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PRINCIPLES OF FUNCTIONING OF FINANCIAL INSTITUTIONS ON THE STOCK MARKET

Abstract. The subject of research is the theoretical and practical principles of functioning of financial institutions in the stock market as a tool for regulating economic development in the context of institutional transformations of the financial system. In order to ensure the conceptual unity of the study, a set of general scientific research methods was used. Dialectical, systemic and structural methods are used in revealing the economic essence of the stock market. Methods of analytical evaluation and synthesis were used in evaluating the system of functioning of financial institutions in the stock market. In substantiating the main directions of improvement of the stock market and financial institutions that operate in it, the methods of scientific abstraction and synthesis are used. The study identified the main prerequisites for the formation of an effective system of financial institutions in the stock market of Ukraine. Conceptual bases of activity of such financial institutions as banks, insurance companies, mutual investment institutions and others are formed. Approaches to the implementation of state regulation of financial institutions in the stock market in terms of economic transformation are described. The directions of improvement of the current system of relations of participants of the stock market on the basis of experience of the countries with the developed and transformational economy are offered.

Keywords: stock market, securities, banks, insurance companies, mutual investment institution.

Problem Statement. The formation and development of the stock market at the present stage of development of economic systems is an important tool for ensuring the economic development of all countries without exception. The formation of effective economic, regulatory and institutional foundations for the functioning of the stock market should be based on a clear definition of public policy aimed at creating favorable conditions for its development.

In such a situation, the issues of ensuring the effective operation of all financial institutions operating in the stock market are important. A comprehensive combination of instruments of stimulation, protection, control over their activities will create the preconditions for improving the efficiency of the entire financial system of the country.

Given the fluctuations in economic conditions in global financial markets and the need to find additional sources of financial resources in connection with the difficult

economic situation in different countries caused by the pandemic coronavirus COVID-19 caused by SARS-CoV-2, it is necessary to develop institutional providing the stock market. This will greatly simplify the interaction of all stock market participants, increase its efficiency, which is one of the prerequisites for expanding opportunities to attract additional financial resources into the economy.

Analysis of recent studies and publications. The research methodology is aimed at generalizing the theoretical and practical foundations of the functioning of financial institutions in the stock market as a tool for regulating economic development in terms of institutional transformations of the financial system. Determining the economic essence and role of financial institutions in the stock market requires the characteristics and analysis of approaches of foreign and domestic scientists to the essence of the stock market, its infrastructure and the basic foundations of their interaction. At this stage of development of economic systems in economics there are different approaches to the interpretation of the concept of the stock market, its main components, functions and principles of functioning of financial institutions in it. The works of such scientists as Fridman M., Baker S. R., Bloom N., Davis S. J., Barro R. J., Dzhus S.I., Gharbar Zh. V, Macierzynski W., Mexmonov S. та інших.

Statement of basic materials. According to the Law of Ukraine «On Securities and Stock Market», the stock market is a set of stock market participants and the legal relationship between them regarding the placement, circulation and accounting of securities and derivatives (derivatives). At the same time, the participants of this market are issuers (including foreign ones) or persons who have issued non-equity securities, investors in securities, institutional investors, professional stock market participants, associations of professional stock market participants, including self-regulatory organizations of professional participants. stock market.

The stock market of Ukraine is an integral part of the financial services market and is subject to regulation in accordance with the priorities and objectives set by the Law of Ukraine «On Financial Services and State Regulation of Financial Services Markets». The main objectives of state regulation of financial services markets in Ukraine include: conducting a unified and effective state policy in the field of financial services; protection of the interests of consumers of financial services; creation of favorable conditions for the development and functioning of financial services markets; creating conditions for effective mobilization and placement of financial resources by participants in financial services markets, taking into account the interests of society; ensuring equal opportunities for access to financial services markets and protection of the rights of their participants; compliance by financial market participants with the requirements of the legislation; prevention of monopolization and creation of conditions for the development of fair competition in the markets of financial services; control over the transparency and openness of financial services markets; promoting integration into European and global financial services markets. Thus, the main tasks of public authorities in the system of stock market regulation are to form a balanced, reasonable and effective mechanism to ensure the implementation of planned and forecast indicators of the financial system, creating conditions for the development of stock market financial institutions and access to international capital markets.

The vision of S. Dzhus (2011), which characterizes the stock market as «a synergy of the securities market (including any transactions with all existing types of securities) and a set of economic relations formed in the process of attracting, distributing and redistributing corporate securities, is sound. and private funds and transactions with them». From this approach it can be determined that the special place of the securities market is considered by the author in the context of in-depth interaction between all available funds on the market, including financial institutions, which occurs with the direct participation of market infrastructure of their movement.

Given this, S. Esh (2011) in his research points out that «the stock market is often viewed as part of the capital market, as a stock market or as a loan capital market. The main instruments of the stock market are securities of different types, types that belong to different segments». N. Fedoronjko and I. Trachuk (2017) note the important role of the stock market in the processes of mobilization of financial and capital resources in a market economy, as well as a tool for innovation policy in the state. It appears to be an integral attribute of the institutional regulation of the national economy.

In his research, Zh. Harbar (2012) notes that «the stock market is a complex system that is influenced by both external and internal factors. The main factors influencing the functioning of the stock market are: political and social stability of society; ownership structure; the level of economic literacy of the population and trust in financial institutions; financial depth and financial structure of macroeconomics; belonging to a developed market or to an emerging market; regional market affiliation; world energy prices; economic and financial policy of the state». Given the above, for the development of the domestic stock market it is important to analyze these factors, determine the level of their impact on the functioning of market infrastructure and develop effective approaches to public administration and regulation (Tamosiuniene, Demianchuk, Koval, 2019).

I. Fedorovych (2017) notes that today there is a transformation of the structure of the global stock market in the direction of development of national markets and the creation of international financial centers. The globalization of the world economy has led to significant changes in the stock market, such as a significant increase in the size of the international investment market and an increase in the share of portfolio and speculative investors, strengthening the role of financial institutions. The experience of countries with developed and transformational economies shows that large-scale use of the securities market mechanism to stimulate investment activity, flexible regulation of capital redistribution processes to address the problems of expanded reproduction and formation of programs to stimulate domestic and foreign investment allows for a comprehensive approach to economic growth. The formation and development of the domestic securities market is contradictory and ambiguous. The main problems remain the insignificant role of the domestic stock market in the processes of transformation of savings into investments and the imperfection of the regulatory mechanism. Without the creation of an effective regulatory system, the effectiveness of investment processes implemented through the stock market will remain low. Therefore, one of the priority tasks is to improve the domestic securities market to ensure the stability of the country's economic development.

In the structural construction of the infrastructure of the stock market is important feature of the activities carried out by its direct participants. Thus, the professional activity of trading in securities on the stock market is carried out by securities traders and banks. Securities traders are business entities whose only activity is securities transactions. Intermediary activities in the stock market are carried out by enterprises specializing in securities, intermediation in the issuance and circulation of securities, operations in the stock market on behalf of and at the expense of their clients, at their own expense, on behalf of the issuer in the initial public offering securities and the provision of other securities services (brokerage, dealership, investment advice, securities portfolio management, registration functions, etc.). Intermediary activity is carried out by banking institutions, which, along with other credit and financial functions, can carry out intermediary activity on issue and circulation of securities, performing operations on the stock market at their own expense, on behalf and at the expense of their clients, and investment companies combining financial functions. intermediary in the securities market and institutional investor (Laktionova et al., 2021). They act as investment managers and advisors for other institutional investors, form their assets in securities, organize the accrual and payment of income from securities. Banks, securities dealers or registrars also have the right to be custodians if they have licenses to conduct depository activities. The activity of Mutual Investment Institutions is important in the stock market. Mutual and corporate investment funds that conduct mutual investment activities are called Mutual Investment Institutions. Self-regulatory organizations carry out their activities in order to create an effective system of regulating the activities of professional stock market participants and control over it. These organizations unite professional market participants.

Institutional participants of the stock market by the nature of their activities can be divided into investment funds, insurance companies, private pension funds, banks. Each of these financial institutions uses different ways of raising capital, namely: by issuing its own securities (CII), by providing services (risky insurance companies), raising funds on a contractual basis (life insurance companies and private pension funds) or using other methods (banks that can use deposits, loans, own funds). In this case, funds can come from both individuals and legal entities, and therefore the primary investors are individual and corporate clients (Felorovich, 2018).

It is important at the present stage to adapt national legislation in the field of stock market functioning to the international principles of its organization and regulation. Thus, in order to fulfill Ukraine's obligations under the Association Agreement between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand, national regulations are aimed at implementing European Union legislation in in the field of capital markets and organized commodity markets, in particular:

- 1) Directive №98/26/ EU of 19 May 1998;
- 2) Directives № 2002/47/ EU of 6 June 2002;
- 3) Directive № 2002/87/ EU of 16 December 2002;
- 4) Directives № 2004/109/ EU of 15 December 2004;
- 5) Regulation (EU) № 648/2012 of 4 July 2012;
- 6) Directives № 2013/36/ EU of 26 June 2013;

- 7) Regulation (EU) № 575/2013 of 26 June 2013;
- 8) Directive № 2014/65/EU of 15 May 2014;
- 9) Regulation (EU) № 600/2014 of 15 May 2014;
- 10) Regulation (EU) № 596/2014 of 16 April 2014;
- 11) Regulation (EU) № 2017/1129 of 14 June 2017;
- 12) Regulation (EU) № 909/2014 of 23 July 2014.

The use of already developed, tested in practice tools and approaches to the regulation of capital markets can greatly simplify the process of entering the domestic stock market to the conditions and rules in force in the European Union.

The key element of the functioning of the stock market in which the operations of purchase and sale of major securities and, accordingly, the formation of their price is the stock exchange. At the same time, the over-the-counter market in Ukraine has also developed significantly. Thus, according to Figs. 1. The average value of the share of transactions that took place on the over-the-counter market in 2016-2020 was 64.5 percent. At the same time, there was a sharp decrease in this indicator in 2017 to 51.18 percent from 88.94 percent in 2016, which was a consequence of institutional and structural restructuring of the market. Starting in 2017, the OTC market share resumed growth at an average rate of about 5 percent per year and in 2020 amounted to 66.49 percent. The share of transactions in the stock market is declining. Thus, in 2020 its share was 33.51 percent, which is 5.68 percent less than in 2019 and 15.31 percent less than in 2017.

Fig. 1. Volume of trades on the exchange and over-the-counter securities market in 2016 - 2020, UAH billion.

Source: calculated by the author on the basis of data from the National Commission on Securities and Stock Market

After a sharp decline in the share of transactions taking place on the exchange and over-the-counter markets in GDP in 2017, there is a tendency to increase. In 2020, this

figure was 23.87 percent, which is 4.29 percent more than in 2019. Such dynamics indicates the restoration of the economic role of the stock market in the country's economy and creates the preconditions for expanding its potential.

The National Securities and Stock Market Commission conducted a study of the ratio of trading in organized and unorganized markets, which revealed that both organizational structures remain active. It should be noted that the ratio of trading in various securities in the unorganized market differs significantly from this indicator in the organized. Comparison of organized turnover with the over-the-counter market allowed us to establish that the latter is characterized by lower volatility and the absence of significant fluctuations in the volume of trading in securities and other financial instruments. Despite this, the decrease in government bond transactions on the over-the-counter market is due to a convenient trading process and the gradual formation of liquidity in the organized market.

Thus, the stock market occupies an important place among other markets and plays a huge role in ensuring the efficient and balanced functioning of the market economy mechanism. An important role in the development of the stock market is played by banking institutions, which are its leading institutional participants. The activity of banks in the stock market is multifaceted. They act as issuers, investors, financial intermediaries and infrastructure participants in the market, engage in non-professional and professional activities with securities, in particular, depository activities, settlement and clearing activities, securities and asset management activities, activities to maintain a register of securities holders and , as well as securities trading activities. Significant influence on changes in the infrastructure of the stock market at the present stage has a tendency to universalize the position of banks, which is associated with the repeal of the Glass-Steagall law prohibiting commercial banks to establish subsidiaries for securities trading. G. Kalach (2009) notes that the universalization of banks leads to the leveling of clear differences between the two main models of stock markets - Anglo-Saxon and European-continental.

Issuance activities allow banks to address the issues of their own capitalization, compliance with the requirements of the National Bank of Ukraine and improve money circulation in the country. If banks act as investors, they attract funds from legal entities and individuals to the stock market, which allows directing the necessary resources to priority sectors of the economy and addressing a number of social issues.

The study allowed to identify certain problematic issues in the current model of the stock market that need thorough study and solution. According to the National Bank of Ukraine, the country's stock market is negatively affected by the lack of oversight on key elements of the stock market infrastructure; the need to bring the activities of financial institutions of the stock market to international standards; the need for further recapitalization of the Settlement Center in case of continued banking activities; non-performance by the Settlement Center of classical banking activity; too high level of authorized capital of the Settlement Center for clearing activities; impossibility of competition and market development due to the monopoly of the Settlement Center on DVP settlements on securities; the need to move closer to the EU's leading practices of providing «settlements in central bank money»; inconvenience of accounting for securities in two depositories.

The study (Blahun, 2019) shows that at the present stage in Ukraine all its main elements are created and function in accordance with the requirements of both global and European financial regulators, namely: the payment system, represented by both public and private participants, has multilevel participation structure; depository system, which has a vertical structure, in the center of which is the National Depository of Ukraine, while certain functions, in terms of operations with government securities, still perform the National Bank of Ukraine; the clearing system is represented by the Settlement Center for servicing contracts on the financial market; consolidation of stock exchanges continues, their number has decreased from 10 to 5 stock exchanges, at the same time the main share of operations is carried out on two stock exchanges, therefore, there is a tendency to further consolidation of trading organizers; securities traders operate, an important role among them belongs to large banks; Almost 300 stock market participants are asset management companies, and an authorized provider of information services in the stock market has been established and is starting to operate.

Conclusion. The efficiency of the financial institutions of the stock market is a comprehensive reflection of the end results of the use of financial resources of investors to meet the needs of all market participants. In our opinion, the level of efficiency of functioning of financial institutions of the stock market, taking into account the degree of development of the macroeconomic and institutional environment, is influenced by: the chosen model of stock market formation, on the basis of which the most influential participants are determined; the level of competition between market participants; the degree of its information transparency. These factors are closely intertwined and interdependent and require an appropriate degree of correlation between them.

Only the stable and balanced functioning of all its financial institutions can ensure the effective operation of the stock market. The importance of providing services by financial institutions in the domestic stock market is beyond doubt, however, the implementation of European and international legal mechanisms for its regulation, current challenges and shocks in financial markets, necessitate further research and comprehensive proposals for their practical implementation.

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