

Securities and Stock Market State Commission
RESOLUTION 1048

27 March 2007

City of Kyiv

№ 1048

On Approving «The Measures to Implement Principal Foundations of Prudential Oversight on the Stock Market»

Pursuant to SSMSC Chairman Order 1014 dated 14 November 2006 «On Forming a Working Group to Develop Prudential Oversight Guidelines for the Securities Market» and for the purpose of implementing the key goals of Ukraine – EU Action Plan to introduce and ensure effective implementation of the system of prudential regulation and oversight over financial markets in accordance with that effective in the EU,

Securities and Stock Market State Commission

RESOLVES HEREBY:

1. to approve “The Measures to Implement Principal Foundations of Prudential Oversight on the Stock Market” proposed by the working group” (see attached).
2. to vest control over the implementation of this resolution with the SSMSC Chief of Staff Yuriy Nazarenko and SSMSC Commissioner Volodymyr Kharytskiy.

SSMSC Chairperson

Anatoliy Baliuk

APPROVED
by SSMSC Resolution 1048 on
27 March 2007.

Measures to Implement Principal Foundations of Prudential Oversight on the Stock Market

##	Description of Measures	Performer	Timeline	Expected result
The System of Analysis and Monitoring of the Operations of Professional Market Participants (securities brokers and asset manager companies, AMC)				
1.	Introduce a system of timely disclosure of negative trends in the operations of professional market participants (securities brokers and AMC):	Regulation methodology department Stock market monitoring and development strategy Licensing department Collective investment department	2007	Indicators are to be defined to monitor the financial sustainability, solvency, liquidity (acid ratio) and the profit margin, to ensure sustainability and stability of professional market participants' operations (securities brokers and AMC).
1.1.	Submit proposals to generate a list of indicators of the financial situation of professional stock market participants (securities brokers and AMC).			
1.2.	Specify the method of the establishment of the limit values of financial indicators of professional market participants (securities brokers and AMC).	Stock market monitoring and development strategy Collective investment department Licensing department	2009	Criteria and indicia are identified to ensure a timely response to deviations in the operations of professional stock market participants (securities brokers and AMC).
1.3.	Work out the issues related to raising the obligatory minimal adequacy of own capital when granting licenses to professional stock market participants (securities brokers and AMC).	Licensing department Collective investment department	2008	Improved financial sustainability of professional stock market participants (securities brokers and AMC), additional prerequisites laid down to minimize professional operations' risks.
1.4.	Perform periodic monitoring of professional participant operation indicators (securities brokers and AMC) – quarterly.	Stock market monitoring and development strategy Collective investment department	2010	Market is informed to prevent incompliance with the norms of financial requirements established.

1.5.	<p>Develop and implement the monitoring system of professional market participants operations (securities brokers and AMC) by the following data:</p> <p>a) requests and complaints over professional market participants operations (securities brokers and AMC);</p> <p>б) acts of inspections of professional market participants operations (securities brokers and AMC);</p> <p>в) cases initiated against professional market participants for incompliance (securities brokers and AMC);</p> <p>г) court rulings that went against professional market participants (securities brokers and AMC).</p>	<p>Enforcement department Legal department</p>	2007	<p>A system is in place to monitor incompliance by market participants, improved enforcement.</p> <p>Reasons are identified that result in incompliance on the stock market. Proposals are submitted to improve effective laws.</p>
<p>The system of enforcement and risk management when performing professional operations in the stock market (securities brokers and asset management companies, AMC)</p>				
2.	<p>Amend the effective laws with regard to:</p> <p>a) assigning the relevant functions and powers to the authorized governmental agency to perform prudential oversight in the stock market, namely, to the Securities and Stock Market State Commission;</p> <p>б) methodological and normative support of the functioning of the system of prudential oversight in the stock market.</p>	Regulation methodology department	2007-2009	SSMSC implements and performs prudential oversight in the stock market.

3.	Develop guidelines with regard to risk management in the professional stock market participants operations (securities brokers and AMC).	Regulation methodology department Licensing department Stock market monitoring and development strategy Collective investment department	2007-2008	These guidelines will be used to manage the risks of professional stock market participants (securities brokers and AMC).
4.	Develop regulations that will set forth the requirements to: a) bylaws of professional stock market participants operations (securities brokers and AMC) concerning control over the risk management system; b) indicators of risk assessment of professional stock market participants operations (securities brokers and AMC); c) the method of disclosing risks information (risks declaration and the requirement to its content, professional participants financial data, and periodicity of filings); d) securities brokers' liquidity ratios.	Regulation methodology department Stock market monitoring and development strategy Licensing department Collective investment department	2007-2008	Requirements will be in place concerning the in-house procedure of risk management at professional market participants (securities brokers and AMC) and making such information public. Measures will be developed to minimize the risks of professional operations.
5.	Adapt the national financial reporting to IFRS for the purpose of due taking into account the international standards of financial reporting when creating a system of prudential oversight.	Regulation methodology department	2007-2008	The national financial reporting standards will be brought in line with IFRS.
The system of assessing the general situation with regard to the operations of professional stock market participants (securities brokers and AMC)				
6.	Ensure the functioning of the information disclosure system: a) based on the analysis of requests and complaints about professional stock market participants operations (securities brokers and AMC); actions taken against stock market participants in cases on incompliance in the stock market; court rulings with	Enforcement department Legal department	2007	One will be able to access information and the real operating status of certain professional stock market participants.

	regard of professional stock market participants operations (securities brokers and AMC), initiation of bankruptcy procedures.			
Organizational measures to introduce the system of prudential oversight in the stock market				
7.	Set up a prudential oversight department	Personal and public service division	2007-2008	Prudential oversight will be in place over the operations of professional stock market participants.
8.	Develop and implement a software product to ensure identification and monitoring of risk exposure in the operations of professional stock market participants.	Ukraine Stock Market Infrastructure Development Agency (SMIDA)	2010	Technical support of the professional operators risk exposure monitoring and identification system, which will assist in preventing adverse effects of their risk exposure.
8.1.	Develop proposals for the information component in developing the relevant software to monitor and identify risk exposure in the operations of professional stock market participants/	Stock market monitoring and development strategy Collective investment department Ukraine Stock Market Infrastructure Development Agency (SMIDA)		
9.	Involve international organizations to develop and organize a system of prudential oversight in Ukraine: Select an international consultant on prudential oversight matters.	International division of the SSMSC Chairman Organizational Support and International Office Directorate	2007-2008	Effective implementation of the prudential oversight system in Ukraine based on the international best practices.
10.	Ensure collaboration with SROs to ensure a well-functioning prudential oversight system.	Regulation methodology department	2007-2008	Effective implementation of the prudential oversight system, taking into account the practical experience of stock market participants.