



Ukrainian Association of Investment Business

UAIB

The Developments in Ukraine – Political, Economic and Regulatory Aspects

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Agenda

- (I) Ukraine and the world – Recent Political Turbulance**
- (II) The Ukrainian Economy and the Fund Industry Trends**
- (III) The Legal Framework Developments**
- (IV) Prospects for the Fund Industry in Ukraine**



(I)

Ukraine and the World – Recent Political Turbulance





The Drastic Changes on the Political Arena

- ▶ **21/29 Nov 2013** – the ‘U’-turn of the Ukrainian Government – refusal to sign the **Association Agreement with the EU** – the start of ‘**Maidan**’
- ▶ **17 Dec 2013** – the ‘credit agreement’ with Moscow
- ▶ **Jan 2014** – first clashes in the heart of Kyiv and occupation of the administrative buildings by the protesters
- ▶ **Feb 2014** – mass shooting in the centre of Kyiv, the escape of the ex-President and his Cabinet
- ▶ **1/17 Mar 2014** – Russia military invasion and annexation of Crimea
- ▶ **Q1 2014** – dozens of the UN Security Council meetings
- ▶ **21 Mar 2014** – signing of the ‘**political**’ part of the AA...





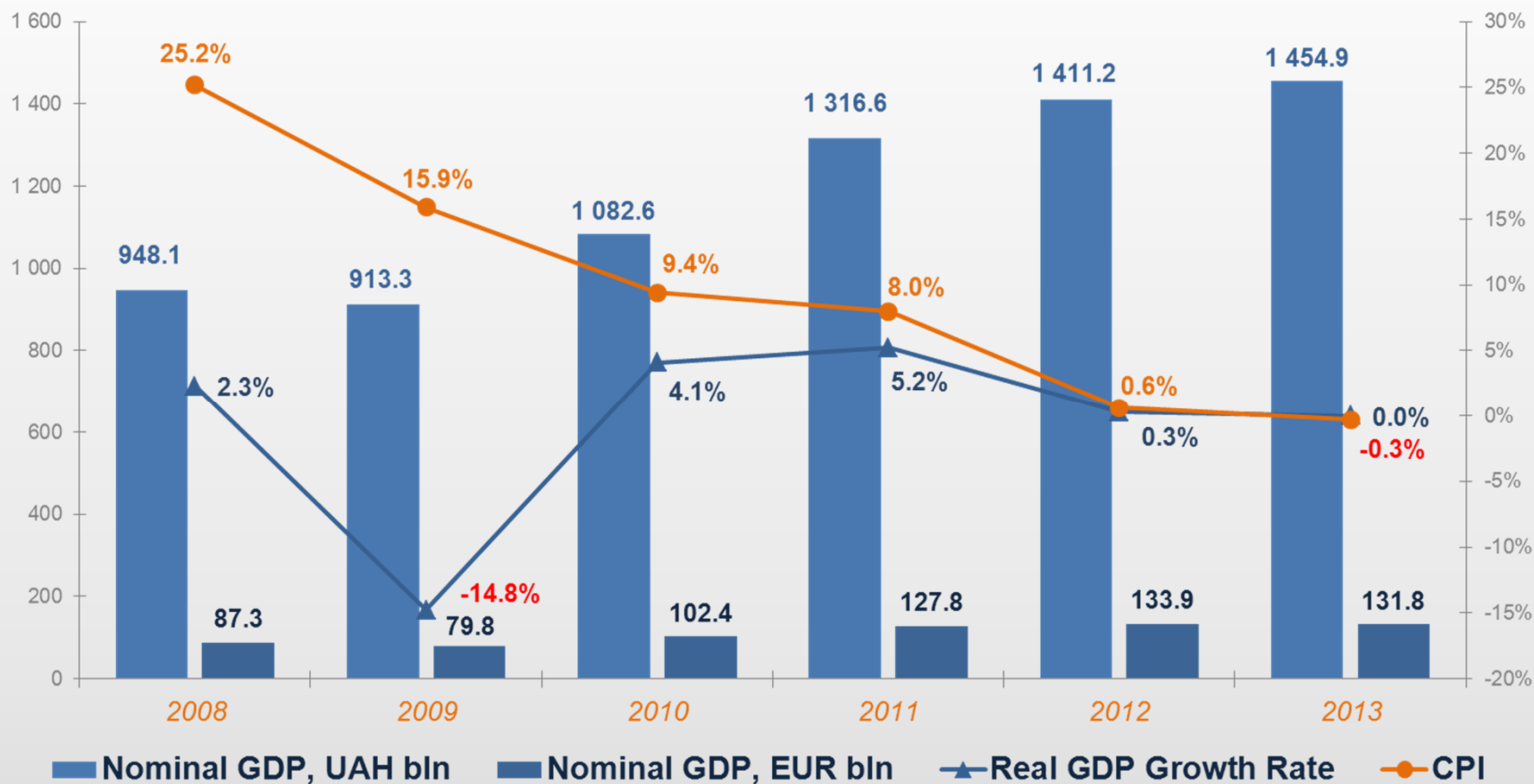
(II)

The Ukrainian Economy and the Fund Industry Trends





GDP and Inflation (CPI)

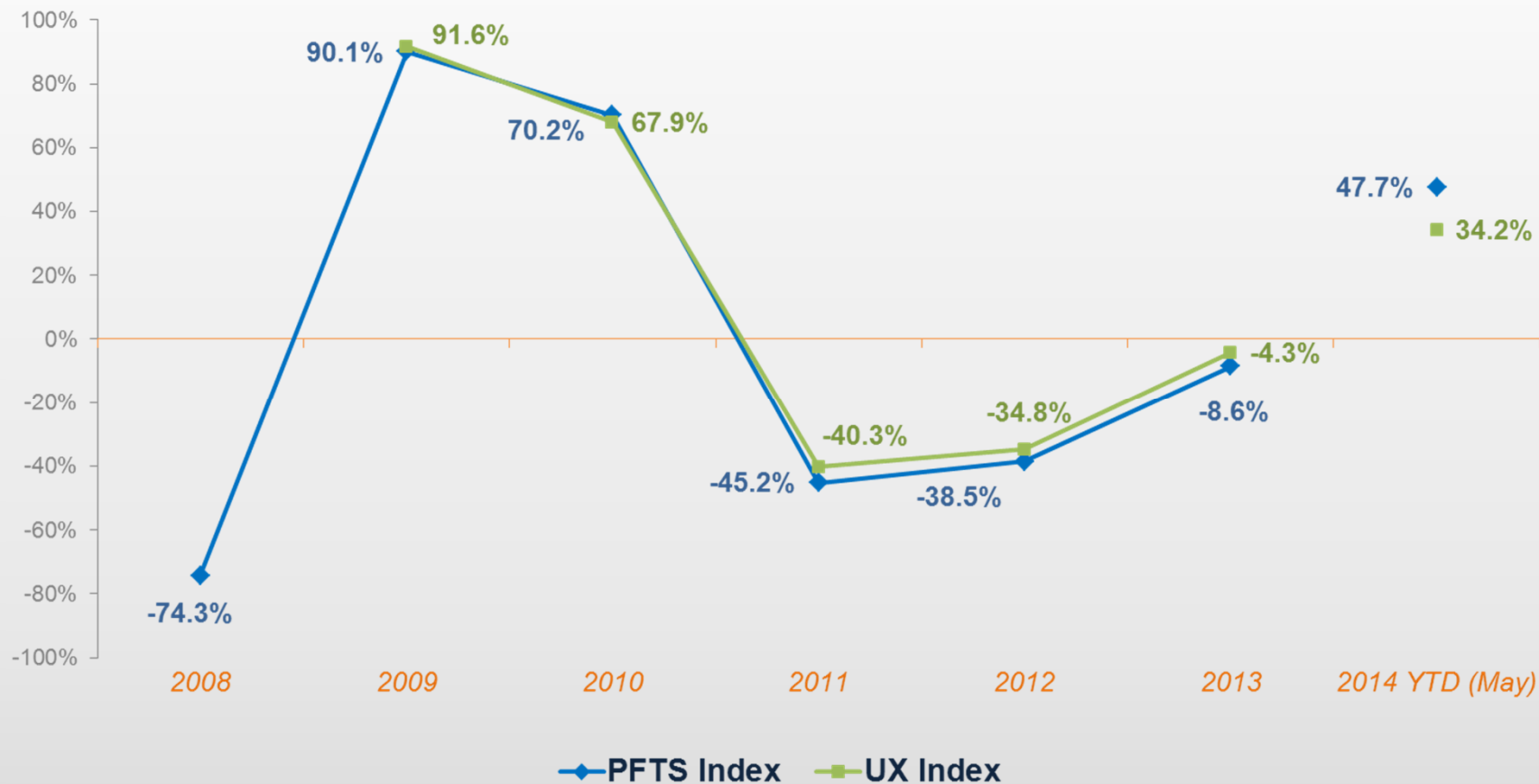


Ukraine's GDP in Q1 2014 – -1.1%; Government Debt in 2013 – USD 73bln – 41% of GDP;
 UAH devaluated by 45-47% YTD (May 2014); NBU reserves fell to USD 14.2bln (April 2014)

Sources: State Statistics Service of Ukraine, National Bank of Ukraine



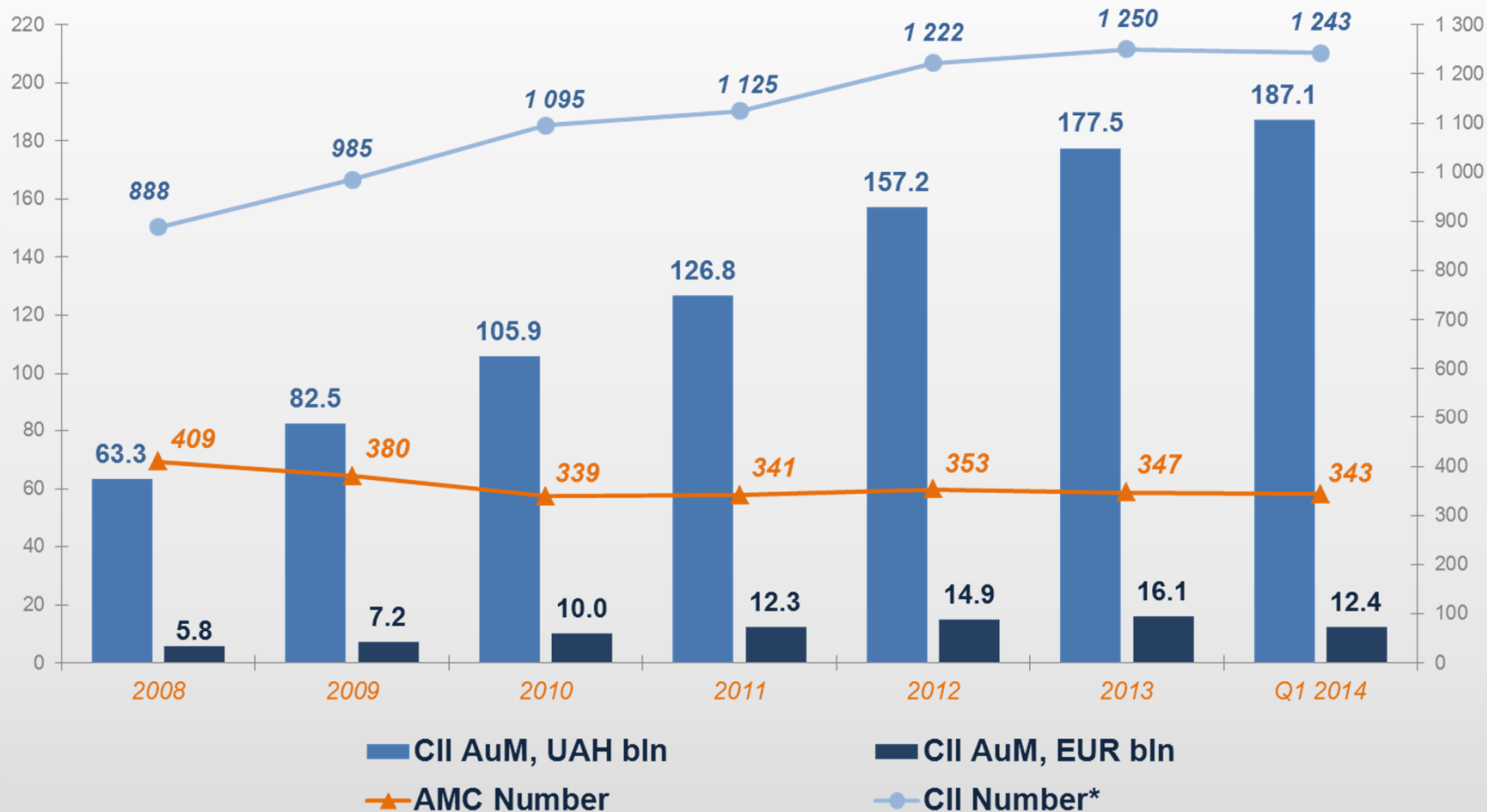
The Stock Market Dynamics



Source: the stock exchanges



The Fund Industry Dynamics



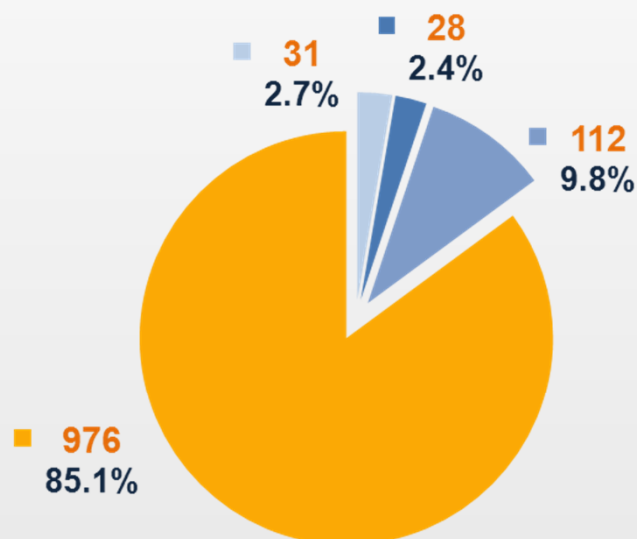
Total AuM of all CII, NPFs and IC reached UAH 209.1bln (EUR 13.3bln) as at 30 Apr 2014

** Established funds (those that reached compliance with the minimum asset value standard)*



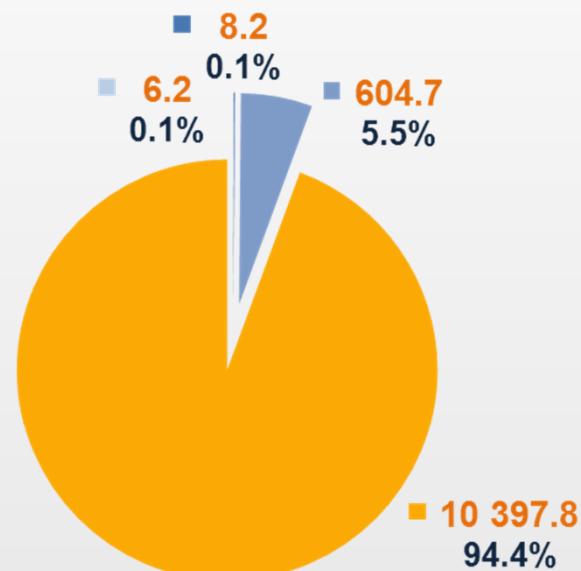
Collective Investment Institutions (CII)

by Number of funds*



- Open-ended (all diversified)
- Interval (all diversified)
- Closed-end (ex venture)
- Venture

by NAV, EUR mln

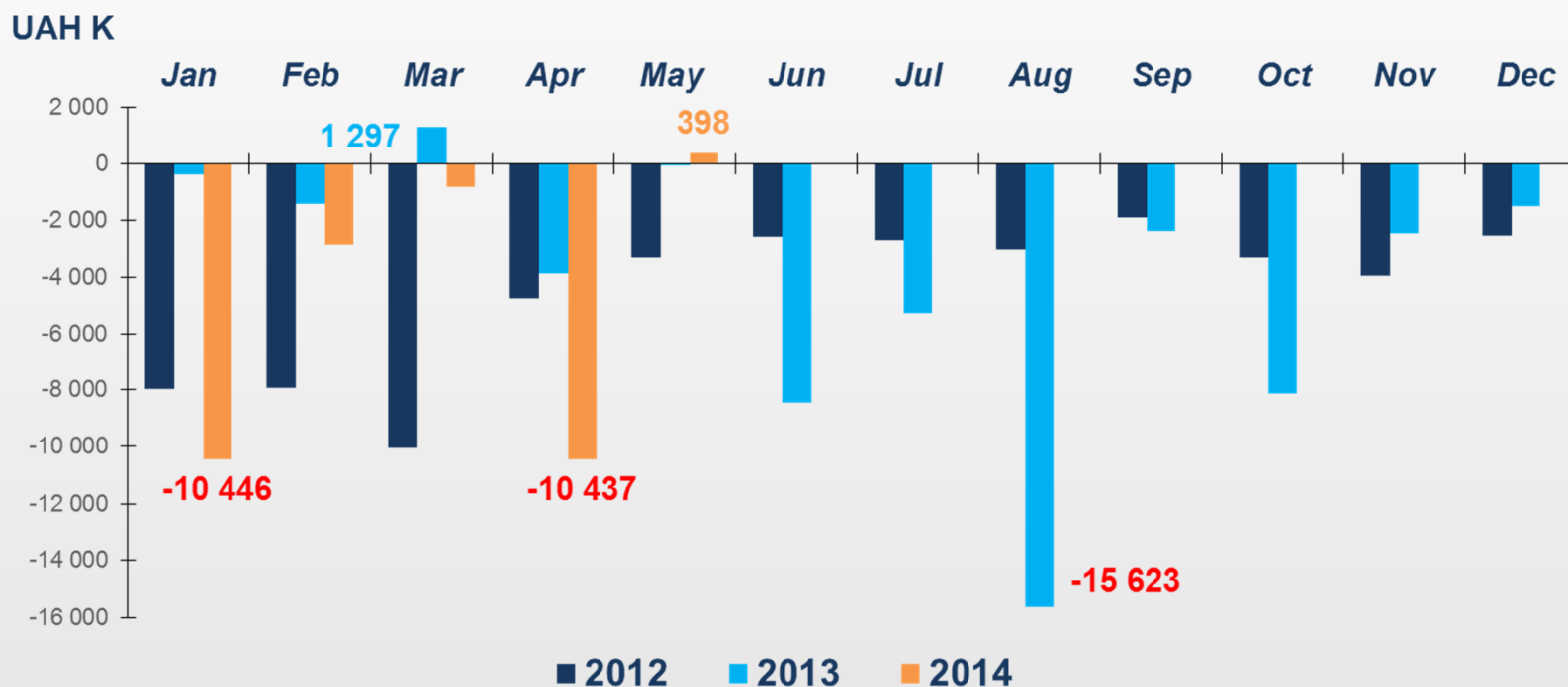


- Open-ended (all diversified)
- Interval (all diversified)
- Closed-end (ex venture)
- Venture

* CII that reached compliance with the minimum asset value standard and provided quarterly reports as of 31 Mar 2014



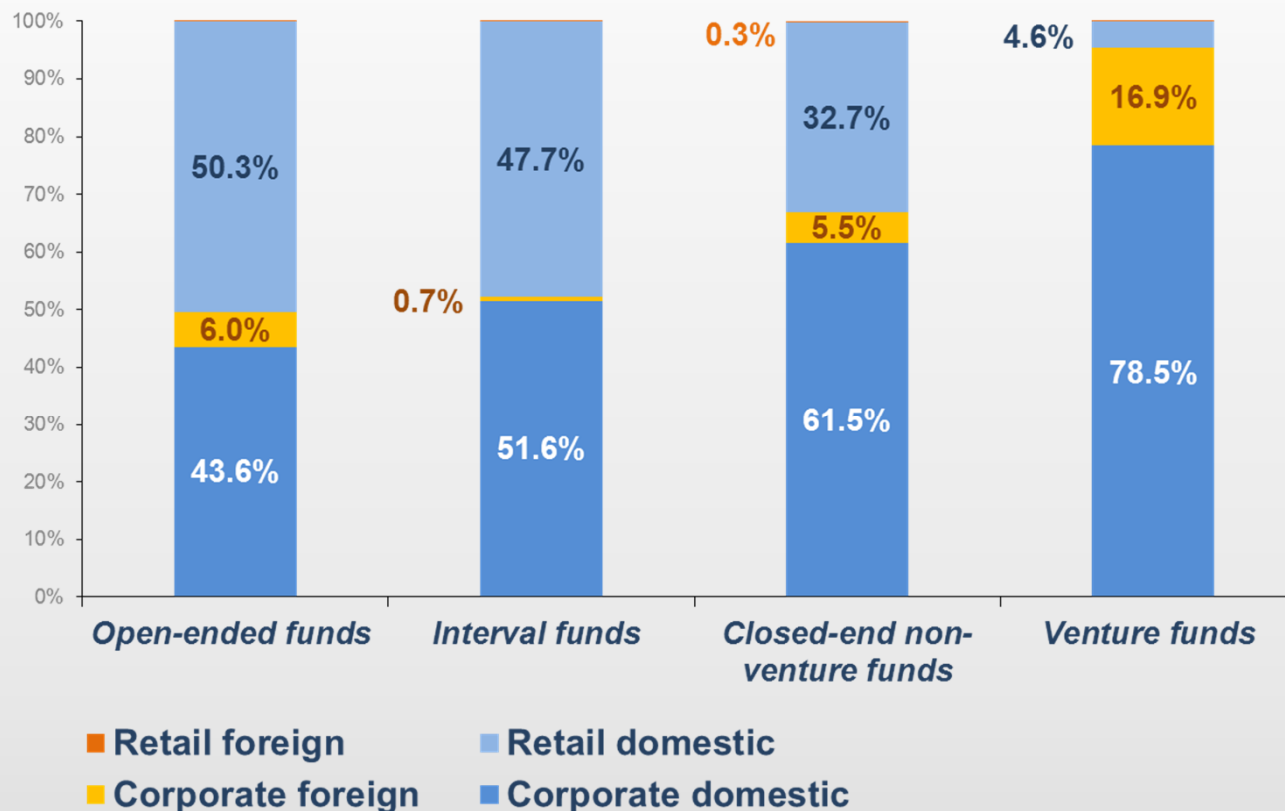
Net Sales of Open-ended Funds



Annual **outflow**: 2012 – UAH 54mln (EUR 5.2mln), 2013 – UAH 48mln (EUR 4.5mln)
Quarterly net sales have been **negative** starting from Q3 2011 (**11 quarters**)



Investors of the Funds by Fund Type, % of Total NAV



Number of **domestic retail** investors in open-ended funds – **3,054**
 Their holdings amount to **UAH 47mln** (EUR 3mln)
Foreign investors hold **UAH 28.8bln** (EUR 1.8bln) in all CII

Data as at 31 Mar 2014



(III)

The Legal Framework Developments





New legislation & Amendments in force

(1) The Law of Ukraine On Collective Investment Institutions

5080-VI (as of **5 Jul 2012**) & 20+ implementing Regulations of NSSMC

(2) The Law On the Depository System of Ukraine

5178-VI (as of **6 Jul 2012**)

(3) Tax Code Amendments (The Law On Preventing the Financial Disaster and Creating Conditions for Economic Growth in Ukraine 1166-VII as of **27 Mar 2014**)

(4) National Securities and Stock Market Commission (NSSMC)

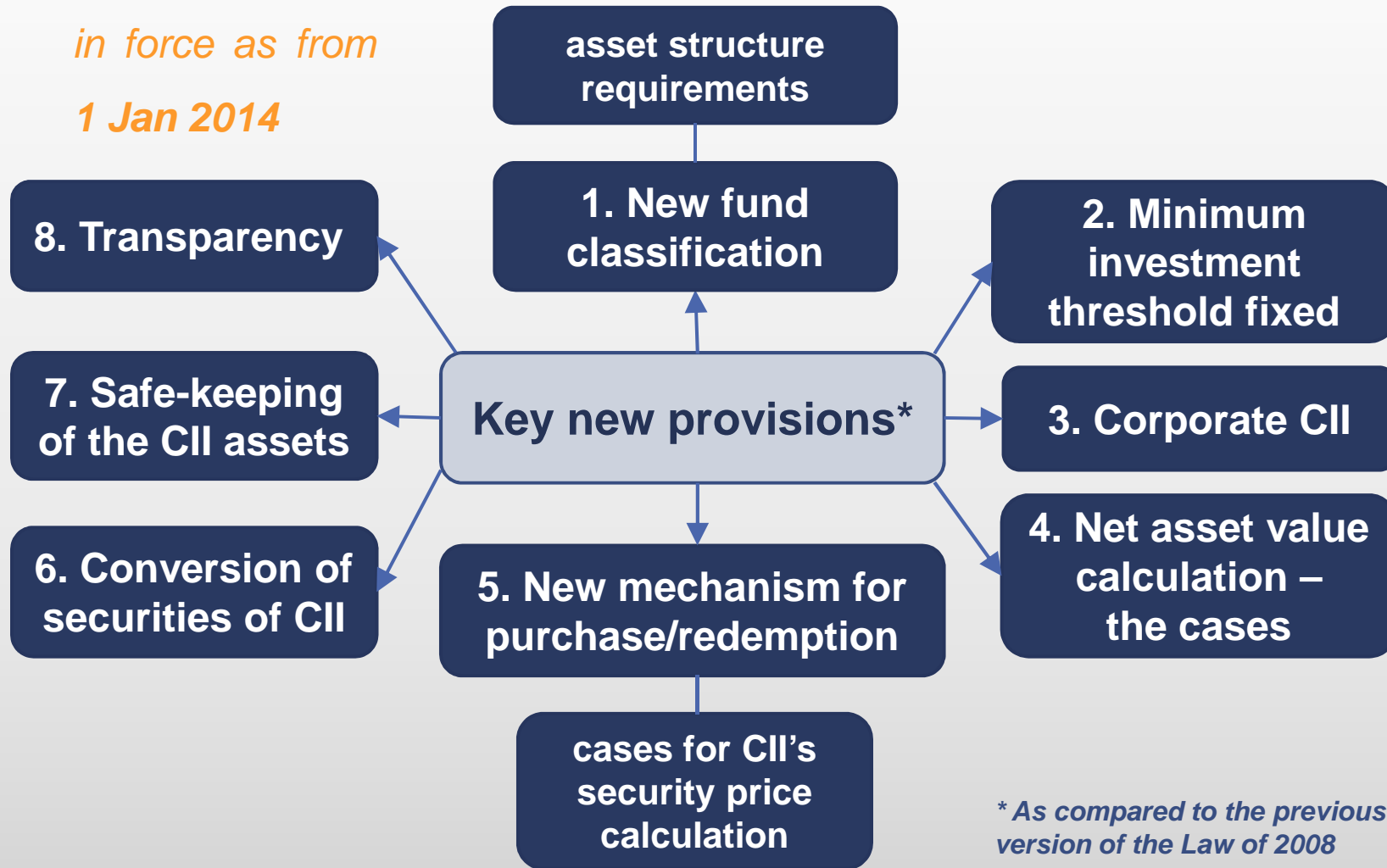
Regulations (as of 2012-14):

- ▶ Prudential Supervision, Risk Management
- ▶ Regulations on Foreign Securities Trading in Ukraine...



(1) The Law On Collective Investment Institutions 5080-VI

*in force as from
1 Jan 2014*



** As compared to the previous version of the Law of 2008*



(2) The Law On the Depository System of Ukraine

in force as from 11 Oct 2013

▶ **Central Depository**

– register of all securities issuances and transactions;

– electronic form only → **liquidation of the ‘registrators’**
(the documentary form)

▶ **Central Clearing House**

– the only organisation for settlement and clearing in Ukraine –
licensed by the NSSMC;

– under control of **the NBU** – licensed as **a bank**



(3) Tax Code Amendments

- 1) The **taxation of the transactions with securities** – the ‘**excise tax**’ – *in force as from 1 Jan 2013*
- 2) Changes in the **income taxation** (for natural persons):
 - ▶ **Investment profit** included in the overall income *as from 1 Jul 2014*, **taxed on the progressive scale:**
 - annual income of **up to 204 living wages*** (cca EUR 15.5k) – **15%**
 - **204 - 396** living wages (cca EUR 23k), **to the excess sum** – **20%**
 - **above 396** living wages, **to the excess sum** – **25%**
 - ▶ **Dividends** – **5% tax rate** up until 2014 end; **the progressive scale as above** (included in the overall income) effective *as from 1 Jan 2015*

* As from 1 Dec 2013, effective through 2014



(4.1) Prudential Supervision, Risk Management

The Law 5042 as of 4 Jul 2012 **(in force as from 1 Jan 2013):**

▶ **Prudential Supervision by NSSMC over AMC and CII**

– **additional reporting** by AMC to NSSMC (**daily**, monthly) –

Regulation 1 as of 9 Jan 2013 **(in force as from Feb 2013)**

▶ **Risk Management and Internal Audit at AMC**

– internal rules to introduce **Risk Management System shall be adopted by 4 Jul 2014**

○ **NSSMC Regulations** are being **amended & drafted**

(Drafts as of 30 Apr 2014, expected to be adopted and enter into force **by Jul 2014**)



(4.2) Foreign Securities Trading in Ukraine

- ▶ **NSSMC Regulation On the Admission of Securities of Foreign Issuers to Trading in Ukraine** 1692 **as of 22 Nov 2012** – issuers with assets in Ukraine *only*
- ✓ **First admission on 14 Jan 2014** – equities of Ukrproduct Group (less than 1% of the issue, GBP 58k) – traded at the **Ukrainian Exchange (UX)**
- ▶ **NSSMC Regulation On Approval of the List of Foreign Stock Exchanges, Where Foreign Securities Must Be Listed to Be Admitted to Trading in Ukraine** 1754 **as of 10 Sep 2013** – **69** SEs globally

BUT

...the **currency liberalization** by the NBU is still needed;

... the National (Central) depository needs to establish **correspondent relations with foreign depositories**, in particular with Euroclear*

** Currently those are established only with Clearstream, OeKB and a few Russian depositories)*



Key Draft Laws & Regulations

- ▶ NSSMC Drafts On Investor Compensation Schemes – recurrent initiatives **to involve the CII** (the latest Draft Law Conception – **as of 4 June 2014**)
- ▶ Amendments to the Tax Code highly probable – the initiative to impose the **taxation of CII income** under the **common corporate tax rules** (Draft Law **as of 7 Apr 2014**) – **triple taxation** as a result...
- ▶ NSSMC Draft Law On Amending Some Laws of Ukraine Concerning the Definition of Qualified Investors – **as of 13 Mar 2014**
- ▶ Legal acts implementing the Association Agreement between the EU and Ukraine...



The EU Legislation to be implemented according to the AA with the EU

During 4 years since the AA signing date (2014-18)

the Directives and the respective Regulations to be implemented:

1. **MiFID (I)** (2004/39/EC)
2. **Prospectus Directive** (2003/71/EC)
3. **Transparency Directive** (2004/109/EC)
4. **ICSD** (1997/9/EC)

+ Implementing Directives & Regulations – overall **24** legal acts concerning investment funds & securities*

5. **UCITS (IV)** (2009/65/EC) – **6** Directives & Regulations

** Also 13 Directives on banking and 5 ones on insurance and pensions*



(IV)

Prospects for the Fund Industry in Ukraine





Political environment...

- ✓ **Presidential elections** of *25th May 2014*
 - will it bring the much expected stabilization?
- **Parliamentary elections** needed
 - increasing social tension, the civil society still highly exacting
- **Continued pressure** from outside Ukraine, incl. **energy issues**
- **“Full”** signing of the **AA with the EU** in late *June 2014*
 - the effects?..
- The urgent **need for fighting corruption** and introducing **structural reforms**



... and Business conditions

Economic challenges & opportunities:

Estimate	by the Ukrainian Government		by the World Bank	
	2014	2015	2014	2015
GDP	-4.6%	1.7%	-3.0%	3.0%
CPI	7.7%	5.4%	12.0%	6.6%
Current Account Balance / GDP	-5.9%	-5.7%	-5.4%	-4.5%

- **Government Debt / GDP** ratio likely to rise to **53% in 2014, to 65% in 2015**
- **Ukraine in the Top 3 Most Risky Sovereign Credits** in Q1 2014*
- **The country's Long-term Rating & Outlook** – down to **Caa3 (Negative)/CCC**
- **IMF, the EU & the World Bank assistance and credit programmes (nearly USD 40bln overall in 2014-15**)** – the push for changes?
- **Agricultural exports** expected to **grow by 10-12% annually, food exports – by 5-7%**

* 5 Year CPD of 45.06% / CDS Mid of 902.1bps. Source: S&P Capital IQ CDS

** As of 1st June 2014 USD 7.7bln already received; also Ukraine has placed 5-year eurobonds worth USD 1bln issued under the USA guarantees at the rate of 1.8%



... and Business conditions (cont.)

Regulatory framework changes:

- The **AA implementation** – close work of UAIB with NSSMC on drafting...
- New **Law on CII** – start of the **new fund categories** launch by 2014 end
- **Pension reform** – huge prospects of **occupational pensions** but *when finally introduced?*
- Increased **tax burden** (investment profit taxation, corporate tax?)

Investor behaviour – incentives vs. constraints:

- **High interest rates** (NBU official rate – **9.5%**, **deposit/credit rates** – **20%/25%**)
- **Falling consumption, savings and capital investment**
- **“Venture” funds** – still **most demanded**, esp. for corporate investors
- **Reverse flow of capital** – foreign vs. domestic investors?



Thank you!

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