

2.5. BANKING SUPERVISION IN UKRAINE

2.5.1. BANKING SUPERVISION EVOLUTION OF UKRAINE

In the terms of financial crisis, undeveloped market relationships, monetary and credit-financial system weakness central bank will inevitably use strict administrative regulation methods, and only in perspective - transition to indirect regulation, and in particular through establishment of targeted guidelines.

"National Bank of Ukraine (further - National Bank) - is the state emissive centre, which carries out unitary state policy in the field of money circulation, credit, monetary unit strengthening, organizes interbank calculations, coordinates banking system in whole, determines monetary unit exchange rate as to other countries' currency. It has monopoly right on money circulation, as well as monetary units' issue on Verkhovna Rada decision. Accordingly it has in its structure state treasury, it organizes its activity, keeps monetary units reserve funds, precious metals and gold and exchange reserves. National Bank represents

Ukraine interests, in relationships with other countries central banks, in international banks and other financial-credit organizations, where international cooperation is expected on central international level.

The structure of the National Bank of Ukraine is based on the principle of centralization with vertical subordination (*Appendix B*).

To the system of the National Bank of Ukraine affiliate administration personal, subsidiaries (territorial departments), and also Ukrainian Mint, banknote paper factory, central library, training centre and educational institutions of the National Bank, other structural units and subdivisions, essential for the providing of the National Bank activity.

The general functions and authority vested by the legislation provide an independent status to the National bank in the questions of organization and regulation of banking activity, and in particular in supervision terms. Impartiality is the main of the basic principles of the supervision activity organization and it's based on fairness and disaffection of the control activity.

National Bank has no right to demand from the banks operations execution and other actions without legal provision and normative acts of the National bank. Herewith it's important to understand that the central bank should not give preference to the individual banking business representatives, except situations, when with the aim of the whole banking system stability providing the central bank reduces economic standards for the exact bank in the case of its temporary financial problems for the normal financial activity reproduction.

The competence of controlling authorities (National bank and its subsidiaries) is connected with professional ability of corresponding department officials to execute powers in regulation sphere in high quality way, set terms and within accepted policy. The principle of publicity is also extremely important for banking regulation organization and has some aspects, determined in the Article 57 of the Constitution of Ukraine, pointing out that laws as well as other regulatory and legal acts, determining rights and responsibilities of citizens, have to be notified to the population in the fixed by law term. On the other hand, publicity is the determinant principle for the work of agent that is checked, i.e. banking institution. The bank is

obliged to publish quarter balance sheets, and also income (loss) statement in the newspapers "Uryadoviy kur'yer" or "Golos Ukrainyi" during next month after financial quarter. All these measures encourage increase of trust to the country's banking system. The principle of planned character of banking activity during controlling responsibilities performance of the central bank is marked in the Ukrainian legislation and namely in the Law "On banks and banking activity" and in corresponding acts of the National bank, which regulate inspection conducting order. In particular, according to Article 71 of above mentioned Law, each bank is checked by inspectors of the National bank or auditors, appointed by it.

Banks audit is carried out according to the plan, approved by the National of Ukraine. Planned audit is carried out not more often than once a year. National bank of Ukraine is obliged to inform the bank about planned audit not later than 10 days before its start. One of the main demonstrations of constancy principle is banks' duty to submit to the National bank financial and statistical accounts as for bank's performance, its operations, liquidity, ability to pay, profitability, and also information of bank's affiliated clients.

According to the Laws "On banks and banking activity" and "On the Rational bank of Ukraine" the functions of banking regulation and supervision is carried out by the NBU.

The activity of the stock market participants is controlled and regulated by the State Commission on securities and stock market. State Commission on financial services markets regulation supervises appropriate sector of Ukrainian financial system.

From the beginning of the Ukrainian independence NBU constantly carries out staged reformation and improvement of the banking system supervision (Table 2.6). As in the period of the National bank foundation there was no banking system supervision at all and it was necessary to found it according to tasks and functions of banking system activity. However there is no research on stages of banking supervision formation.

Investigation on banking supervision formation, carried out by the authors enabled to determine the stages of banking supervision of NBU formation as an important condition of harmonization of approaches to banking activity regulation norms working out.

Thus, from the moment of the National bank of Ukraine creation the process of the clear system creation, development and reformation of banking supervision is traced, that is the way is gone from the creation in the structure of NBU the Management of banking supervision, Department of banking supervision (Figure B.7.), General Department of banking supervision to Board of directors on banking regulation and supervision.

According to banking supervision creation banking regulation is built up and developed. On the first stage, i.e. in the banking supervision management and further with the creation of the Department of banking supervision the specialists, who dealt with methodology of banking supervision, carried out the function of banking regulation. Moreover during prolong period, and namely from the beginning of its creation, banking system of Ukraine operates in the terms of political and economic instability, which intensifies risky activity of banks. Financial regulators implemented by National bank influence growth decrease and risks leveling. In these terms,

naturally, banking supervision ought to reorganize style and methods of its activity, to increase sharply efficiency, to optimize organizational structure, to improve technologies. Moreover, it's necessary, because Ukraine became the powerful member WTO, and this fact increases integration of both financial market and banking system into the world economic processes.

Trends towards the banking supervision system reforming are traced in the world nowadays. Among those trends it's worth pointing out banking supervision unification, and also simplification and clarity of institutional and methodical banking supervision infrastructures.

According to world trends National bank carries out banking supervision reforming, namely with this purpose in the structure of the National bank appeared Board of directors of banking regulation and supervision (*Figure B.8.*), in which there are two departments: on banking regulation and supervision; banking regulation and supervision methodology.

The essence of banking regulation and supervision is in providing of reliability and stability of banking system through bank accountability assistance in its opportunities usage.

In some EU countries a number of agreements have been taken with the purpose of efficiency growth, according to which budget, personnel or other resources are allotted into common usage of central banks and supervisory bodies.

However, following increasing demand on improving cooperation between supervision bodies on European level, almost all EU members move to the direction of taking formal agreements for cooperation support and information exchange between banks and banks supervision.

There's a model of banking supervision subordination to the National bank of Ukraine de facto nowadays in Ukraine (*Appendix G*). However, banking system development demonstrates accumulation of tendencies towards banking activity unification, concentration necessity and centralization of national banking system banking capital. Existent environment in banking system of Ukraine is rather competitive, but none of the banks has a dominant position in separate sphere of activity.

In our opinion, the National bank of Ukraine made a first step towards banking supervision reforming with the purpose of its independence while creating Board of directors on banking regulation and supervision.

In this direction it's reasonable to differentiate departments of inspection and distance supervision (*Figure B. 9*).

The second stage of reforming should become confirmation of budget by Board of directors, where it's necessary to forecast allotment from the territorial head offices structure banking supervision departments and their financing from constituency budget, i.e. to carry out their direct subordination as subdivisions.

The third stage became direct Board of directors' subordination to the Head of the National bank of Ukraine.

Taking into account this fact, National bank has to pass the income and expenses budget, and access of income over expenditure it should transfer to the state budget of Ukraine, and also the fact that quantitative staff of the Board of directors is financed from the NBU budget, there's no need for additional Board keeping charges.

In European countries there's a clear tendency in the direction of supervision bodies consolidation on the national level with the single purpose of their efficiency improvement. In our opinion, the main reasons of supervision responsibility unification are "dilution" of borders between financial sectors or ^{existence} relatively small financial markets.

National option varies and can be the consequence of history, constitutional peculiarities or other factors, concerning national financial sector.

Though banking regulation and supervision combination in the frames of one body breaks the selforganisation principle efficiency, limits system ability to assess complex problems of its functioning properly. Besides, there's a number of mismatches as for these phenomena essence in the law of Ukraine "On the National bank of Ukraine". Thus, Article 1. defines banking regulation as NBU function, supervision as separate subsystem, but Article 55 defines them as functions.

Appendix B

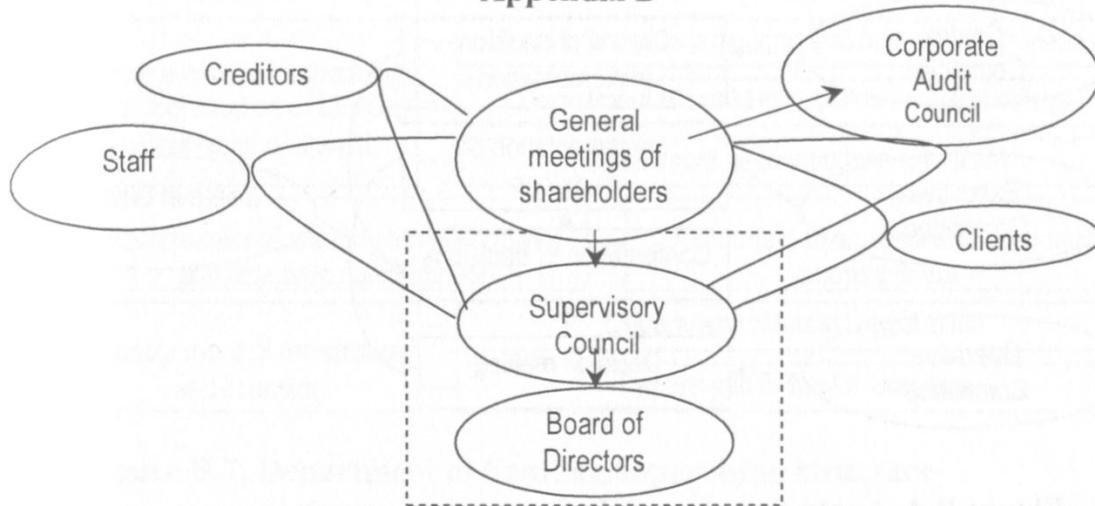


Figure B.1. Concept of corporate bank governance

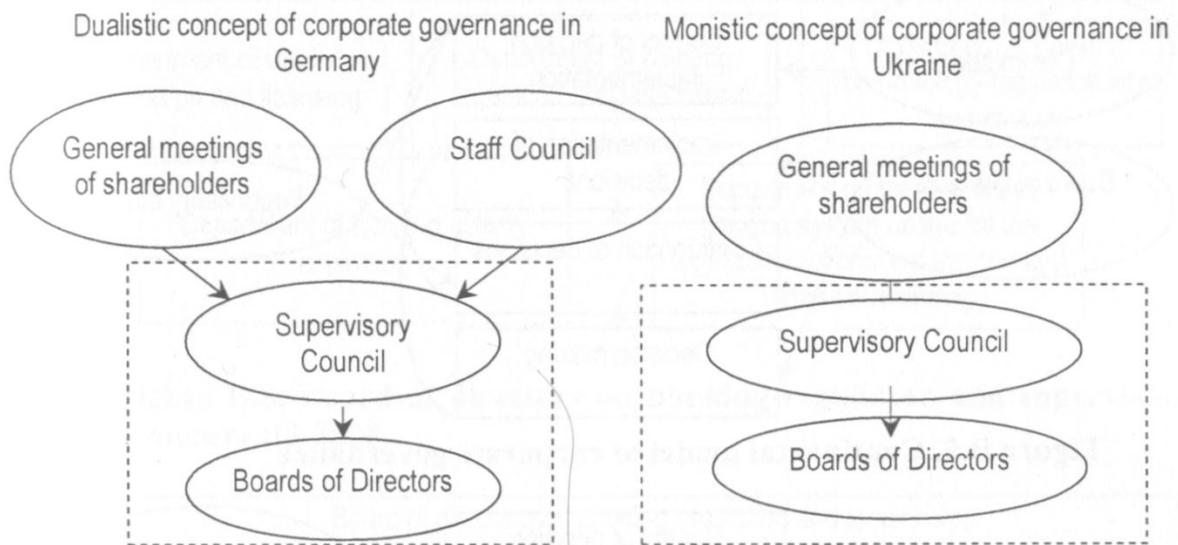


Figure B.2. Pluralistic concept of corporate bank governance in Japan

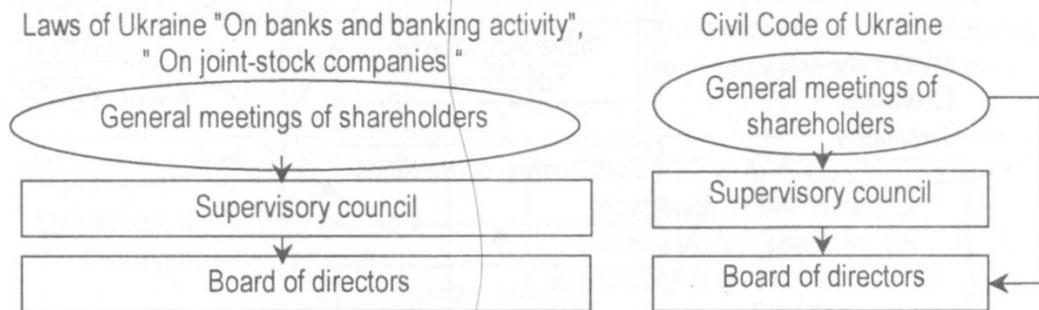


Figure B.3. Procedure of commercial banks of Ukraine governance bodies forming in accordance with different legislative acts

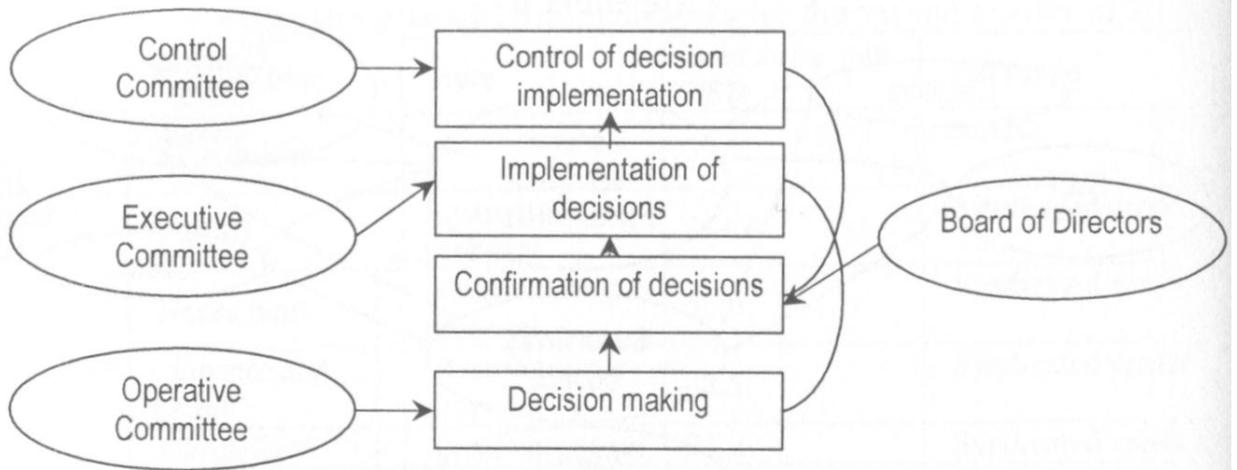


Figure B.4. Anglo-Saxon model of corporate governance

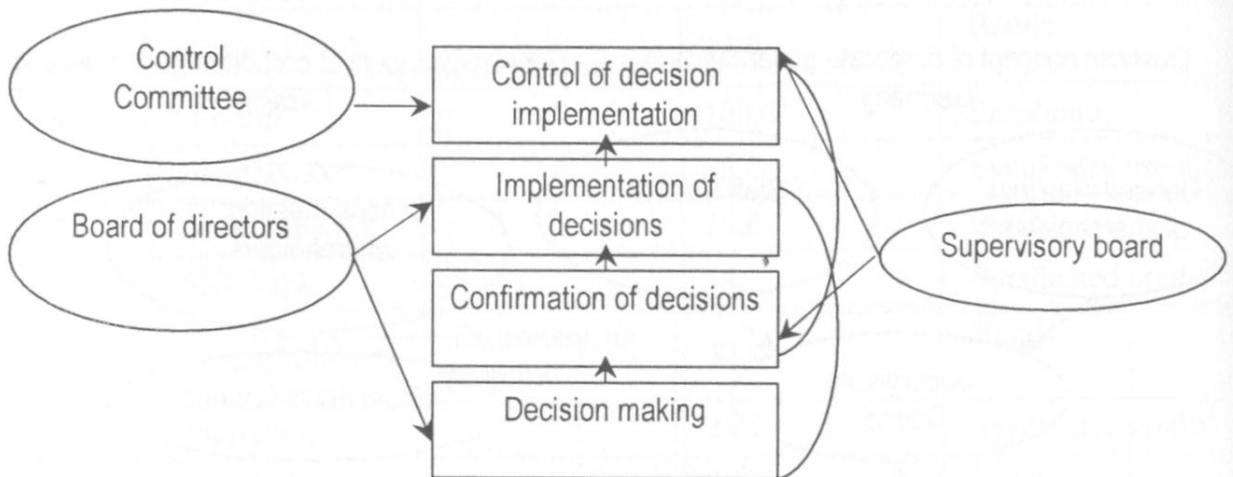


Figure B.5. Continental model of corporate governance

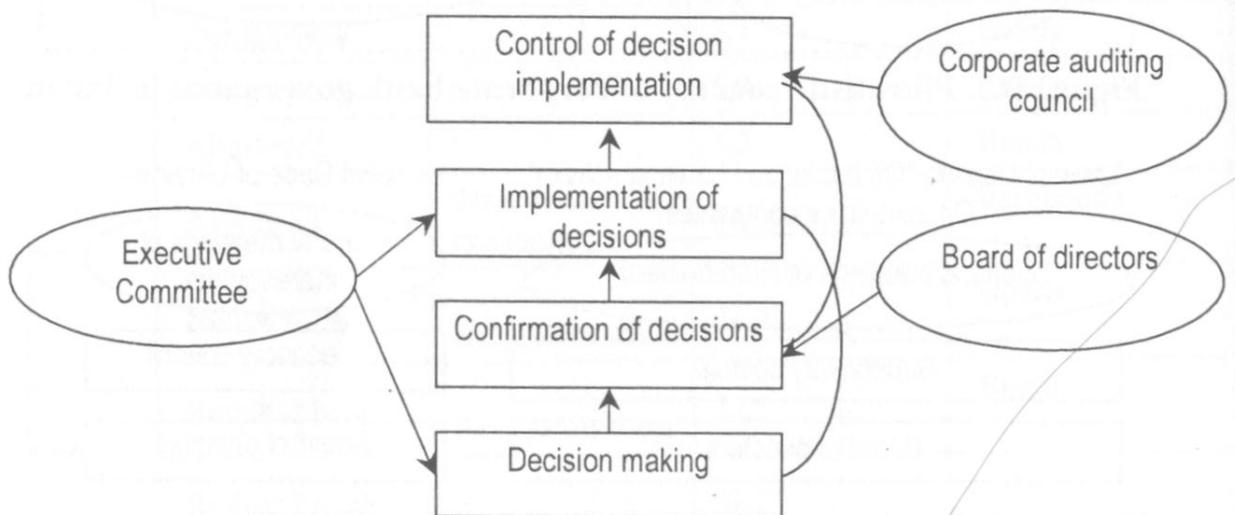


Figure B.6. Japanese model of corporate governance

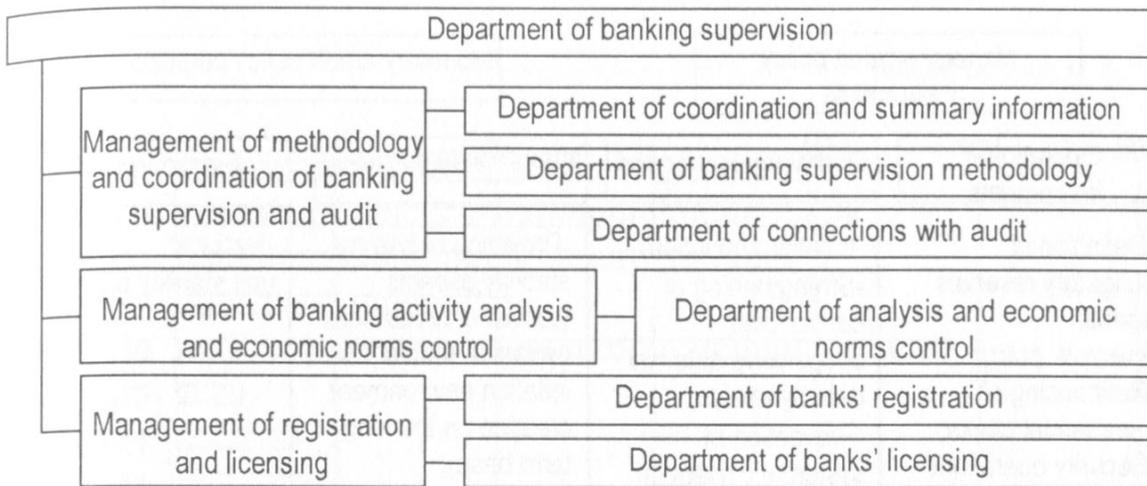


Figure B.7. Department of banking supervision structure



Figure B.8. Board of directors on banking regulation and supervision structure till 2008

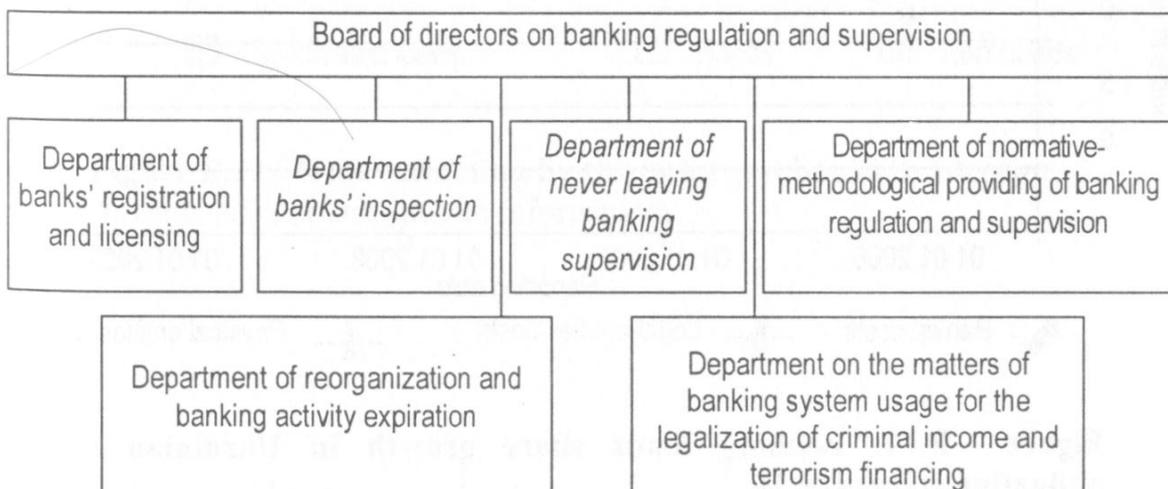


Figure B.9. Board of directors on banking regulation and supervision structure after reformation

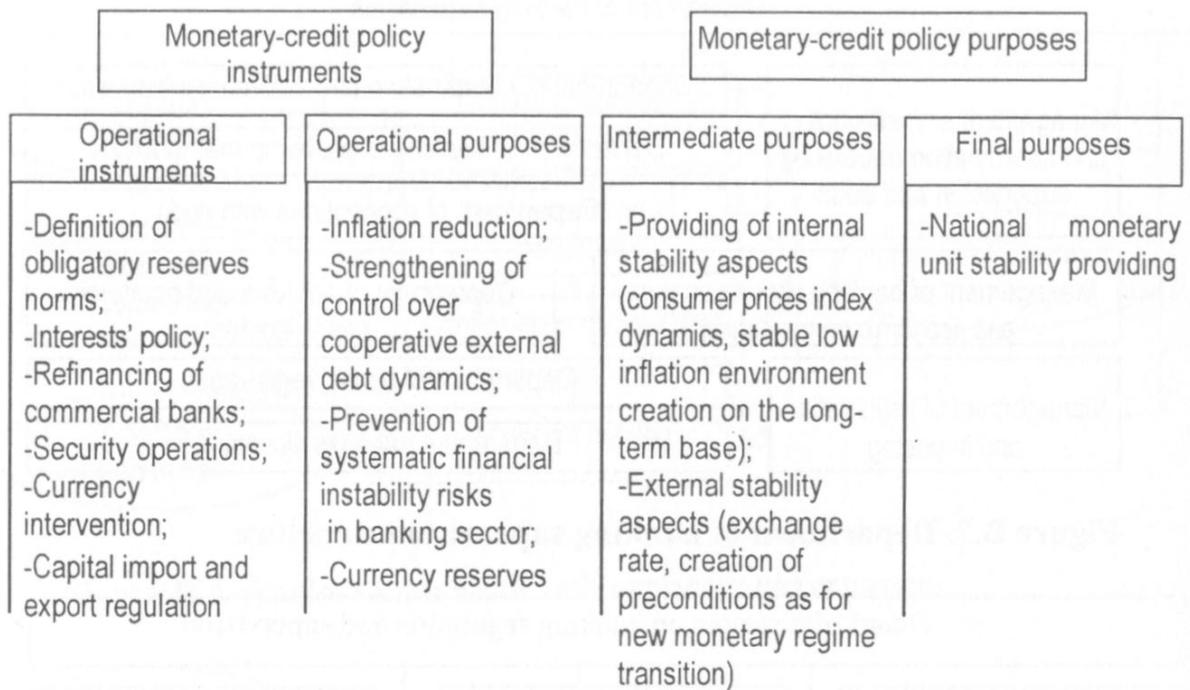


Figure B.10. Monetary-credit policy structure

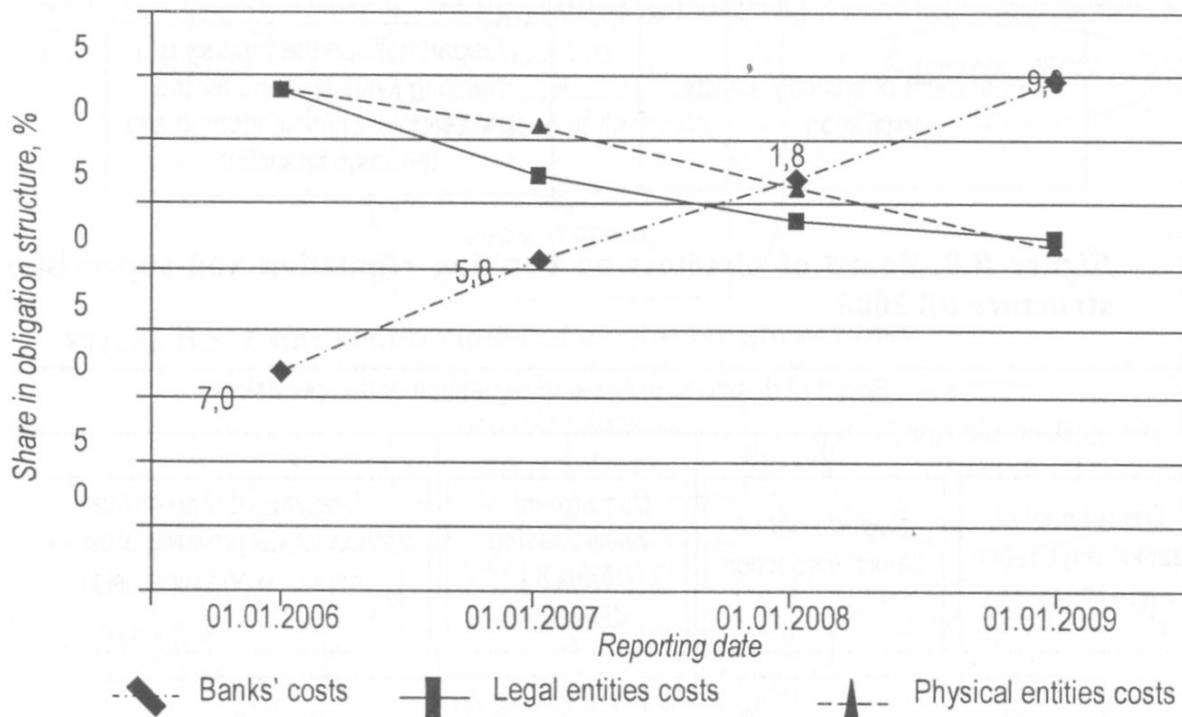


Figure B.11. Banking loans share growth in Ukrainian banks obligation structure, %

Source: NBU, banks' public information.

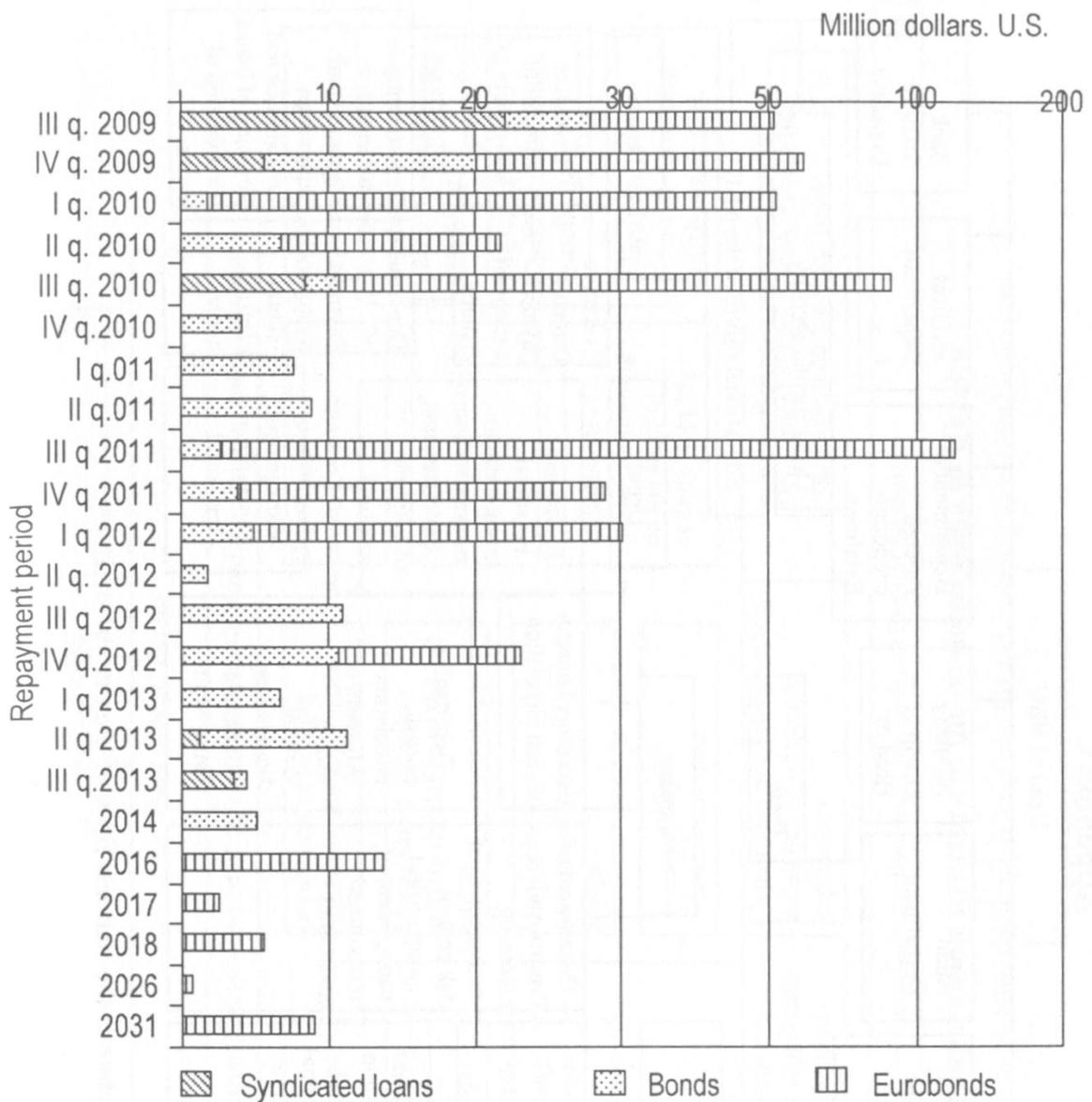


Figure B.12. Debt extinction by thirty largest banks in Ukraine
Source: NBU, banks public information.

Appendix F
Office building of the National Bank of Ukraine, Instituts'ka str. 9 (Kyiv)



D'yakonova, I. Euroasian perspectives of the banking systems development [Текст] / О.
Kostyuk, M. Lin, Gh. Omnet – Sumy, Ukraine – Virtus Inerpress, 2011. – P. 26, 33-37, 53-59.