire time until his shares are listed on the stock exchange. The main functions of the nomada are made in assessing the possibility of the issuer's admission, advising the admission company, fully supporting it in the process of admission to trading, coordinating the activities of other consultants, drafting documents of the issuer for admission to the stock exchange, as well as its support after admission to bidding.

Another important participant in the process is the broker. As a rule, it belongs to the same organization as nomads. The issuer must appoint a London Stock Exchange counterpart. The broker is required to accompany the issuer throughout the time until stocks are traded on the stock exchange. The main functions of the broker are in the search for potential recipients of shares of the issuer, preparation and support of the issuer on the road show, bidding on the secondary market.

The duty of a legal advisor is to ensure compliance with all legal requirements in preparing an issuer for admission to trading and disclosure of information, legal support for the preparation of documents for admission to trading, verification of the accuracy of data in the documents provided by the exchange.

The function of an independent auditor is to compile a complete financial statement of the issuer, on the basis of which nomads decide on admission to trading, drawing up a short financial report on the issuer for inclusion in the application for admission to the stock exchange, reporting on the adequacy of the working capital of the issuer, reporting on adequacy financial system and control. A PR consultant is needed to cover the issue of the issuer to the stock exchange in the media and to coordinate public events in connection with the issuance of the issuer to the stock exchange [8].

On July 1, 2005, the EU Directive on securities brokerage came into force in the UK. In accordance with its provisions, the offer of securities to an unlimited number of persons requires the registration of a prospectus in the listing agency of the United Kingdom. The prospectus is required in all cases where the offer is made to more than 100 investors and its total value exceeds 2.5 million euros per year. The London Stock Exchange has already made appropriate changes to the rules of the bidding.

Warsaw Stock Exchange. The stock market in Ukraine is not developed, and therefore the views of Ukrainian companies - pretenders for the initial placement - are appealing to the European and American markets. The London Stock Exchange and its alternative platform are particularly popular among CIS companies.

Promising and Warsaw Stock Exchange, one of the few that not only developed a strategy for attracting small and medium-sized businesses to the primary location, but also consistently implement it [1].

From the very beginning, Poland wanted to create a modern securities market. At that moment there were two concepts of the future stock exchange. The first of them was the creation of a Polish free-market securities market, which could be traded by anyone interested in it. The second concept assumed the organization of a modern stock market, based on European standards. The second concept won. There are currently 1 stock exchange and 1 depository in Poland.

Initially, a law on public circulation of securities was adopted, then on its basis were created infrastructure units of the stock market. At the beginning of its formation, the Polish market had a high level of state regulation, and such measures were justified: it allowed the creation of a market based on high European standards, since the adopted law itself complied with these standards. The construction of the stock market on the example of other European countries was difficult, but later the stock exchange proved to be effective.

The whole structure of the stock exchange was created in 6 months. The first issuers also appeared in six months. Then the law allowed it, and today for such a time it is sometimes difficult to change even two words in the regulatory documents. It was feared that Polish investors, people without the relevant experience, would not meet modern standards. Therefore, the structure was initially introduced, and then, with investors, the exchange gained practical experience. The state was very supportive of these structures, so that people's trust in people [1].

It was necessary to have a political will to change the market infrastructure. If there is no infrastructure, the state should help not only the law but also the influence on the stock exchange. Poland managed to create a modern structure of the stock exchange. So the centralization of turnover, the requirements for the publicity of the issuers' accounts and the initially very high level of regulation are the necessary conditions for the formation of the stock market in the developing state.

Detailed disclosure of financial statements by issuers is one of the requirements of the listing of the stock exchange.

Now the daily turnover of the exchange - 1.5 billion UAH, and in the listing of 250 companies. One of the conditions listed on the Warsaw Stock Exchange - each company quoted must submit a quarterly report and immediately provide all relevant information regarding its activities.

The company must also comply with Polish standards and pass an international audit. Accommodation costs make up 1-5% of the attracted amount for Polish companies. For Ukrainian companies, the cost of accommodation will be significantly higher. The company should have a story - 3 years of audited financial reporting, it should be ready for a dialogue with shareholders. There are no solid corporate governance requirements. Although the stock exchange adopted 48 corporate governance rules. And every company listed on the stock exchange should indicate how it applies to each of them. If a company does not

comply with any rule, then it is obliged to indicate why. Based on the answers, investors determine whether they have to deal with it [1].

As we see, state regulation contributed to the development of stock markets of the countries through the adoption of relevant legislative acts in accordance with the requirements of time. Therefore, the author believes, Ukraine needs to review the legislative framework, adopt new legislative acts that will improve the work in this area and acts that do not meet the requirements of the present time, to be considered legally invalid.

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