

**ФІНАНСИ. БАНКІВСЬКА СПРАВА**

UDC 336.025

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**REFORMING OF STATE REGULATION  
AND SUPERVISION OF FINANCIAL  
INSTITUTIONS IN UKRAINE**

**Urgency of the research.** Introduction of efficient system of state regulation and supervision of financial institutions is key direction of state policy of Ukraine for creating stable financial system.

**Target setting.** Difficult situation in financial sector of Ukraine, low financial stability of financial institutions and high sensitivity to risks tell about necessity of reforms in state regulation and supervision of financial institutions.

**Actual scientific researches and issues analysis.** Native and foreign scientists pay much attention to mechanisms of state regulation and supervision of financial services markets, including: O. Baranovskiy, S. Barnes, V. Komeyev, I. Krupka, V. Mishchenko, S. Naumenkova, T. Smovzhenko, K. Styroch, M. Tailor, V. Fedosov, and others.

**Uninvestigated parts of general matters defining.** At the same time existing scientific researches don't provide proper review of justification of efficient institutional model for Ukraine.

**The research objective.** Investigation of existing models of state regulation and supervision of financial institutions in the world and justification of efficient institutional model for Ukraine.

**The statement of basic materials.** The results of investigation show that in terms of open financial market existing in Ukraine model doesn't provide efficient supervision of financial institutions. Conducted critical analysis of existing models of state regulation and supervision of financial institutions helped to determine advantages and disadvantages of each model and justify the necessity of reforms in state regulation and supervision.

**Conclusions.** Is suggested the way of transformation of existing in Ukraine sectoral model into efficient system of state regulation and supervision of financial institutions by combining model of concentration of all monitoring functions in one monitoring institution with assignment of supervising responsibilities under systemically important financial institutions on individual and consolidated basis on National bank of Ukraine.

**Keywords:** financial services markets; financial institutions; state regulation and supervision; competent authority; sectoral model.

**DOI:** 10.25140/2410-9576-2017-2-4(12)-58-61

УДК 336.025

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**РЕФОРМУВАННЯ ДЕРЖАВНОГО  
РЕГУЛЮВАННЯ ТА НАГЛЯДУ ЗА  
ФІНАНСОВИМИ УСТАНОВАМИ В УКРАЇНІ**

**Актуальність теми дослідження.** Для створення стійкої фінансової системи важливим напрямом державної політики України є впровадження ефективної системи державного регулювання та нагляду за фінансовими установами.

**Постановка проблеми.** Складна ситуація в фінансовому секторі України, низька фінансова стійкість фінансових установ та висока чутливість до ризиків свідчать про необхідність реформування державного регулювання та нагляду за фінансовими установами.

**Аналіз останніх досліджень і публікацій.** Вітчизняні та зарубіжні вчені приділяють значну увагу механізмам державного регулювання та нагляду за ринками фінансових послуг, а саме: О. Барановський, С. Барнес, В. Корнеєв, І. Крупка, В. Міщенко, С. Науменкова, Т. Смовженко, К. Стирох, М. Тейлор, В. Федосов та ін.

**Виділення недосліджених частин загальної проблеми.** У той же час у роботах науковців не знайшли належного відображення обґрунтування ефективної інституційної моделі для України.

**Постановка завдання.** Дослідження існуючих в світі моделей державного регулювання та нагляду за фінансовими установами та обґрунтування ефективної інституційної моделі для України.

**Виклад основного матеріалу.** За результатами дослідження встановлено, що в умовах відкритого фінансового ринку існуюча в Україні модель не забезпечує ефективний нагляд за фінансовими установами. Проведений критичний аналіз існуючих моделей державного регулювання та нагляду за фінансовими установами дозволив виявити переваги та недоліки кожної з моделей та обґрунтувати доцільність реформування державного регулювання та нагляду.

**Висновки.** Запропоновано спосіб трансформації існуючої в Україні секторальної моделі в ефективну систему державного регулювання та нагляду за фінансовими установами шляхом поєднання моделі концентрації всіх наглядових функцій в єдиному наглядовому органі з покладенням на Національний банк України повноважень щодо здійснення нагляду за системно важливими фінансовими установами на індивідуальній та консолідованій основі.

**Ключові слова:** ринок фінансових послуг; фінансові установи; державне регулювання та нагляд; компетентний орган; секторальна модель.

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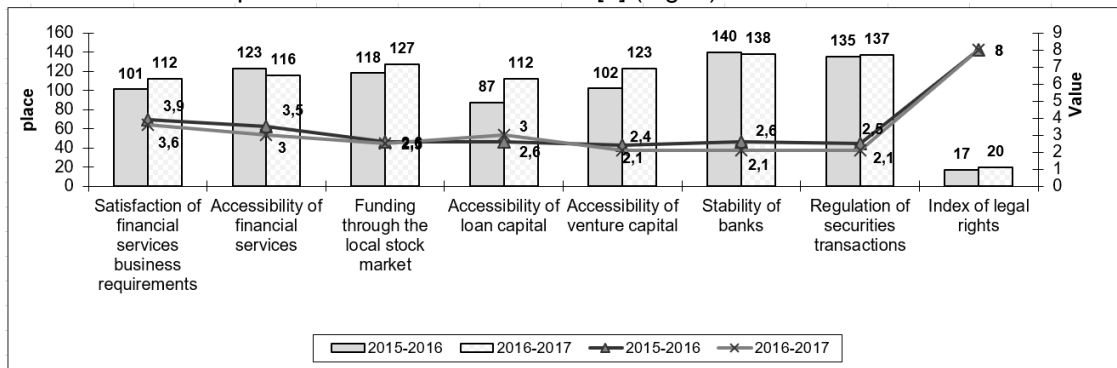
**Target setting.** Difficult situation in financial sector of Ukraine, low financial stability of financial institutions and high sensitivity to risks tell about necessity of reforms in state regulation and supervision of financial institutions.

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**The research objective.** Investigation of existing models of state regulation and supervision of financial institutions in the world and justification of efficient institutional model for Ukraine.

**The statement of basic materials.** In Ukraine, the sectoral model of state regulation and supervision of financial institutions has been formed. Each competent authority carries out regulation and supervision over a certain institutional sector (type of financial institution). The development of the financial market in Ukraine and the current situation in the financial system and other sectors of the economy indicate that the sectoral model was not very effective. In this regard, the issue of improving the institutional model of government regulation and supervision of financial institutions becomes of particular relevance. The need for reform is also demonstrated by the low importance of WEF for the competitiveness index of Ukraine as part of the "Level of development of the financial market" [1] (Fig. 1).



**Fig. 1. WEF rating as part of "The level of financial market development"**

Source: created on the basis of [1]

In an open financial market, the sectoral model will not be able to provide adequate supervision of financial conglomerates and the financial market with sectoral-blurred borders. Using different regulatory and taxation conditions, financial institutions can use regulatory and tax arbitrage. All this leads to the need to replace sector regulation and supervision with other models with increased prudential supervision [2] and the concentration of regulatory and supervisory powers.

The choice of an effective form of organization of the competent authority for regulating and supervising the activities of financial institutions and establishing an appropriate distribution of functions between the competent authorities is decided by the states independently, taking into account the positive international experience.

Classification of existing forms of countries (methods, models) of the organization of state regulation and supervision of financial institutions [3] can be summarized by the following three models:

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- Sectoral model, which is the existence in the countries of certain bodies supervising the activities of certain sectors - the banking, insurance market, securities market, etc. (Greece, Spain, Italy, Luxembourg, Cyprus, Lithuania, Portugal, Slovenia, France);
- model of concentration of all supervisory functions in a single supervisory body separated from the central bank (Germany, Finland, Sweden, Switzerland, Poland, Estonia, Belgium, Romania, Bulgaria, Austria, Kazakhstan, etc.);
- a model for sharing oversight of the market and prudential oversight, or a functionally-oriented model "Twin Peaks" (Great Britain, the Netherlands).

According to the study of existing practice in European countries on the distribution of powers in the field of state regulation and supervision of financial institutions on the basis of the above models [4] it is advisable to state that no model will be effective if it is not adapted to the realities of the country.

The problem of creating a fundamentally new model of supervision and control over the activities of financial institutions in Ukraine has been discussed since 2000. The following are five possible options for the transformation of the existing sectoral regulation and supervision of financial institutions and financial services markets in Ukraine.

1. The first option of transformation is to strengthen or redistribute the responsibility of the competent authorities in certain sectors, based on the sectoral supervisory model. Such a method of transformation can not lead to an increase in the efficiency of regulation and supervision, as the basic disadvantages of the sectoral model, which are mentioned above, remain.

2. The second option of transformation, in accordance with the model of concentration of all supervisory functions in a single supervisory body, may be to transfer to the National Bank of Ukraine (NBU) all powers to regulate and supervise all financial institutions and markets for financial services. For such an option there is a danger of creating a regulatory monopoly in conjunction with the functions of the market operator. The problem will be the stagnation of the development of non-bank financial institutions.

3. The third option of transformation could be the option of transferring all regulatory and supervisory powers to all new financial services markets to one new competent authority, separating banking supervision from the NBU. This option may also be ineffective, as it will take considerable time for preparatory methodological and organizational work and require substantial resources for its implementation.

4. For the fourth option of transformation, it is also possible to apply a division of supervisory and regulatory powers. In this case, the powers transferred to two separate bodies - the supervisory and regulatory body. This path requires substantial resources for its implementation and significant time to create two new bodies.

5. Taking into account objective factors and national realities, it may also be possible to propose the fifth transformation option, instead of the existing sectoral model, by combining models of concentration of all supervisory functions in a single supervisory body with the partial application of a functionally-oriented division of powers with the NBU on prudential supervision and regulation. It should be noted that in recent years the control over the behavior of financial institutions in relation to the client has become increasingly important in the world [6].

In order to implement the above mentioned transformation option, it is advisable to create a separate, single supervisory authority that monitors the individual and consolidated basis for the provision of financial services. Such a supervisory authority is entrusted with the powers of the National Bank for supervising and controlling non-system banks, the National Securities and Stock Market Commission for supervision of the securities market and the National Commission for the regulation of financial services markets. The only supervisor is also to monitor the behavior of financial institutions in the market. Its activities will be aimed at protecting the rights of consumers of financial services.

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The National Bank has the function of overseeing systemically important financial institutions on an individual and consolidated basis, macro-prudential supervision, and a methodology for regulating and overseeing financial institutions and the financial market. Such a transformation will not require significant financial costs and time.

The proposed model of regulation and supervision to ensure only the supervisor in close cooperation with the central bank is an adaptation of the interaction BaFin Deutsche Bundesbank in Germany, as well as models of interaction Financial Conduct Authority and Prudential Regulation Authority in the UK. This model has several advantages, namely: eliminating the possibility of using regulatory arbitrage and unjustified barriers to the development of financial services markets; the process of preparation and implementation of adequate regulatory and supervisory measures is being accelerated, as simultaneous monitoring of all financial services markets is ensured; allows the single supervisor to implement operational and effective control in the conditions of blurring the boundaries between different financial services markets, and will allow effective transnational monitoring in the framework of international cooperation; the centralization of supervision will reduce the cost of maintaining the control apparatus and will reduce the risk of loss (dissemination) of confidential information.

**Conclusions.** The existing sectoral model in Ukraine is not able to provide effective supervision of financial institutions and the financial services market. The feasibility of introducing in Ukraine a model of the concentration of all supervisory functions in a single supervisory body with the use of a partial, functionally-oriented division of powers regarding prudential supervision with the National Bank of Ukraine is substantiated.

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Received for publication 12.10.2017

### Бібліографічний опис для цитування :

Karcheva, G. T. Reforming of state regulation and supervision of financial institutions in Ukraine/ G. T. Karcheva, S. G. Khoruzhyi // Науковий вісник Полісся. – 2017. - № 4 (12). ч. --. – С. -.