



Analysis of the Institutional Transformation of the Russian Financial Market Control System by Creating a Mega-regulator

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ABSTRACT

Increased competitive position of the financial market is one of the priority goals of national economic growth and clear-cut ascendancy of the state in the global economic space. The paper discusses one of the key problems of the financial market development and performance, namely, the policy of its regulating. This paper has also specified the stages of the financial market management system reformation, which allow to estimate the level of supervision integration for Russia over the period from 1991 to 2015. The study outcomes have showed that till the end of 2013 in Russia there was the sectoral supervision model, according to which the management was provided by areas of activity. The paper describes the system of the single regulatory authority functioning in the financial market as the improvement of its management policy. Moreover, the paper has determined the principles which are the basis of the mega-regulator performance such as independence, transparency, responsibility, collegiality, uniformity of the application. The advantages and the results of the financial mega-regulator performance were analyzed and powers of the bank of Russia as a basic regulator of the financial market.

Keywords: Financial Market, Management, Control, Financial Mega-regulator

JEL Classifications: G23, G32

1. INTRODUCTION

The condition for efficiency of the economy and the banking system, the successful development of the world economic relations is the well-organized financial market as the mechanism of accumulation and “horizontal” redistribution of financial resources, intra and intersectoral floating of capital as opposed to the “vertical” budget method. The financial market is a key economic component of any country, as it is necessary for the normalization of the rates of interest, the binding of surplus funds of the institutional and private investors, government, enterprises of all patterns of ownership. In October 1990 the formation of structural elements of the national financial market started. This stage assumed:

- a. The adoption of correspondent legal acts regulating the work of participants, the issue and the circulation of financial instruments.
- b. The formation of the national system of the management of the financial markets.

Economic crisis and the fragile situation in all sectors of the financial market have revealed major deficiencies in the control and supervision system of the financial markets of the whole world. Great changes in the institutional structure of financial leverage became the consequence. The world management practice of the financial markets undergoes global changes in functioning of the state model of financial leverage. The

reformation of regulatory authorities took place in recent decades in Germany, Ireland, the UK, the USA, Belgium, Japan, Sweden, France and some other countries. Over the last years, also Russia undergoes the transformation of the system of public administration of the financial market. Regardless of the fact that the consequences of the reform seem to be unobvious and there's no denying that the institutional financial regulatory paradigm change takes place.

The formation of a mega-regulator in Russia on the basis of the central bank has determined the transition to higher levels of control and supervision integration. The Bank of Russia gave powers of the Federal Financial Markets Service (FFMS) of Russia for the legal regulation, control and supervision in the sphere of the financial markets including insurance activities, credit cooperatives and microfinance activities. It helps to reduce the risks, to eliminate unevenness and inconsistency in the control system, to strengthen independence of a regulator, and also to enhance competitive environment. The solution to these problems will increase financial market entity confidence in the national financial system, to promote international cooperation towards the financial market and easier information sharing.

2. OBJECTIVES, METHODOLOGY AND RESEARCH DESIGN

The purpose of the study:

- To reveal the process of reformation of the national control system of the financial markets, to show the role of state regulators in the financial market management, to analyze the practice implementation of a single regulatory authority on the basis of the Bank of Russia.

Both theoretical and empirical methods including theoretical analysis, synthesis, analogy, scientific generalization, assessment of the performance outcomes of the financial markets present the methodological basis for the study.

The stages of the study. The study includes the following stages:

- The first stage is the study involving the theoretical overview of economic, legal and regulatory, educational materials on the problems and the performance mechanism of financial market regulators. The study has determined its purpose, objectives, object, subject and presented general directions of the analytics.
- The second stage is the analytics of the obtained outcomes including the determination of the effectiveness of the transition to higher levels of regulator integration in the sphere of control and supervision of the Russian financial market. The analytics has revealed financial market regulation model content, the effectiveness of the reformation of the system of state regulators, has formed a mega-regulator as the financial market organizational management unit, has determined objective areas of the single regulator formation, the foundations of its performance, and has determined the level of well-formedness of regulatory powers in the financial market.

3. DISCUSSION OF THE RESEARCH OUTCOMES

Nowadays, the Russian Federation has low well-formedness of all components of the Financial Market Infrastructure, relationships between participants of the financial market, poor legislative and legal and regulatory securement regulating the performance with the financial markets' tools and assets, contractors' propensity for to the violation of mutual obligations, the significant influence of criminal organizations, the underdeveloped information base, high transaction costs, inadequacy of the system of financial and credit relations.

The formation of the national model of financial market regulation has been associated with a number of difficulties and controversial points. That is why the current Russian model is not ideal. The formation of the Russian financial market operation has several stages of the development of the organizational-economic mechanism of its regulation (Table 1).

Native financial market regulation was conducted on segments till March 2004. Each key segment of the financial market has been allocated for one or another public administration authority whose

Table 1: Stages of Russian financial market regulation system formation (Nikonets and Mandron, 2014)

1 stage	1991-1996	Regulation of the financial market derived from the privatization and was conducted by the State Property Committee and the Ministry of Finance
2 stage	1996-2000	Regulation restructuring subject to the requirements of the law "On the Securities Market" (1996) and the attempt to concentrate all regulatory powers for regulation over the FCSM through the kind of self-regulatory organizations
3 stage	2000-2004	Increasing regulatory problems caused by its strengthening institutional character and the regulated object fragmentation that is especially obvious in the course of pension reform realization
4 stage	2004-2012	Reform of the system of financial market state regulation. Formation of the need for the creation of a mega-regulator. The projected Law "On the implementation of a single mega-regulator of the financial market" was adopted
5 stage	2012-nowadays	Experience of the single national regulator performance in Russia was unsuccessful. In 2013, the FFMS was abolished and its functions transferred to the central bank of Russia. The BRFSM was organized in the structure. But in 2014, it was also abolished, and its powers were divided between 9 new units of the central bank

FCSM: Federal Commission for the Securities Market, BRFSM: Bank of Russia Financial Markets Service, FFMS: Federal Financial Markets Service

competence sphere has been caused by the activities of financial institutions operating at one or another financial market.

Subject to the Russian Federation Presidential Decree from 03.09.2004 No. 314 “On the system and structure of federal executive bodies” the FFMS was abolished and the Federal Commission for Securities Market was created as a single financial market regulator having powers, which the FFMS, the Russian Federation Ministry for Antimonopoly Policy and Business Support, the Russian Federation Ministry of Labor and Social Development earlier had.

Subject to the law “On Amendments to Certain Legislative Acts of the Russian Federation in connection with the transfer to the central bank of the Russian Federation the authority to regulate, control and supervise the financial markets,” which came into force on 1 September 2013, the Bank of Russia is entrusted with appropriate authority and functions including insurance activities, credit cooperatives and microfinance activities, commodity exchange, exchange intermediary and share broker, exchange broker activities, the formation and investment of pension accruals and other powers. The FSFM joining to the Bank of Russia is the sequential process within the development strategy of the Russian financial market and the creation of the Moscow International Financial Center by analogy with London, New York, Tokyo, Frankfurt, Paris, Hong Kong. The Bank of Russia is entrusted with powers of the Russian Ministry of Finance for financial market participants and authorities regulation (Petrov, 2013).

Thus, there was the important step towards the implementation of the worldwide trend concerning financial market regulation consolidation in Russia, that is, the trend for combination of financial regulatory functions within the single structure. This structure is a mega-regulator or the integrated financial regulation system.

The implementation of a single regulatory and independent authority in the financial market as a mega-regulator has a number of very significant advantages that will ensure more efficient performance of all segments of the Russian financial market (Mandron, 2008, Khomenko, 2013) (Table 2).

Thus, a mega-regulator of the financial market is not the formation of a certain additional organizational unit of control and supervision authorities being the center of decision-making, but also the standardization and unification of regulations and rules. In different segments of the financial market at separate regulation there are institutional environment and regulation on activity directions (self-regulation) presenting licensing regulations of financial market participants, the audit procedure their activities, financial status and application of sanctions in case of violations, the special characteristics of measures for protection of investors and other market participants. In order all segments of the financial market, which they have in their functional structure, develop in a balanced and effective manner, there is the need for a common approach to the definition of minimal necessary financial resources (reserves

Table 2: Advantages and outcomes of the mega-regulator operation in the Russian financial market

Advantages	The outcomes of the mega-regulator activity in the Russian financial market
Single regulation creation in all sectors of the financial market	At the current distribution system of powers between regulators there is excessive regulation because functions of some authorities are imposed on the functions of other authorities that creates complementary duties in the regulatory system.
The implementation of more rapid and effective control in the financial market Ability to create financial holding companies and conglomerates	Mega-regulator will help to avoid disputes about the federal agency which should be transferred powers in a separate segment of the financial market and the financial authority which will control over a sector Boundary-spanning between regulators and their unification into the single structure will lead to more effective control in the market
The combination of law enforcement and right stating functions The regularity of the application of standards and regulations	Mega-regulator which controls large companies and financial conglomerates can draw up consolidated accounts, which will be more comprehensive and clear to the market than many other reports from different departments It makes the process of preparation and implementation of new legal standards more flexible, faster, and meeting the requirements of the modern market Eliminate situations where market participants use contradictions in market regulation by different bodies for their own benefit
Has the ability to manage the risks in the financial market more effectively and use its human resources better	Such abuses will be impossible using a mega-regulator as the standards and rules will be the same for all market participants Nowadays, under the current system of state regulation on the problem there is the operating specific financial authority, and other regulatory authorities do not have access to this problem In certain problematic situations a mega-regulator can quickly reorganize and make some its members solve the problem
Can generate information flows better and ensure its confidentiality Will be the single contact mechanism for financial market participants Will bring about a single contact with financial institutions in other countries Reduction of state budget spending	Information circulation would take place not between several public authorities, but within one major regulatory organization. Thus, the leak of information and its illegal disclosure decrease Market participants can easier find protection in conflict situations and violations of their rights in the financial market It will stimulate international cooperation on financial market coordination, faster and more open exchange of information Costs for the maintenance of a single regulator may be reduced thanks to economies of the scale: Single management of the public authority, single licensing, general supervision standards

and funds, standards of financial ratios), the organization of internal control, format, volume and terms of the audit of statements, transparency of information and data (Nikonets and Mandron, 2014).

It is easier technically organized within a single regulator, rather than through the construction and maintenance of horizontal connections for specialized regulators' coordination. That is why most countries, having refused to be under control on the functional principle, are mega-regulated. Within a mega-regulator, there are of regulatory departments of certain sectors, but exactly a single authority makes conceptual and system decisions (Mandron, 2008).

The world practice links the transition to a single financial supervisory authority with the solution of a set of tasks. First of all, the regulatory authority should have the well-defined goal of its activity, protected by law. The ineffective goal setting, formation of problems, operation principles of a mega-regulator can lead to unreasonable expansion of control, or, on the contrary, to relaxation of control of a mega-regulator (Mandron, 2008) (Figure 1).

Well-defined objectives determine the mechanism of the mega-regulator responsibility for its decisions and policy. To do this, a regulator must be enough regulatory, supervisory, institutional, budgetary independent. The regulatory independence is important, on which not only the quality of the development, norms and laws, but also the supervising independence, necessary to ensure following by financial institutions norms and rules of their activities, depend.

The bank of Russia, having the mega-regulator functions concerning the financial market operations, has appropriate powers of the regulatory independence (Figure 2).

Thus, the regulatory and supervisory independence of the bank of Russia provides additional advantages of supervision and control over the financial market, the independence in realization of its functions.

The main functions of the Bank of Russia in the financial market (Burlachkov, 2014):

- Registration of new and additional capital issues of credit and non-credit institutions, registration and offering circular on the issue outcomes.
- Licensing of all types of professional activities in the financial markets.
- Control and supervision over credit and non-credit financial institutions' activities.
- Harmonization and registration of financial non-credit institutions' documents.
- Maintenance of registers.
- Accreditation of organizations making performance review of financial market specialists.
- Award of the central securities depository status.
- Disposal of legal proceedings and drawing up protocols on imposition of administrative sanctions for the violation of the financial market legislation.
- Other functions related to the competence of the Bank of Russia as a mega-regulator of the financial market.

Figure 1: Common system of the mega-regulator performance

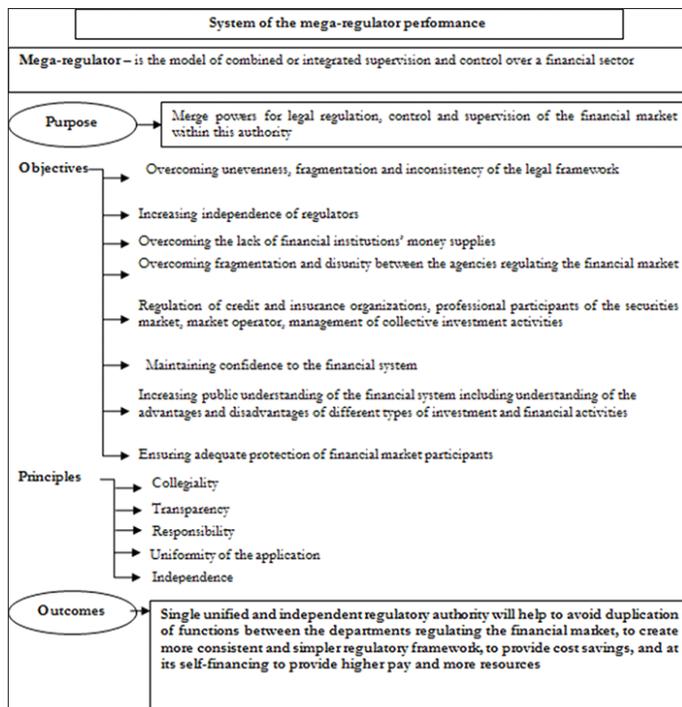


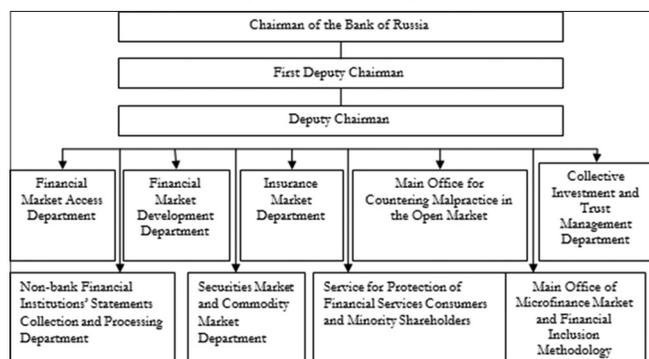
Figure 2: Regulatory powers of the Bank of Russia in the financial market

Development of the concept of development of the national financial sector	Implemented together with the main objectives of the national economy, provides an integrated approach in the development of the financial markets, its infrastructure; countering crisis situations
Development of monetary policy	Provides ongoing efficiency measures to stabilize prices and low inflation
Analysis of financial market segments, including the activities of non-credit institutions	Development prospects for the development of financial markets, to ensure the stability of its functioning, in terms of the scope of activities of non-credit financial institutions
Development of normative legal acts, the establishment of prudential ones	It provides clear regulation of all rules and procedures of supervision and regulation, monitoring and control
Formation of the rules and regulations of foreign exchange regulation, emission regulations and handling of cash	Coordination of observations of the payment system and its regulation, the formation of the national payment infrastructure
Licensing of financial market participants	Adoption of the rules and the licensing mechanism, making decisions on granting or revocation of licenses to financial market participants

As the bank of Russia is entrusted with additional powers, there were significant transformations in its structure and administration. On 10 December 2013 there were nine departments, coordinating the operation of all sectors and, in particular, a banking and insurance sector of the financial market, the stock market formed. After the abolition of the Central Office of the central bank. After elimination of the Bank of Russia Financial Markets Service its specialists started working in formed departments and organizational units (Vavulin, 2014, Khmyz, 2014) (Figure 3).

All new powers of the Bank of Russia powers on legal regulation, control and supervision in the financial markets will promote the financial market stability and will improve the competitive environment of financial market segments.

Figure 3: Structure of Organizational units of the Bank of Russia (a financial sector)



4. CONCLUSION

The authors think that one of the main problems of modern economics is the existence of the well-performing and competitive financial market. The Modern Financial Market Infrastructure in a number of developed countries had been formed for decades. In Russia, the system of the financial market formation was condensed for several years, and took place in other socio-economic conditions, that determined the specifics of its operation and control. The relative underdevelopment, disproportionality and condensity of the infrastructure prohibit decreasing transaction costs and increasing operation effectiveness of the financial markets segments. There is the need for optimal operating financial institutions, distribution and circulation of tools and financial market assets inside the territory of the state, revealing the optimal forms of intermediary, clearing-and-settlement, depository, information and other services, the process of transactions conclusion and execution, improving the quality of services and information support, and others.

The native and foreign practice shows that the control and supervision system holds a special place in the financial market system. Therefore, the main task of the Government is to provide effective regulation of the financial market which will increase the rates of its activities. It will be expressed by the increasing number of participants operating in the financial market, the increasing volumes and types of services, the emergence of new financial instruments, and the increasing competitive advantages of the national financial market.

Thus, the actual problem is to increase the level of formation and functioning of the financial market infrastructure, providing services that accelerate and improve the efficiency of the issuance and circulation of financial instruments and assets.

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