



Ukrainian Association of Investment Business

UAIB

Challenges for the Asset Management Industry *in Ukraine:* Political, Regulatory & Supervisory and Economic & Market Aspects

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Agenda

- (I) Political & Economic Landscape in Ukraine: developments over the past year in the context of reforms, the EU-Ukraine Association agenda and foreign aid**
- (II) Ukrainian Stock Market & Fund Industry Legal & Regulatory Framework Developments**
- (III) Ukrainian Economy & Fund Industry Trends**
- (IV) The Asset Management Industry's Concerns & Expectations For the Near Future**



(I) Political Landscape in Ukraine: general developments over the past year

- ▶ Ongoing 'slow-burning' military conflict in eastern Ukraine; at least twenty-eight Ukrainian political prisoners behind bars in Russia; **reciprocal embargo on trade**;
- ▶ Uneven and slow pace of reforming in many areas – rather low parliament's and government's performance
- ▶ Rising support of the European integration among the population of Ukraine
- ▶ EU sanctions over Russian military aggression and annexation of Crimea – renewal until January 2017
- ▶ Visa-free regime with Europe – adoption postponed again until November 2016 (?), application as from January 2017 (?)



(I) Political & Economic Landscape developments in Ukraine: the EU-Ukraine AA

The EU-Ukraine Association Agreement (AA):

- ▶ **provisional application** of the AA, including the **Free Trade Area (DCFTA)** as from January 2016
- ▶ rejected at the **Netherlands referendum** in April 2016
- ▶ ongoing **legal approximation** (started in 2015)



(I) Political & Economic Landscape in Ukraine: reforms on the current agenda

Out of 10 short-term Priorities for Action according to the EU-Ukraine Association Agenda*, these five considered crucial and/or are under way:

1. **Preventing and combating corruption** – new **anti-corruption agencies** established and **new anti-corruption positions** created in existing state bodies**
2. **Judicial reform** – stalled...
3. **Energy sector reform** – **abolished subsidies & raised utility tariffs**, cut gas imports from Russia, raised ‘reverse’ inflow from EU countries
4. **Tax reform** – restructuring of tax rates done, some have been **cut significantly**; ongoing further discussions on the **VAT** etc.
5. **Public procurement reform** – very good start, **first promising results (“ProZorro”)**

* Endorsed by the Association Council on 16th Mar 2015, see: http://eeas.europa.eu/ukraine/docs/st06978_15_en.pdf

** Newly created system of Anti-corruption Institutions in Ukraine: <http://rpr.org.ua/en/news/anti-corruption-institutions-in-ukraine/>



(I) Political & Economic Landscape in Ukraine: pace of reforms

Index for Monitoring Reforms, iMoRe*: №43 (August 29-September 11, 2016). The Velvet Season: the Fall has Come, Little Reforms

Most Important Developments over past year:

- ▶ **The Law on the National Bureau of Investigation** No. 794-VIII of 12.11.2015
- ▶ CMU Decree No. 1180 of 16.12.2015 – **improvement of the procedure for competitive selection of managers of public enterprises**
- ▶ NCSRFM Resolution No. 2724 of 12.11.2015 – **requirements for non-bank financial groups to submit information about their activities and owners to the National Commission for State Regulation of Financial Markets**
- ▶ Amendments to **the Budget Code** (Law No. 914-VIII of 24.12.2015) & **The Law on State Budget for 2016** (No. 928-VIII of 25.12.2015)
- ▶ **Amendments to the Tax Code** (Law No. 909-VIII of 24.12.2015)
- ▶ **The Law on the stabilization of the state's financial conditions and improvement of certain provisions of the social policy** (No. 911-VIII of 24.12.2015)
- ▶ The Law (No. 1005-VIII of 16.02.2016) – **improvement of the process of privatization**
- ▶ The Law (No. 1022-VIII of 15.03.2016) on **electronic asset declaration of public servants – severe (incl. criminal) responsibility** for intentional submission of false information in property declarations ([as from 15 Aug 2016](#))



* iMoRe team considers index value of at least 2 an acceptable pace of reform

* For more about iMoRe see: http://imorevox.in.ua/?page_id=609



(I) Political & Economic Landscape in Ukraine: Legislation & Regulatory Environment: Taxation

Tax Code amendments (Law No. 909-VIII of 24.12.2015):

- ▶ Among the greatest achievements – a **‘unified social fee’ cut** (nearly half as much as before – 22%):
 - **lower tax burden on businesses**, hope for de-shadowing of the economy
 - **moderate preliminary results** in H1 2016;
- ▶ **Slight expansion of the tax base** in order to compensate for the reduced rates of unified social fee – no change for taxation of investment funds and their investors*

* Before that in 2015, the level playing field was set for investment profit from funds upon redemption of their units/shares and for interest on bank deposits – 18%)



(I) Political & Economic Landscape in Ukraine: Foreign Aid

- ▶ Next **IMF tranche** delay during most of the 2016 – **resumed** financial support on 14th September (\$1 bn under the EFF totalling \$17.5 bn)
- ▶ **EU and US Technical Assistance** – new and continuing programmes:
 1. **USAID** programmes, **SEC** cooperation & **EU TAIEX*** events – ongoing;
 2. “**EU-FINSTAR**” – since Mar 2015, until end 2017;
 3. **“Association4U”: Support for the Implementation of the EU-Ukraine AA** – since Jan 2016 (until end 2019 at least)
- ▶ **World Bank, EIB & EIF** financial support and development programmes**

* See [Funding and technical assistance](#) of the EC.

** See [InnovFin – EU finance for innovators](#).



(II) Legal & Regulatory Framework: Implementation of the EU-Ukraine AA

Government's Action Plan for 2014-2017, concerning Financial Sector:

Transposition of the EU Directives on:

- ▶ **Annual Accounts, Consolidated Accounts, Accounting & Audit (2015)**
- ▶ **Insurance, Pensions etc. – drafts (2015-2016)**
- ▶ **MAD & MAR, MiFID, Prospectus & Transparency Directive – drafts (2016)**

Expected by end 2017:

- ▶ **Company law – drafts by Aug 2017**
- ▶ **Implementation of Basel II requirements (Basel III ?), FATF recommendations, EC Recommendations on corporate governance and remuneration in listed companies; abiding by OECD Corporate Governance Principles etc.**



(II) Stock Market & Fund Industry Legal & Regulatory Framework: Key Developments

- ▶ Amendments to the Law on Joint-Stock Companies (No. 514-VI of 17.09.2008) of 07.04.2015 – applicable as from 1st May 2016: **requirement for all Public JSCs to be listed on a SE** (be included in the SE ‘register’)
 - ▶ Amendments to the NSSMC Regulation on the functioning of stock exchanges (No. 1688 of 22.11.2012) of 06.08.2015 – applicable as from 1st Jan 2016: **much higher thresholds for listing** of equities and bonds on SEs (SE ‘listing’ = SE ‘register’ = “list 1” + “list 2”, i.e. most liquid and quality securities)
 - ▶ NSSMC Regulation on conducting of financial monitoring by the professional stock market participants (No. 309 of 17th Mar 2016): repealing NSSMC Regulation No. 1346/21658 of 8th Aug 2012
- + other NSSMC Regulations regarding stock market activities, professional participants, securities: overall 58 regulations adopted by NSSMC since Oct 2015



(II) Fund Industry Regulatory & Supervision Framework: Key Developments

20 key legal acts directly regulate the activity of CII, AMC and depositaries (custodians of CII assets) – the Law of Ukraine on CII and 19 NSSMC Regulations

- ▶ Amendments to the NSSMC Regulation No. 1281 of 23rd Jul 2013 on **Licensing Terms** for carrying out professional activity on the stock market – asset management of institutional investors (asset management) – applicable as from 19th Feb 2016
- ▶ Amendments to the NSSMC Regulation No. 1753 of 10th Sept 2013 on the **composition and structure of assets** of the collective investment institutions of 17th Dec 2015
- ▶ Amendments to the NSSMC Regulation No. 1106 20th Jun 2013 on the activities of depository institutions concerning safekeeping of assets of institutional investors of 24th Nov 2015
- ▶ **Two amended (revised) Regulations on Prudential Supervision & Risk Management:**
 1. NSSMC Regulation No. 1597 of 1st Oct 2015 on prudential ratios of professional activity on the stock market and requirements to the risk management system – applicable as from 1st Jan 2016: **partial transposition of the UCITS Directive** in the context of CRD IV own funds provisions; amended by NSSMC Regulation No. 819 of 28 Jul 2016 (**key changes to capital requirements** applicable as from 1st Jan 2017, but own funds requirement will stay at ≈ EUR 125 thsd)
 2. NSSMC Regulation No. 2021 of 1st Dec 2015 on supervision of compliance with the prudential ratios by the professional stock market participants – applicable as from 1st Jan 2016



(II) Key Draft Laws

- ▶ NSSMC's Draft Law "On amendments to some legislative acts of Ukraine (concerning regulated markets and derivatives)" No. 3498, **adopted by the Parliament in 1st reading on 31st Mar 2016** – *partial and controversial* transposition of MAD & MAR, MiFID II
- ▶ Pension Reform Draft Laws by MPs and by the Government(s) (30th Apr 2015, 6th, 19th, and 26th May 2016) – *stalled* (State Pension Fund deficit, flexible IMF terms...)
- ▶ NSSMC's Draft Law transposing Transparency and Prospectus Directives, MiFID II etc. (transitional period until 2018) – being discussed (NSSMC Committee), **not yet published**
- ▶ New version of the Law of Ukraine on Collective Investment Institutions (CII) – NSSMC's Draft **expected by 2018** (*but* obligatory by 2020 under the EU-Ukraine AA*):
 1. UCITS (2009/65/EC, UCITS V as well) transposition – **6 Directives & Regulations**
 2. **AIFMD, EuVECA, EuSEF, ELTIF** – ? (gap analysis to be conducted, possibilities for transposition and implementation to be defined)

* 30 Directives & Regulations concerning investment funds & securities, 13 Directives on banking and 5 ones on insurance and pensions – the list is *not exhaustive*



(III) Ukrainian Economy & Fund Industry Trends: Key Economy Indicators

The Economy of Ukraine*	2014	2015	Q2 2016
GDP (UAH bn)	1 586.9	1 979.5	531.8
Population (av.), mln	42.9	42.8	42.7
GDP per capita (UAH thsd) (nominal)	37.0	46.3	12.5
GDP Growth rate, % annual	-6.6	-9.9	1.4
Industrial Production	-10.1	-13.0	-3.4
Construction	-20.4	-12.3	9.1
Residential buildings	3.5	-1.1	10.7
Agricultural Production	2.2	-4.8	2.1
Financial Services	-1.8	-27.7	-24.6
IT & Telecom	-1.5	-1.3	2.8
Inflation (CPI), % annual	24.9	43.3	6.9
Foreign Trade in Goods & Services Balance, USD bn	4.6	4.8	1.5
% of GDP	3.5	5.3	7.1
Exports, chng % annual	-14.2	-16.9	-6.5
Imports, chng % annual	-22.1	-22.0	-0.1
External Debt (gov. & private), USD bn	126.3	118.7	115.0
% of GDP	94.6	131.0	-
Government Debt, USD bn	69.8	65.5	67.1
% of GDP	52.3	72.3	-
Fiscal Balance, % of GDP	-5.0	-2.3	-
NBU Reserves, USD bn	7.5	13.3	14.0
Exchange Rate Dynamics (at the NBU official UAH/USD rate)	-49.3	-34.3	-3.4

GDP 2015 – EUR 82 bn;
(per capita – 1.9 EUR thsd)

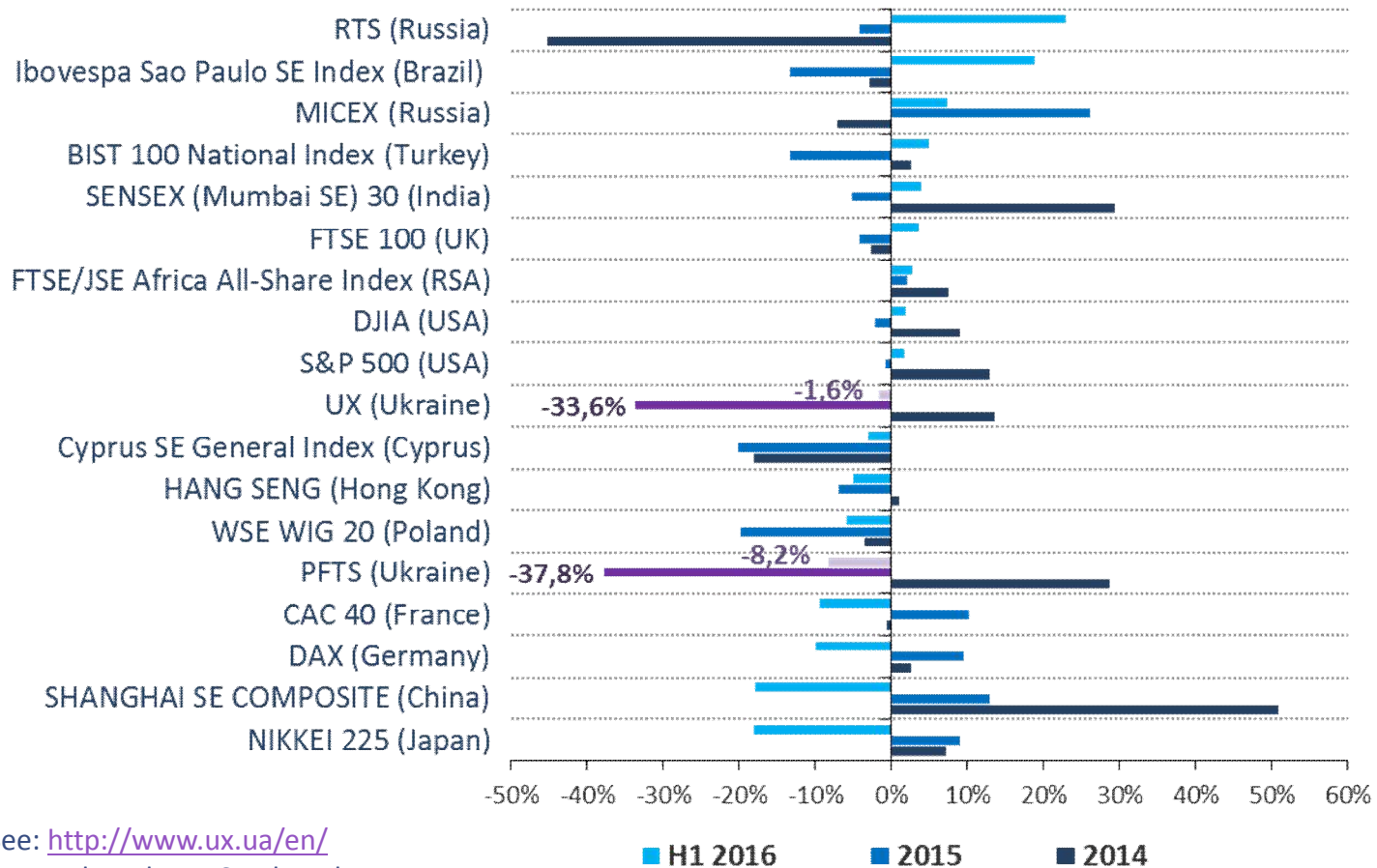
NBU lowered its rate 5 times in 2016 so far – from 22% to 15% (the peak was at 30% in Mar 2015, the low at 6.5% in Aug 2013)
- (H1 2016)

* Excluding the temporarily occupied territories of the AR of Crimea, the city of Sevastopol and the part of the ATO zone.
- State Statistics Service of Ukraine;
Data on NBU Reserves, exchange rates - NBU.



(III) Ukrainian Economy & Fund Industry Trends: Key Stock Market Indicators

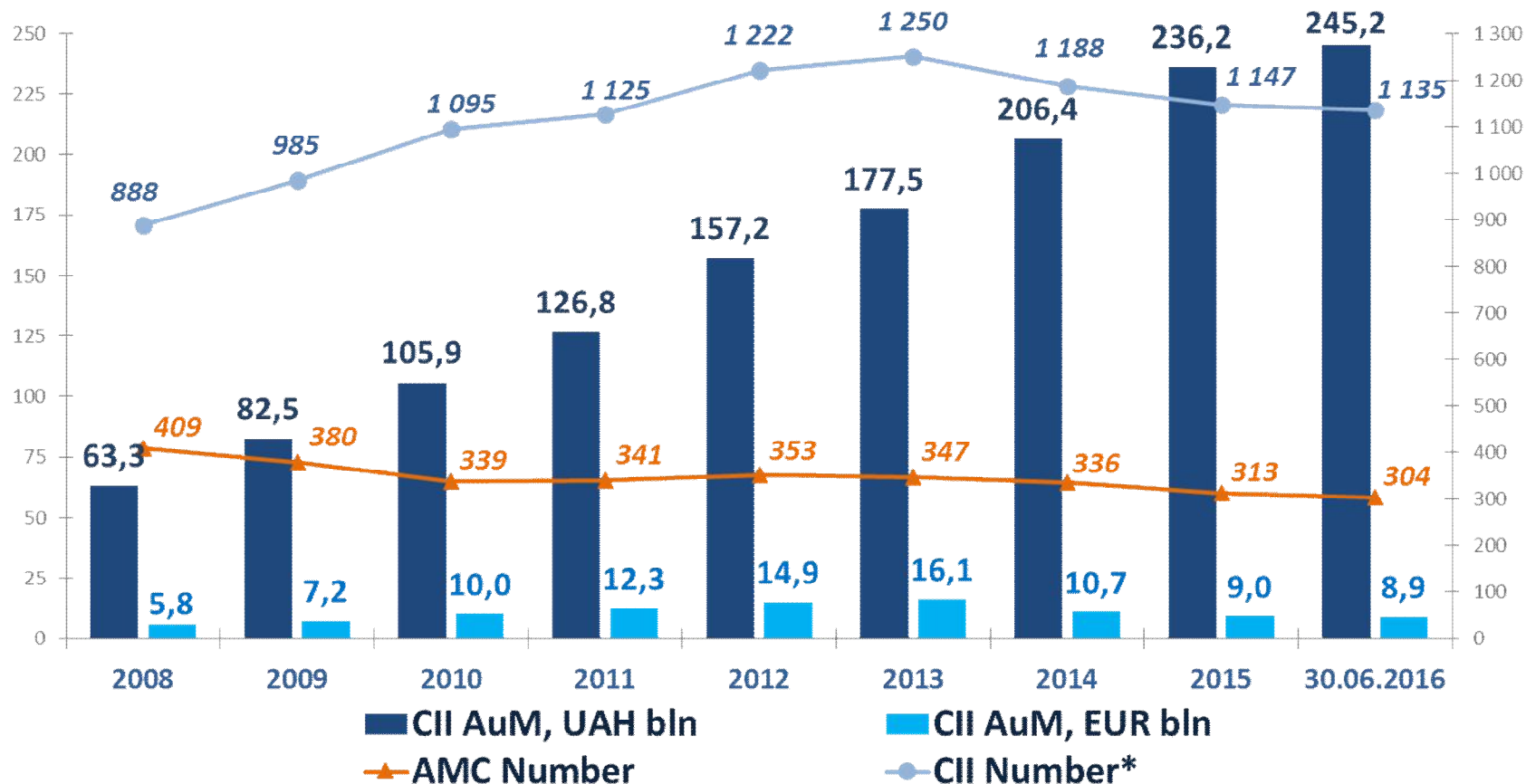
Ukrainian equities index (UX) has lost 34% in 2015 and 1.6% in H1 2016, but **gained 24% in Q3 2016***



* See: <http://www.ux.ua/en/>

Source: Bloomberg, Stock Exchanges

(III) The Fund Industry Dynamics since 2008

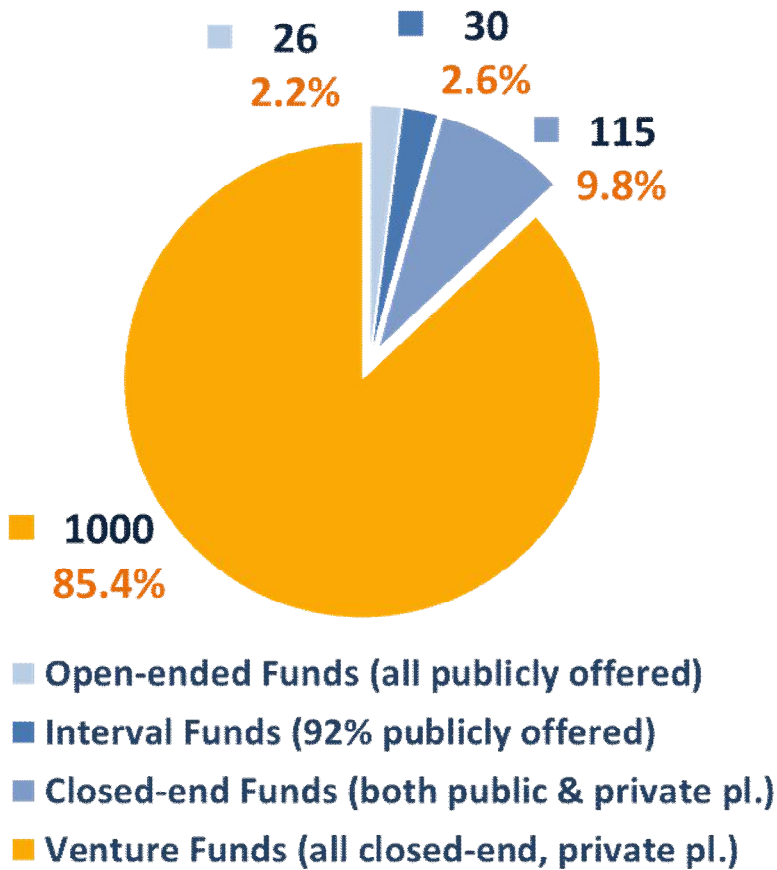


* Formed ('established') funds – those that have reached compliance with the minimum asset value requirement

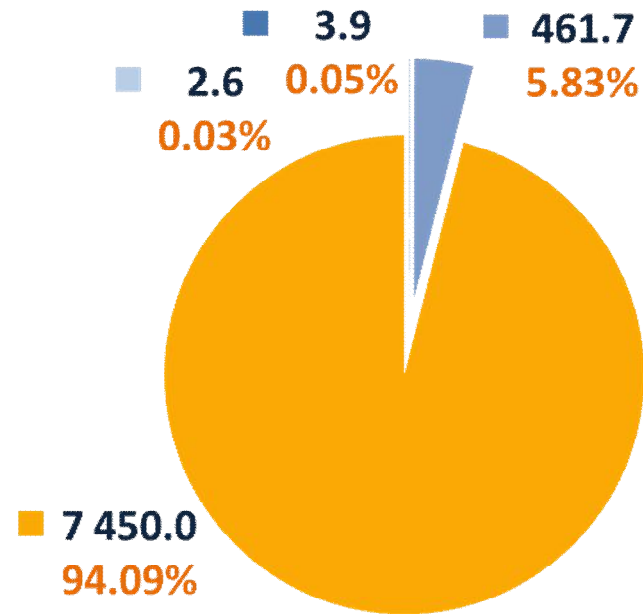
- Total assets of all CII equaled 12% of GDP and compared to 19% of banks assets in 2015
- As at 31st Aug 2016, total AuM of Ukrainian AMC's stood at UAH 254 bn (EUR 8.9 bn) +6.5% YTD

(III) The Fund Industry Trends: Collective Investment Institutions (CII) as at 30 Jun 2016

by Number of funds*

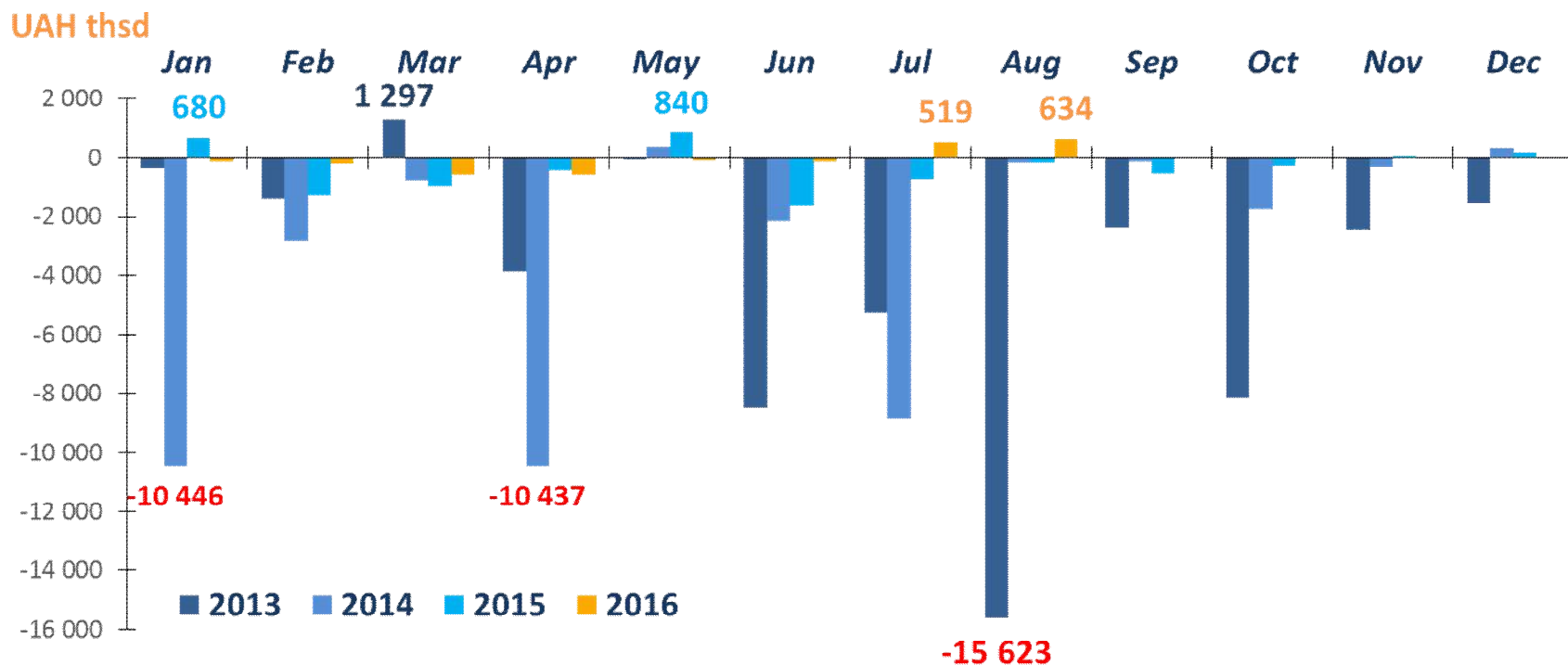


by NAV, EUR mln



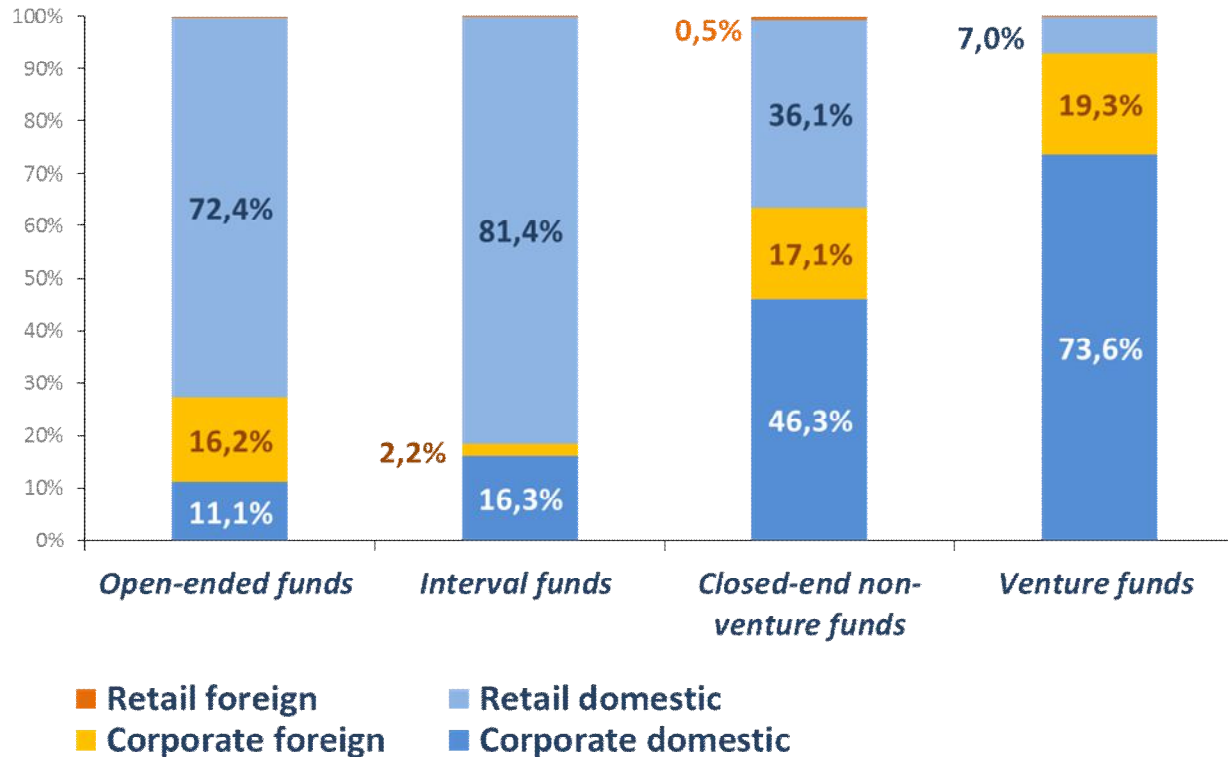
* Formed ('established') funds – those that have reached compliance with the minimum asset value requirement

(III) The Fund Industry Trends: Net Sales of Open-ended Funds



- **Annual outflow** for 2013 - 2014 - 2015: UAH 48.2 mln - UAH 37.2 mln - UAH 4.3 mln (at the NBU av. UAH exchange rate: EUR 4.5 mln - EUR 2.4 mln - EUR 0.2 mln)
- **Quarterly net sales** have been negative starting from Q3 2011 (**for 20 quarters**) – UAH 200 mln overall as at 30th Jun 2016 (UX Index has lost 71% over the period)
- Two **positive monthly flows** in a row in **Jul-Aug 2016**

(III) Investors of the CII, by Fund Type, % of Total NAV, as at 30 Jun 2016

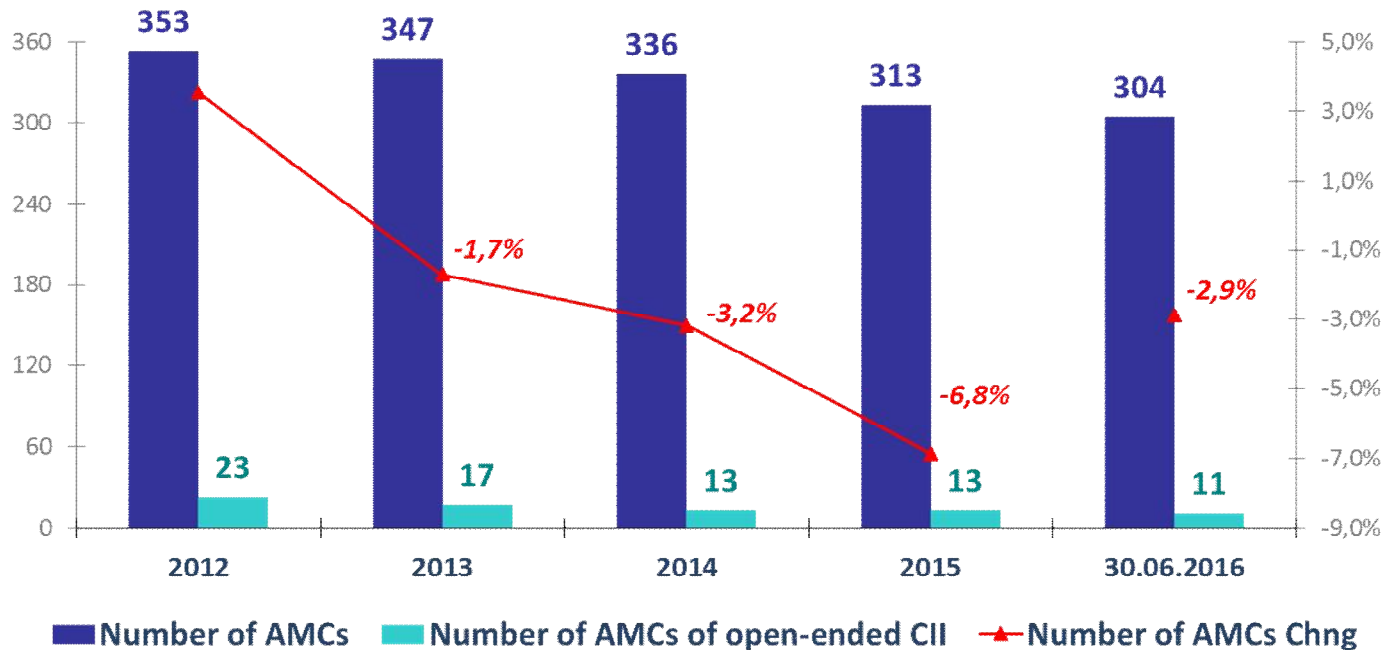


- Domestic retail investors holdings amount to UAH 39.2 mln (EUR 1.4 mln) in open-ended funds, UAH 16,846 mln in all CII (EUR 611 mln, 80% of which – in ‘venture’ funds), i.e. +43% over past year
- 99% of the total No. of investors in open-ended CII are domestic retail investors; 89% of shareholders in all CII are domestic corporate (institutional) investors
- Foreign investors hold UAH 38,854 mln (EUR 1,410 mln) in all CII (96% of the holdings were in ‘venture’ funds)

(IV) The Asset Management Industry's Concerns

The Industry Condition

Ukrainian AMCs & CII: **accelerated decrease** of the Number of Companies and Funds as well as of the Number of CII investors (esp. in the open-ended funds sector)



- Number of domestic retail investors in open-ended funds fell by 195 in 2015 and by 945 in H1 2016 – to **1,686** (out of total 1,711), i.e. **-40% since 2014 end**

(IV) The Asset Management Industry's Concerns (cont. 2)

Stock Market Condition

Ukrainian Stock Exchanges Trading Dynamics since 2014 end: **dramatic slump** of the Number of Listed Securities & Trading Volumes – **virtually non-existent** SEs listing of most liquid and quality equities

Indicator / Date (Period)	31.12.2014 (2014)	30.06.2015 (Q2 2015)	31.12.2015 (2015)	30.06.2016 (Q2 2016)	Annual Chng (2015 to 2014)	Annual Chng (Q2 2016 to Q2 2015)	30.09.2016 (Q3 2016)	Chng YTD 2016 (as at 30.09.2016)
Number of Securities Issues in the SEs' Listing (incl. "out-of-the list" securities), incl.:	2608	2340	2247	2008	-13.8%	-14.2%	1800	-19.9%
Number of Securities Issues in the SEs' Listing ("lists 1 & 2" only, i.e. SE' "registers"), incl.:	677	653	562	334	-17.0%	-48.9%	314	-44.1%
State bonds ("OVDP")	262	267	265	279	1.1%	4.5%	279	5.3%
Corporate bonds	208	184	91	39	-56.3%	-78.8%	25	-72.5%
Equities	204	136	65	13	-68.1%	-90.4%	9	-86.2%
NBU's deposit certificates	0	0	141	1	x	x	0	-100.0%
Municipal bonds	3	4	0	1	x	-75.0%	1	x
Trading Volume at SEs (Total) over the period, UAH mln, incl.:	629 429	79 067	290 771	61 542	-53.8%	-22.2%	x	x
State bonds ("OVDP")	553 291	71 214	253 320	58 273	-54.2%	-18.2%	x	x
Corporate bonds	33 804	3 001	13 604	1 797	-59.8%	-40.1%	x	x
Equities	26 597	1 472	5 811	396	-78.2%	-73.1%	x	x
NBU's deposit certificates	0	0	8 715	626	x	x	x	x
Investment certificates	4 252	556	2 170	24	-49.0%	-95.8%	x	x
Derivatives	9 611	2 733	6 516	263	-32.2%	-90.4%	x	x



(IV) The Asset Management Industry's Concerns & Expectations For the Near Future

1. **Legal Approximation: UCITS, AIFMD, EuVECA & ELTIF etc.:** glossary > translation > gap analysis > transposition > implementation – the first two so far **messy, partial and inconsistent**
2. **Prudential Supervision:** capital requirements for AMCs as a special case **partial transposition of the UCITS Directive** in the context of CRD IV provisions
3. **Financial instruments:** securities & derivatives for funds' portfolio allocations and effective management (also regarding the AMC's own funds) – **dynamics & current state are very worrying**
4. **Stock Market Infrastructure (National (Central) Depository & CCP, Stock Exchanges):** **lacking connections & implying high costs**
5. **Currency regulation:** broader and deeper **liberalisation much needed...**



(IV) The Investment Fund & Asset Management Industry's input

- ▶ **Close work with NSSMC and other state authorities, Parliament Committees etc.**
- ▶ **Collaboration with EU and US Technical Assistance projects & programmes**
- ▶ **Joint efforts with other financial market business associations**
- ▶ **Collaboration within the “CEE Initiative” ...**





Thank you!

Questions?

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