

## Ukraine's Banks – Only Half Transparent

Sophie Lambroschini, USAID Capital Markets Project (CMP)\*

Last week, international rating agency Standard & Poor's presented the results of its yearly transparency and disclosure survey of Ukraine's 30 largest banks together with representatives from the National Bank of Ukraine, the Securities and Stock Market State Commission and USAID. Though these banks are still far from reaching international disclosure standards, their results are not as bad as the 2009 financial 'annus horribilis' could have led to expect.

In fact the transparency index increased to almost 49% from 45% in 2008. Of 28 banks surveyed both in 2009 and in 2008, 16 showed an increase in transparency with an average improvement of some 11.2 p.p., and 12 banks showed a weaker performance, falling 5.5 p.p. on average in 2009.

This year's financial crisis could have incited banks to disclose less as an attempt at hiding financial difficulties. But "*banks did not fall to the temptation of less disclosure*", Alexei Kutsenko, an analyst from the Financial Initiatives Agency, presenting the research, remarked.

USAID Acting Office Director of the Office of Economic Growth Paul Richardson struck a more subdued note. Though he noted the improvement "by 4%" of the overall transparency index, he pointed out "*that this still falls significantly short of international best practices and norms*". Transparency indexes in developed financial markets consistently pass the 80-85% mark, according to S&P.

The survey, a joint research project by Standard & Poor's and the Financial Initiatives Agency, a private independent Ukrainian think tank, was supported by the USAID Capital Markets Project, which provided funding. The survey is based on public information alone. Its methodology, developed by

Standard & Poor's, is based on 116 criteria of disclosure grouped in three blocks: ownership structure and shareholder rights, financial and operational information, and board and management structure and processes.

The study showed that the extent of disclosure was the greatest in matters pertaining to ownership structure and shareholder rights (56.6%). "As in previous years, disclosure of the supervisory board and management structure and processes showed the poorest results, "releasing only 41.9% of the information needed by investors," Kutsenko said.

As for the transparency champions, there have been some changes in the top three banks since 2008.

VAB Bank came in first with a score of 71.4%, after ranking third in 2008. Forum bank was second in 2009, with a score of 68.8%, having failed to even break into the top ten in 2008. In third place was 2008's winner, Ukrgazbank, which saw its score fall to 66.2% from 71.2%.

But why did the transparency index grow? "*Additional disclosure by the regulators (the Securities and Stock Market State Commission and the National Bank of Ukraine) has become the main driver of transparency index growth. Regulatory filings became the most comprehensive source of information on Ukrainian banks.*" said Svetlana Borodina, the Director of Governance Services at Standard & Poor's. "*The sheer volume of material available on the web-sites of regulators already accounts for 53.7% of the disclosure level desired by an average investor. Last year it equaled only 26.0%.*"

Participants in the S&P presentation also discussed the general state of corporate and bank transparency and disclosure in Ukraine.

Transparency Score of Ukrainian Banks, 2009 (Standard & Poor's, 2009)

2009 ranking	2008 ranking *	Bank	Score, %	Ownership Structure and Shareholder Rights, %	Financial and Operational Disclosure, %	Supervisory Board and Management Structure and Processes, %	Score in 2008, % and change (↑ or ↓) *
1	3	VAB Bank	71.4	89.2	69.6	51.0	66.3 (↑)
2	—	Forum	68.8	76.1	72.2	46.5	—
3	1	Ukrgazbank	66.2	75.4	62.6	66.3	71.2 (↓)
4	7	Ukreximbank	62.1	67.1	66.3	39.5	54.1 (↑)
5	—	PrivatBank	61.2	59.0	63.7	55.3	—
6	8	Ukrsotsbank	57.4	63.3	58.2	43.7	53.4 (↑)
7	6	Raiffeisen Bank Aval (RBA)	57.1	69.9	54.9	45.1	55.7 (↓)
8	—	Oshchadbank	56.8	60.9	59.0	43.0	—
9	2	Alfa-Bank	56.0	54.0	56.0	58.3	66.5 (↓)
10	—	PUMB	55.9	52.5	61.2	40.8	—
Top 10 average			61.3	66.7	62.4	49.0	58.6 (↑)
Whole sample average			48.8	56.6	48.0	41.0	44.8 (↑)

\* "—" means that in 2008 the bank was not scored in the top ten banks for transparency.

Stressing the importance of disclosure, Borodina pointed out that funds that invest in banks and corporations “*carry the responsibility*” for the pension savings that they manage on behalf of ordinary citizens.

Paul Richardson remarked how much the lack of a well functioning disclosure system had “*constrained Ukraine’s financial sector*, adding, that, “*because of the financial crisis, market incentives for transparency have been minimal*” in 2009. “*Ukraine still needs to do more*”, he concluded.

Richardson also seized the opportunity to announce the launch by USAID of a new 13 million dollar financial sector development program for Ukraine called FINREP. It will assist Ukraine in developing a more transparent and resilient financial sector. The three-year project will continue work in capital markets with a special focus on the banking sector.

It will pursue four main goals: strengthening the legal and regulatory environment for banking and the capital market; enhancing organizational capacity of financial sector institutions to implement reforms; assisting vulnerable Ukrainians with financial relief planning; and expanding the domestic securities markets to mitigate financial stress and broaden the financial base.

FINREP will be implemented in close coordination with a wide range of Ukrainian partners, as well as international partners (the IMF, the World Bank and other donors).

Also, USAID’s Capital Market Project is currently providing support to the SSMSC in implementing a new electronic system of information disclosure by publicly listed and traded companies called ESCRIN (“Electronic System of Comprehensive Information Disclosure”). ESCRIN should be ready early next year, SSMSC Commissioner Mykola Burmaka announced. The system will provide public access to company business and financial information, free-of-charge and in real-time on the SSMSC website.

“*The SSMSC will make information disclosure of the corporate management system its main axis after the implementation of the ESCRIN system and taking into account requirements made by the Joint Stock Company Law,*” Burmaka promised. //

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