

# PROPOSALS ON DEVELOPMENT STRATEGY OF THE FINANCIAL MARKET INFRASTRUCTURE IN UKRAINE

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## Abstract

Development strategy of such financial market infrastructure that is able to optimize the processes of institutional component's functioning and increase an efficiency of various operations in this market has to become an important direction of improvement and development of the financial market infrastructure. This paper aimed to rationale the development strategy of financial market infrastructure in Ukraine.

**Keywords:** Financial Market, Infrastructure, Strategy

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## 1 Introduction

The problem of financial market infrastructure development has been used extensively among different levels of state regulation and control. This problem has been gaining increased attention of policy makers and market experts' research. A significant amount of work has been done on this issue by national scientists (I. Ahnovska, M. Gaponyuk, U. Grudzevych, V. Zheleznyak, I. Shkolnyk etc) as well as Russian and western researchers (O. Aleshina, E. Matskaylova, P. Lanskov, Y. Mirkin, V. Rubtsov, O. Voropanova, P. Hartmann, A. Rot, R. Schwartz, M. Yamin).

## 2 The mission of the financial market infrastructure's development strategy

The strategy should be based on the idea of partnership between government and business, formulate priorities in the field of financial relationships and imply for the integrated system of legislative, organizational and institutional measures, aimed at a significant modernization of the current relationship between its members, technological innovation, intensive adaptation of the market to international standards and implementation of better practice.

The mission of the financial market infrastructure's development strategy, as its main purpose and nature, provides for the tendency of the dynamic equilibrium in the market economy, improving market liquidity and reducing risks in enterprising by stabilization and increasing efficiency of economic relationships. Implementation of this

mission has to be achieved also through making and adoption of the evidence-based strategic plan of the financial market infrastructure development [1].

Neither state authorities nor any of SROs or independent groups of experts have not yet suggested a strategy that would cover all the fundamental and technical aspects of the domestic financial market infrastructure development, taking into account the changes in the post-crisis world financial architecture.

It should be noted that the development of the domestic financial market infrastructure is overloaded with a large number of organizational, informational, regulative, technological barriers that complicate the fairness of price formation and increase transaction costs.

The achieved level of development, complexity and unpredictability of the Ukrainian financial market, according to its significant deformation determines that only a professional financial market participants, together with scientists in open discussion are able to offer the strategy of the financial market and its infrastructure development, which would contained not only fundamental ideas, but in addition a program of solving the technical, organizational, economic, legal, regulatory, accounting and information problems.

These deformations require the implementation of measures that could stabilize the market and ensure an effective development of its infrastructure. Among them:

- restructuring of the banking sector (ensuring the growth of banks' own funds, compliance with prudential requirements under the Basel Accord. On this basis: the reorganizing of the network of banks,

increasing the requirements for the system of risk management and public disclosure):

- restructuring of securities and derivatives market, requirements for risk management and public disclosure, creating compensation funds of professional participants, which covers risks of failure their obligations with clients, or centralized system of reservation with state funds;
- ensuring information transparency of the off-balance sheet banks' operations, professional participants of the securities market and institutional investors, their transactions in the OTC market, in derivative and securitization sphere and other forms of financial engineering;
- moving to the regulation of financial conglomerates activity and prudential supervision, their aggregate risks [2].

### 3 Strategic planning mechanism of the financial market infrastructure development

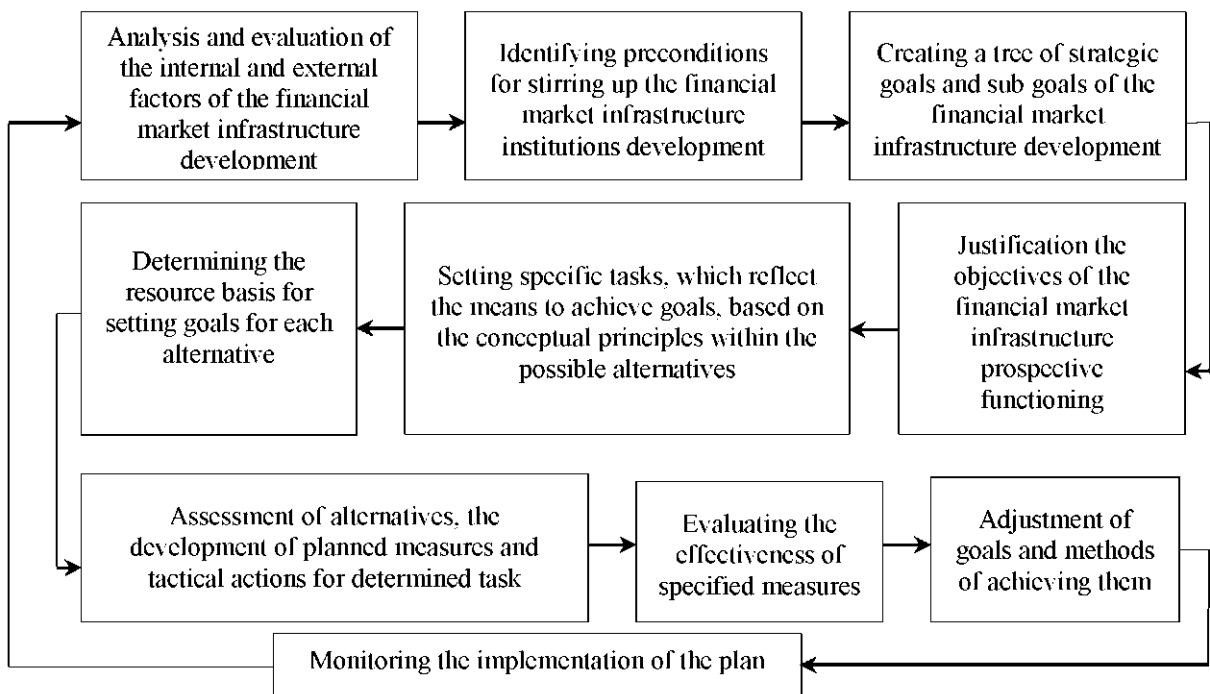
As for the strategy of financial market infrastructure development, we should admit that the effectiveness of the proposed strategy can be achieved by a certain consistency and setting of interaction between presented steps.

Thus, representation of the strategic planning mechanism of the financial market infrastructure development as a series of specific steps allows:

- 1) specifying the elements of economic, institutional, regulative and legal impact on the functioning and development of infrastructure;
- 2) collaborating, making efficient and adjusting direction of the infrastructure facilities to the ordering, self-regulation, market organization;
- 3) rationalizing the combination of state regulation methods and techniques with processes of self-regulation of the financial market infrastructure.

The strategic planning of the financial market infrastructure as a process can be represented in the form of a sequence of following stages (Fig. 1). These stages of strategic planning process are united in their interactions with common purpose - to contribute the establishment and development of the financial market infrastructure, as well as to use all kinds of resources involved in this process. Implementation of all these stages of the financial market infrastructure development strategic planning by the state will allow increasing the efficiency of the infrastructure functioning and become a factor of its stable development in future [3].

Figure 1. Stages of strategic planning of the financial market infrastructure development



In the proposed sequence of the following steps, this strategic planning necessary to start by detailed analysis, assessing external and internal factors and identifying opportunities for the development of market infrastructure at the same time. Consistency in analysis and evaluation will help to identify reasonable preconditions for more active

development of market infrastructure that can be considered as a second step.

Current researches of the financial market infrastructure institutions development in modern domestic economy led us to the conclusion about the discrepancy of the quality and quantity of infrastructure elements to requirements of civilized

market relations. The building of a tree of strategic goals and sub goals of the financial market infrastructure development, as the third stage, will exactly identify opportunities to overcome this discrepancy and determine the purpose of strategic infrastructure development.

#### **4 The strategic goals of the domestic financial market and its infrastructure development**

Based on the mission of the financial market infrastructure development strategy, which we mentioned above, it is necessary to identify the general goals - improving the financial resources flows, optimizing the process of converting small savings into investments for expanded reproduction.

This interpretation and understanding of the general goal defines the strategic development of the financial market and the key measures for their achievement (Fig. 2).

The strategic goals of the domestic financial market and its infrastructure development can only be achieved if a favorable investment climate in Ukraine will be established, specifically when the investment-oriented macroeconomic policies will be implemented, political risks will be reduced and the system of investors' rights protection will be formed and reflected in the already mentioned above the Concept of financial market development. Conducting macroeconomic policies aimed at the development of the financial market and its infrastructure is about its approximation to the real needs of the market.

To create an additional intensive motivator for the Ukrainian financial market and its infrastructure development there is a need to enhance investment orientation of macroeconomic policies to ensure economic growth and its modernization, development of the financial sector and industry [4].

After the stage of justification the basic aspects of perspective functioning financial market infrastructure, the government should perform other important functions.

Firstly, it has to be related to resource supporting of the financial market infrastructure formation. In this case the state should use the budget mechanism, logistic and strategic reserves, redistributive mechanism, administrative methods, which are available. In the following stages of the financial market infrastructure strategic planning, the

development of relevant laws and regulations should become an important step. The package of legal documents that defines the functioning of the financial market infrastructure should be improved, or in some cases even created. It is also necessary to establish certain basic economic conditions that will determine the possibility of establishment and functioning of infrastructure institutes.

Moreover, during the implementation of development strategies of financial market infrastructure it should be provided an effective cooperation among its institutions, and what is more, the nature of this relationship has to be constant and systematic. Financial market infrastructure institutions do not develop in isolation, but in the interaction between themselves and with infrastructure institutions of other markets.

Establishing a mechanism for effective interaction inside the infrastructure will lead to the rapid development and economic growth. The state's role will be reduced to a minimum and will assume only coordinating of actions to implement the top-level general strategy of financial market infrastructure development, monitoring the programs, analyzing the effectiveness of the strategy as a whole and diversifying market conditions within which infrastructure objects will find the most efficient ways of development by themselves [3].

#### **5 Conclusion**

Implementation of the strategic plan for the financial market infrastructure development is only possible if it is provided with necessary resources (labor, information, financial ones).

Therefore, the implementation of this strategy for the financial market infrastructure development will allow, first of all:

- Optimizing the financial resources flows;
- Reducing transaction costs;
- Organizing the market relations in the financial market;
- Reducing investment risks;
- Increasing the liquidity of financial instruments [1].

Building a strategy for the development of financial market infrastructure makes it possible to target subjects of market relations to establish the optimal market relationships.

**Figure 2.** Strategic goals of improving the financial market and its infrastructure development

Strategic goals	The main steps to be taken to achieve the goals
Improving the efficiency of the loan processes, development of the reproductive relationships	Stimulating to increase the participation of credit institutions in lending of the real economy
	Fostering the growth of credit institutions capitalization
	Improving the effectiveness of banks' refinancing system
	Promoting the inflows in bank deposits by population
	Developing of competition in the market of bank loans and deposits
	Overcoming the technology gap in banking services
	Promoting the usage of new, advanced forms of banking services: syndicated loans, overdraft loans, etc
The expansion of collective investment institutions' activity	Developing of the deposit insurance system
	Stimulating the growth in the number of investment funds' clients
	Enhancing the legal protection of investments into investment funds
	Fostering the growth of deposit profitability into investment funds
	Stimulating the development of general funds of bank management
Increasing the role of insurance in reducing the risk in the financial market	Providing the best relationship of investment funds with depositories, auditors and depository institutions
	Stimulating the growth of capitalization of insurance companies
	Rapid developing of retail insurance
	Stimulating the development of new innovative types of insurance (financial risk of default, third-party liability)
The growth of stock market capitalization	Promoting more efficient placement of insurance reserves, particularly in the stock market
	Improving the investment climate in the country
	Ensuring macroeconomic stability and strengthening the financial system of the country
	Improving the country's sovereign rating
	Encouraging diversification of liquid securities
The expansion of the fund derivatives market as effective hedging instrument	Creating a unified stock exchange system
	Creating a legal framework for derivatives market
	Encouraging the diversification of financial derivatives
	Improving the legal system of enforcing meeting the obligations under term contracts
	Creating an effective system of collecting, processing and distributing the information about stock market, thus enhancing transparency of the stock relations
	Providing access for consulting and accounting companies to public information of the tax services, judicial bodies, statistics and customs

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