

UKRAINIAN MARKET FOR THE INVESTMENT CERTIFICATES

Investing to investment certificates could make the life of the population who needs additional money easier. Making investments sensibly, they could not only earn money from taking part in CII, but also make a fortune. Of course, there could be some risks, but compared to the advantages, it is possible to neglect them. As a result of using investment certificates it is possible to increase the population wealth.

The main purpose of this research is to analyze the current situation on the Ukrainian stock market and to describe the perspective of the share investment funds in Ukraine, possible ways of solving problems connected with the existence of CII and eliminating the barriers appearing on the way of CII development.

Investment certificate is a nominal security which is produced by investment fund or investment company and accepts the right of the owner of such a certificate to take part in the investment fund or the investment company but it doesn't give the right to vote at the general meeting of a stock company. The ownership of investment certificate accepts the right of getting the income (dividend). Investment certificate in comparison to the stock guarantees definite income minimum [1].

AMC establish investment funds, which deal with the emission of such securities as investment certificates into the circulation.

First of all the investor should pay attention to reputation, experience and efficiency of AMC. On investor's requirement, AMC should give the full information which confirms the existence of SSMSC license, registration of CII order and stock's emission prospect, and securities emission registration license of SSMSC, CII registration in the Unit State register [2].

According to the Law of Ukraine „On State Regulation of Securities Market in Ukraine” [3] the government regulation of securities market is performed by the Securities and Stock Market State Commission (SSMSC). **The purpose of SSMSC regulatory activities** is to develop and improve the effectiveness of the state regulation in the stock market, promote the unified state policy realization on the issues and turn over of securities, protection of investors and other stock market participants.

The main directions of SSMSC's activities in the field of regulation are:

1. working out of Draft Regulations in securities market;
2. adoption of Regulations;
3. introduction of amendments to Regulations;
4. analysis of regulatory impact of Regulations;
5. tracking of adopted Regulations effectiveness [4].

Compared to another issuers SSMSC provides CII with thorough control and protects the investors' interests [5].

While choosing CII, it is worth, first of all, taking into account such features of investment as profitability, liquidity and risks.

CII which invest money especially to stocks are considered to be the most risky, but they have high profitability. It is necessary to remember that the more is the potential profitability, the more is the risk level. An intermediate option is the fund of mixed investments, which foresees the proportion of bonds and stocks in the portfolio. The liquidity defines the profitability of quick getting of invested money at the definite moment of time. If it is significant for you to get this money in different moment independently on the sum of money, you can invest them to open-end fund as it is obliged to buy your securities for the formed price conditioned by Net Asset Value. If it is enough to get such an opportunity time after time, the interval fund is an alternative. Closed-end fund is not obliged to buy your securities till the end of their activity term, but you can sell them without engaging of the fund itself, because such securities in comparison to open-end funds turn free at the secondary market, like the interval fund's securities [2].

Table 1 shows that the number of the investment certificates bought, which value has been expressed in UAH billion, has increased compared to 2006 on UAH 6.81 bln. UAH and it is obvious that the positive tendency is constant. Per se, the main factor which influences such a positive tendency should be the population income. The logic is simple: the more is income, the more available assets people have for investing in the stock market, in this case in investment certificates. However, after checking the connection between the number of the investment certificates, it appeared that the connection

does not exist. The connection does not exist because the investment certificates are not popular among the Ukrainians. In other words, in general only legal persons invest to CII and it was proved by the regression-correlation analysis. Therefore, the dependence of the investment certificates popularity lies in other factors (crisis, unawareness of the people, poor protection and so on).

The stock market of Ukraine is divided into five sectors: banks, insurance companies, financial and investment companies, CII and non-state pension funds. Figure 1 depicts the dynamics of the investments to securities during 2009 – 2010. As we see, the banks demonstrate leading positions on the market and the pace of increasing of the investments to the securities compared to other institutes of the stock market. So, to the end of the third quarter of 2010 the amount of banks investments to securities was UAH 76.2bln when the CII investments were less (approximately UAH 5bln). What was the reason for such difference and why are banks miles more trustworthy? Moreover, after the crisis in 2008 there was a moratorium on population deposits introduced: the investments have been frozen for 4 – 5 month. However, despite this fact, the banks have managed to return the population’s trust.

Our further research is based on the following assumption: low demand on investment certificates in Ukraine in 2006 – 2010 depends on low income of the Ukrainian people. In order to check the connection between income and the amount of investment certificates sold we used correlation-regression analysis, which showed us that our theory is wrong. Although the tightness is medium the connection between them is invalid.

$$\begin{cases} \sum_i y_i = n \cdot a_0 + a_1 \sum_i x_i; \\ \sum_i x_i \cdot y_i = a_0 \sum_i x_i + a_1 \sum_i x_i^2; \end{cases} \quad (1)$$

$$\begin{cases} 15240,00 = 5 \cdot a_0 + a_1 \cdot 3936292,00; \\ 14839371740,00 = a_0 \cdot 3936292,00 + a_1 \cdot 3338420946144,00; \end{cases}$$

$$\begin{cases} a_1 = 0,01; \\ a_0 = -4824,58; \end{cases}$$

$$r^2 = \frac{\sum (y^{\wedge}_x - y')^2}{\sum (y_i - y')^2} = \frac{23954200,43}{55841480,00} \approx 0,43 \quad (2)$$

where r is the correlation coefficient;

Table 1

The number of the stock exchange contracts with the securities in 2006 – 2010, mln. UAH [4]

Year	2006	2007	2008	2009	2010
Number of stock exchange contracts with investment certificates	330	430	200	7140	7140

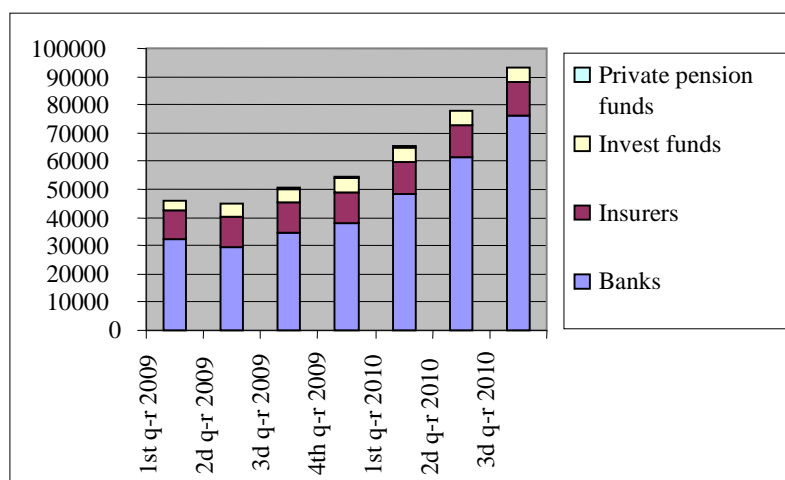


Fig. 1. Dynamics of the investment in securities of the institutional investors, mln. UAH [7]

Table 2

The results of correlation-regression analysis

Year	Income, x_i	Number of stock exchange contracts with investment certificates, y_i	x_i^2	y_i^x
2006	472061.00	330.00	222841587721.00	-103.97
2007	623289.00	430.00	388489177521.00	1408.31
2008	845641.00	200.00	715108700881.00	3631.83
2009	894286.00	7140.00	799747449796.00	4118.28
2010	1101015.00	7140.00	1212234030225.00	6185.57
Sum	3936292.00	15240.00	3338420946144.00	

$$F = \frac{r^2}{1-r^2} * \frac{k2}{k1} = \frac{0,43}{1-0,43} * \frac{3}{1} \approx 2,26 \quad (3)$$

where F is Fisher's test, $k1$ – the number of the degree of freedom in the external variance, $k2$ – the number of the degree of freedom of the average one out of group dispersion.

$$F_{tab} = 10,13; \quad F < F_{tab};$$

Therefore, there are some other reasons why investment certificates are unpopular in Ukraine. These are some of them:

- low awareness of the population concerning investment funds activity;
- economic crisis;
- weak protection of investment certificates owners.

Delving deeply into the first reason, the Ukrainians know nothing about how to double their income, although there are a lot of ways to increase their profits. One of them is buying investment certificates. Asset management companies do not pay much attention to promotion whereas the banks do. Looking at the banks' advertising campaigns, it is evident where people invest their savings more willingly. However collaboration with share investment funds is risky but you also can get more money, because there the rate is higher than in banks. As for the second reason, the peak of the economic crisis happened in 2008. It has been reflected on the investment certificate sales. Unfortunately, except the prices decrease of investment certificates, the crisis brought a lot of problems to the investors. The main problems were:

temporary moratorium on redemption of investments certificates; very slow revaluation of non-liquid assets. Despite the absence of official statements, this problem is an urgent one. Even today there are some not revaluated assets since 2008 in some funds. The third reason can be explained as the lack of government support to investors. That is why there are not enough guarantees to return their money with profit. Moreover, investors can not be sure that they will get their money at all. Investment funds are not protected by government, they exist on the private base. There is some risk of Asset Management Company bankruptcy.

Therefore, there are some possible ways for improving the situation, such as:

1. Effective advertising campaign of investment funds. CII should be ready to spend the definite sum of money for the promotion as the banks do. However, such expenditures not always can be effective depending on the sources of information (television, magazines, radio, newspapers, the Internet and so on). In this situation the main aim is to increase the number of people who know about investment funds and to persuade them that such kind of the investments values for money.

2. The government support. As it was said above, CII needs some kind of guarantee fund, which can help to prevent investors from bankruptcy. The lack of such a support brings up some hesitation and uncertainty if it is worth investing or not.

3. The transformation of savings into investment capital. People should be aware of all the benefits which they can get from ownership of investment certificates. To sum up all the above mentioned possible ways for improvement CII will be able to make potential investors be interested in their offers.

Conclusion

Judging from the information and analytics above, we can conclude that although the formation of CII as the rigorous participants at the stock market is slow, at least it is developing. Even taking into account the number of the stock exchange contracts with the securities it appeared that in 2006 – 2011 the situation with the investment certificates sales was changing and during the six years it has been improved practically 20 times, so it is a rather good start.

Of course, the CII availability, first of all, depends on the situation at the stock market of Ukraine. It means that the decrease of the amount of the investments to CII and to the investment certificates buying appeared in 2008 together with world finance depression. At that time the consequences of the crisis for the stock market became evident: prices' dramatic fall, flight of investors and so on. Naturally, this could push away not only international investors but also the Ukrainian ones as their money was under threat due to unstable situation at the stock market. In addition, it is necessary not to forget about low liquidity of the Ukrainian fund market, and also about the quite little amount of securities which are being sold on an exchange, limited amount of instruments of fund market also prevents the development of CII potential in full strength. In fact, there is also another problem with stock market development, and consequently with CII, it is absence of the single deposit-clearing system, which would become a calculated depository and authorized holder for all of the largest trade grounds of the country. Although the crisis consequences are evident, Ukraine is on the edge of post-crisis recovery. The dynamics of the economic development indexes in the first quarter of 2011 shows the positive tendencies at the phase of the post-crisis recovery.

The main rivals in the investment in the securities are still banks. The main reason is in the fact that it is easier for the Ukrainians to deposit their money to the bank with the annual interest and to get minimal but guaranteed profitability. And although banks suffered more during the crisis, anyway they stay much more preferable. While investing to CII it is possible to choose how to manage the money. To invest to the bank, of course is the simplest but not the most profitable decision. However, in Ukraine investment to CII is not so popular and there is no proper advertising campaign (compared to banks). Nowadays there is the dependence of the Ukrainians on their savings, so with the increase of the profitability the savings of the potential investors are increasing, what leads to the desire to use free money or to invest. Unfortunately, only Ukrainians with the high income afford to invest to the CII. However, during the last years

the positive tendency of income increase has appeared in Ukraine. Moreover, the accelerated economy development, which provides active increase of the population income, will stimulate the Ukrainians to find additional directions of the savings allocation. And CII will not be the last.

In order to accelerate the process of the investment to CII, it is necessary to provide the society with the information about the activity of CIFs, about their advantages for the investors remembering that some risks of this direction exist. Today the lack of the information about CII does not give the opportunity to carry out the market potential fully.

The absence of sufficient amount of the reliable financial instruments on the internal market has become another substantial problem, which prevents AMC from investments of the investors attracted facilities. The solution is in development of the private sector of country, in other words in creation of the higher amount of enterprises as possible, whose stocks would circulate on the Ukrainian stock market. Moreover, foreign investments bringing in is also necessary in a private sector and not only.

There is an unwarrantable imbalance in the levels of profit taxation from investments in different financial institutions. Interests acquired to bank deposits are not under taxation and at the same time the income, which the population has got from CIF investments, are under taxation. It would be useful to introduce the preferential taxation of the investors' income, who invests to CIF for the long period of time, or to decrease the rate of taxation of the income from the investments for the term which is more than one year in order to increase the investment activity of the individuals. The taxation rate depends on the investor's legal position. The minimal taxation rate is for individuals (residents and non-resident legal persons, whose rate will be 15 per cent of the profit). So, now the rate is not so high, which can become an extenuating circumstance for CII when choosing the institutional investor.

The real problem is the methodology of the NAV assessment of the CIFs. The active statement of the SSMSC, which regulates this issue, allows the companies to assess their net assets of the CIFs freely. This can lead to distorting the information about the funds assets. This problem can be solved with the help of the calculation methodology improvement.

The dynamics of the CII coming to the market does not decrease actually. Therefore, today the problem is not in the quantitative growth of CII and AMC, but in the quality of their services, increase of the professional level of managers, on the one hand, growth of potential investors trust, on the other hand, and readiness of

economy. For harmonious development of investment funds in Ukraine it is necessary to do a lot but they already have good prospects which they can bring to life with the help of the government.

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Костенюк І. В., Соболева К. Ю., Чернікова К. В. **Український ринок інвестиційних сертифікатів**

У статті визначено потенціал розвитку інвестиційних сертифікатів на фондовому ринку України, проведено аналіз дійсної ситуації за допомогою кореляційно-регресійного аналізу на основі динаміки, простеженої з 2006 по 2010 рр.

Ключові слова: фондовий ринок, інвестиційні сер-

тифікати, інститути спільного інвестування, компанія з управління активами, державна комісія з цінних паперів та фондового ринку.

Костенюк И. В., Соболева Е. Ю., Черникова Е. В. **Украинский рынок инвестиционных сертификатов**

В статье определяется потенциал развития инвестиционных сертификатов на фондовом рынке Украины, проводится анализ нынешней ситуации с помощью корреляционно-регрессионного анализа на основе динамики, прослеженной с 2006 по 2010 гг.

Ключевые слова: фондовый рынок, инвестиционные сертификаты, институты совместного инвестирования, компания по управлению активами, государственная комиссия по ценным бумагам и фондовому рынку.

Kostenok I. V., Chernikova C. V., Soboleva C. Y. **Ukrainian Market for the Investment Certificates**

An article defines the potential of the investment certificates development on the securities market of Ukraine, shows the results of the current market situation analysis with the help of the correlation-regression analysis on the base of the dynamics of the 2006 – 2010.

Key words: Security Market, Investment Certificates, Collective Investment Institutions, Asset Management Company, State Securities and Stock Market Commission.

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