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GENESIS FORMS OF REGULATION OF FINANCIAL MARKETS IN THE CONTEXT OF ACHIEVING FINANCIAL STABILITY

The reform of the regulation financial markets of the USA and the countries of the European Union, the aim of which is to restore financial stability, are considered. Special attention is paid to the change in the system of supervision and regulation of financial markets, the combination of micro - and macro-prudential control.
Key words: financial stability, the financial crisis, regulatory reform, macroprudential supervision.

Formulation of the problem in general and its relationship to important scientific and practical tasks. Since the second half of the twentieth century and to nowadays worldwide systemic financial crises occurred in more than 70 countries . Since the 90s of the twentieth century and still economists tried to analyze the extent to which the regulation or deregulation of the financial system against the backdrop of rapid globalization affects its stability. However, relatively painless overcoming crisis market shares of Internet companies in the United States after 2000 , the successful launch of a common currency in the European Union in 1999 and then largely prosperous , functioning of the euro area , a steady growth of newly industrialized economies - have all contributed to increased confidence in the that prevailed in the financial world of moderation and restraint. A management and supervision are more or less effective.+

However, the world economic crisis of 2007-2008 and the shocks which have captured at the same time sectoral markets of crediting, insurance and securities, showed that the moderation was only temporary illusion, and problems of maintenance of financial stability weren't properly estimated by regulators. The reason of financial crisis of 2007-2008 and Great recession in the developed countries which followed it, were in details analysed in numerous reports of official establishments and in scientific researches. According to the majority of analysts, sharp violation of financial stability is the key reason of crisis. Therefore achievement of financial stability, since 2009, becomes the most important problem of reforms of national and international financial systems.

The purpose of this article is the analysis of development of institutional reforms of regulation of the financial markets aimed at providing financial stability.

Analysis of the main researches and publications. And achievements of financial stability the considerable attention in economic researches was always paid to questions of regulation of the financial markets. The last financial crisis only increased interest to this perspective.

D. Heremans, F. Allen and D. Gale, G. Skinazi's researches and others are devoted to the analysis of structure of the financial markets, problems of their stability. Among the Ukrainian authors who investigate the financial markets, the attention to the analysis of financial stability is paid by Yu. Kolobov, O. Sidorenko, E. Stepanyuk, T. Unkovskaya and others. M. Bilotskaya, S. Moshensky, I. Rekunenko's researches, etc. are devoted to a perspective of regulation of the financial markets. In Lithuania thorough research of a role of the central bank in achievement of financial stability is presented by work G. Leyka, institutional aspects of financial stability are analyzed in A. Dobravolskas and Yu. Seyranov's work.

Statement of the main material. The majority of modern researchers characterizes financial stability as ability of a financial system to cope with various risks. However the standard determination of financial stability doesn't exist today. We will adhere to the approach offered by Harry Skinazi [23].

According to G. Skinazi, the financial system is stable if it is capable to carry out the following three key functions:

- distribution of economic resources in general and redistribution of resources in time between savings and investment in particular;
- account, assessment and predictions of financial risks;
- absorption (absorption) of financial shocks (shocks) and shocks which leave real economy.

In turn, the factors breaking financial stability, can be divided into two big groups: external (exogenous) and internal (endogenous). Various macroeconomic disproportions belong to the first group in the sphere of production and consumption, investments into the real capital, the international commodity and investment streams. The second group is the factors connected with imperfection of the financial markets.

It is obvious that the cyclic mechanism of modern financial crisis essentially doesn't differ from historically known mechanism of credit expansion with change of the periods of «bubbles» and crashes. Participants of the market hope for the infinite growth of the price of a certain asset, whether it be real estate, actions, exchange goods, derivatives, etc. The real income made by this asset (a rent, profit or the dividend) loses value in this case, and the increase in its price becomes dominating motive of operations with an asset. The asset growing in the price is used for a loans security which go for further acquisition of a similar asset. But there comes the moment when growth of the price is slowed down or stops, and the cyclic mechanism which worked for inflating of «bubble» starts working promptly in the opposite direction.

Market mechanisms of self-regulation of the financial market are less effective in comparison with other sectors of economy, moreover, they are connected with considerable expenses for all economy.

Reforms of regulation are the answer to imperfection of the market. We consider regulation evolution as long cyclic process during which the periods of strengthening of control over the market are replaced by the deregulation periods. Our assumption of a long cycle of regulation finds confirmation in Avguleas Gudkhart's investigating dialectics of a role of the central bank as the regulator of bank branch periodization. A. Gudkhart allocates three eras: Victorian (1840-1914), governmental control (1930-1960) and era of triumph of the market (1980-2007) . Every era is followed by the uncertainty and interregnum period. For the first and third eras monetary stability and high degree of independence of the central bank are characteristic, both of these eras terminate in crash of financial stability. During the second era the government has more powers, than rather dependent central bank, this period comes to the end with crash of monetary stability and surge in inflation [19].

As a whole we agree with A. Gudkhart's this periodization. However, after the Great depression the defining role in modern evolution of regulation is played by processes the USA. Regulation development in Europe in the main repeats the American model. On the basis of it in cyclic process of regulation in Europe it is possible to allocate two phases: phase of strong regulation (from 1933 to 1979) and the phase of deregulation dominating from 1979 to 2008 (see tab. 1.) After crisis of 2008, in our opinion, begins a peculiar Renaissance of regulation and a new cycle.

After financial shocks of the Great depression of 1929-1933 in the USA the system of regulation of the financial cornerstone at the heart of which Glassa-Stigoll's (Glass-Steagall Act) Law of 1933 and the Law on trade in securities (Securities Exchange Act) of 1934 are is created.

Governmental regulation of the financial markets dominates till 70th years. As the government establishes a refinancing rate, the Federal Reserve System role during this period has the subordinated character.

As for Europe, here independence of the central banks during this period is also limited to governmental regulation of interest rates and control over cross-border movement of the capitals.

It is necessary to emphasize especially that for the period of governmental regulation, both in the USA, and in Europe, high financial stability is characteristic. As A. Gudkhart notes, from 1945 to 1971 there was no large bank crisis [19].

However falling of Bretton-Vudsky system and inflationary shocks from a raising of prices of oil in the 70th led to a decline of model of governmental regulation. This decline is accelerated thanks to rivalry between regulators and regulated, especially in the USA where banks, using openings in the legislation, enter new products and forms of the organization of business. As the answer to high rates of inflation new kinds of the check deposits bringing percent are created. New organizational structures – bank holdings, networks of branches, allow to increase geographical expansion (between states and international) and intersectoral integration. At the same time there is a fast updating of bank technologies of storage, processing and data transmission, widespread introduction of computers and new means of telecommunication.

Acceleration of rates of inflation in the second half of the 70th years of the XX centure led to change of priorities and put in the forefront tasks achievement of monetary stability. The beginning of a phase of deregulation which lasted nearly three decades, opens acceptance in the USA of the Law on deregulation of deposit institutes and monetary and credit control (Depository Institutions Deregulation and Monetary Control Act) in 1980 and the Law on deposit institutes (Garn-St.Germain Depository Institutions Act) in 1982. The top limits for percent on savings deposits are eliminated, conditions for participants of the market are unified. Borders between the financial institutions which earlier had expressed specialization are washed away. The admission of banks to participation in the Federal Reserve System is simplified, simultaneous conducting bank activity in several states is simplified. The operating procedure of deposit banks with many risk assets is liberalized.

Main signs of stages of regulation and deregulation

Phase of strong regulation (from 1933 to 1979)		a deregulation Phase (from 1979 to 2008)
The Federal corporation of insurance of deposits is created	⇨	The admission of banks to participation in the Federal Reserve System is simplified
Investment banks separate from the banks having the right to accept deposits from the population	⇨	Borders between the financial institutions which earlier had expressed specialization are washed away Simultaneous conducting bank activity in several states is simplified
Payment of percent on check deposits is forbidden	⇨	New versions are created the check deposits bringing percent
The Commission on securities and the exchanges is created	⇨	The operating procedure of deposit banks with many risk assets is liberalized
The top limits on payment of percent on savings deposits are entered	⇨	The top limits for percent on savings deposits are eliminated

Final dismantle of former system of regulation is made out by acceptance in 1999. Law of Gremma-Licha-Blayli on financial modernization (Gramm-Leach-Bliley Act). The provision of the law of Glassa-Stigoll forbidding to bank holding to own other finance companies is cancelled, i.e. the insuperable wall between deposit and investment bank activity more doesn't exist. Now deposits can be sent to operations with securities. All this led to unprecedented influence of the central banks and reduction of intervention of the governments in functioning of the financial markets.

At the same time in Europe within the project of uniform currency there is an integration of the financial markets and national borders for movement of the capitals are eliminated. As the basic European Union model accepts the principles of the German Bundesbank – the powerful central bank independent of the government aimed at priority ensuring monetary stability.

The decade, preceding financial crisis of 2007-2008, quite often call an era of «Great Recession», the period of estimated growth and steadily low inflation. Claudio Borio so generalizes a set of the postulates inherent in this period:

- monetary (price) stability – a sufficient condition of macroeconomic stability;
- financial stability can be provided as a whole with branch prudential supervision and regulation in the relevant sectors of the financial market;
- control over a rate of short-term refinancing sufficient for functioning of the transmission gear of monetary policy;
- global stability will be provided if the Central banks provide stability within the national responsibility [14, c.2].

As showed further events, «Great Recession» was the myth which distracted attention from real process of accumulation of system risks [11, with. 4]. The central banks were aimed at maintenance of acceptable short-term indicators of inflation of consumer prices and didn't react to inflating of the prices in the market of real estate and formation of a bubble of mortgage bonds. Institutes which controlled banks and securities market, underestimated the volume of the so-called «shadow» crediting which is carried out through a hedge funds. The financial innovations using technologies of a sekyuritization of debts and creating illusion of protection against risks, gave the chance to banks which were in a zone of strict regulation, to finance operations not the person under surveillance of sector. Regulators of the market of insurance ignored the risks connected with insurance of defaults on bonds. By the time of crisis national systems of regulation appeared incapable to operate on the markets where the largest interconnected financial institutions which national and branch borders outgrew dominate.

Imperfection of the financial markets and scale of losses which they sustain, are powerful arguments in favor of their comprehensive state regulation. However, in our opinion, achievement of absolute financial stability shouldn't be the only purpose and has to be limited to reasons of economic efficiency. Absolutely steady financial system can demand excess capital investments and make financial sector unattractive for investments. And additional expenses can be postponed for shoulders of clients and taxpayers, and such financial system becomes too expensive to economy. Besides, absolute financial stability can mean preservation of existing market structure and loss of incentives for innovations.

Consolidation of systems of regulation of the financial markets in the USA and the European Union became reaction to crisis.

Dodda-Frank's Law on Uoll-Strit's reforming and protection of the consumers is put in the basis of reform of regulation in the USA, accepted in July, 2010. This law which is fairly called by the most large-scale transformation of system of regulation, carried out after 30 years of the XX century, considerably strengthens a government role in regulation of the financial markets [12]. Mechanisms on maintenance of financial stability, an assessment and counteraction to system risks are created. Council for supervision of financial stability under the chairmanship of the secretary of treasury (Minister of Finance) is educated. The Service of the financial researches which head is appointed the President is founded. The Bureau on financial protection of consumers is created. Dodda-Frank's law provides the measures, allowing to estimate a condition of problem institutions and to carry out their restructuring or elimination. The law partly restores provisions of the law of Glassa-Stigoll about separation of deposit banks from the investment. For deposit banks limits on carrying out operations with speculative assets are set.

In the European Union creation of the consolidated supranational system of regulation began practically right after Eurozone creation, however, crisis of 2008 accelerated this process.

It should be noted that during crisis by the international European organizations various tools for assistance to the countries which received the strongest financial shocks (for example, Ireland, Portugal, Greece, Spain, Cyprus) were entered. Besides, various schemes with participation of the European stabilization funds, European Commissions fund, the International Monetary Fund (IMF), and also bilateral credit agreements were involved.

The European Financial Stability Facility (European Financial Stability Facility (EFSF)) which carried out active operations from June, 2010 to July, 2013 became the first temporary tool created for rendering the emergency financial help to the states of the Eurozone.

The EFSF programs were guaranteed by 17 members of the Eurozone for the sum of 440 billion euros, European Commission fund (60 billion euro) and the IMF (250 billion euro). The EFSF programs were directed on rescue of national financial systems of Ireland, Portugal and Greece.

On change to the temporary EFSF tool in September, 2012 the constant European stabilization mechanism (European Stability Mechanism (ESM)) which since July 1, 2013 becomes the only procedure for granting of new programs of the help to the Eurozone states was started. The signed capital of ESM, is distributed between all participants of the Eurozone, makes 700 billion euro, and for assistance to economy of the crisis countries can be directed to 500 billion euro. The new mechanism was already involved for support of a financial system of Spain and the decision Cyprian crisis.

It should be noted that thanks to EFSF and ESM mechanisms of the government of the crisis countries have an opportunity of long-term financing. So, the average maturity dates of loans of EFSF for Ireland and Portugal exceed 20 years, for Greece – more than 30 years. The main loans granted Spain through ESM, have a maturity date more than 12 years, and the first loans of ESM, provided Cyprus, – more than 14 years. It, undoubtedly, provides to the national governments broader maneuver in comparison with short-term or medium-term loans of the IMF.

Meanwhile, as a result of anti-recessionary measures of the government of the countries recipients substantially redirected the received help on restructuring of the largest banks with the purpose to avoid crash of a national financial system. In our opinion, such use of financing has very negative consequences which are shown in building of a public debt and deterioration of a fiscal position of the national government. Thus improvement of a banking system happens not always, especially in cases when problem banks are transnational.

It is necessary to emphasize that in the European Union especially strong manifestations of national economic egoism take place. Thereof anti-recessionary financial mechanisms practically can’t use fiscal transfers between the states and therefore are formed on the basis of the return financing. Thus, further development of crisis in the European Union in 2010-2012, from our point of view, it is possible to define as «crisis of sovereign debts» when the national governments, trying to rescue big problem financial institutions for the purpose of restoration of their financial stability, often become a destabilization factor. So, for example, the governments of Ireland, Portugal, Spain, giving help and carrying out restructuring of commercial banks, appeared in position of unreliable borrowers and lost opportunity independently to refinance public debts.

Restructuring of problem banks, passing the national governments, directly from funds of the European stabilization mechanism, in our opinion, it can be realized only within creation of the full-fledged bank union in the Eurozone the course on which was declared by European Commission in September, 2012 [17].

It is necessary to notice that during reform of regulation there is a heterogeneity of process of integration which threatens with the potential conflict between «kernel» (Eurozone) and the «periphery» presented by strong issuers of national currencies (for example, Great Britain). In particular, there is a question of differentiation of powers between the operating European bank administration which is based in London, and the Only supervising mechanism which only is formed. Results of crisis showed that regulatory activity of the national Central Banks couldn't guarantee stability of a financial system sufficiently.

So, the analysis of financial stability can't lie only in the plane of an assessment of implementation of standards banks and tracking of inflationary processes [1]. Modern globalization of the financial markets, freedom of crossing of financial resources, complication of financial systems, underestimation by the Central Banks of risks in the adjacent markets (real estate, insurance, exchange) and can be further prerequisites for shocks of stability of financial systems.

Conclusions. Regulation consolidation that occurs now, is natural reaction to financial crisis of 2007-2008 which important reasons were, the era of deregulation and an inattention to accruing system risks preceded. Shortcomings of branch regulation of the financial markets are partially overcome by creation mega regulators.

In our opinion, achievement of absolute financial stability shouldn't be the purpose and has to be limited to reasons of economic efficiency. Absolutely steady financial system can demand excess capital investments and make financial sector unattractive for investments. And additional expenses can be postponed for shoulders of clients and taxpayers, and such financial system becomes too expensive to economy. Besides, absolute financial stability can mean preservation of existing market structure and loss of incentives for innovations.

Financial crisis of 2007-2008 substantially is result of the previous period of deregulation and policy of the central banks sure that long-term financial stability is achievable by means of short-term monetary tools. At the same time, the structures of regulation limited to a national and branch framework existing at that time, ceased to answer the transnational and intersectoral markets where the largest interconnected and interdependent financial institutions dominate.

In the European Union reforms of system of supervision and regulation which are begun even before crisis of 2007-2008, received today acceleration. Since 2011 within the European Union the consolidated bodies macro - and microprudential supervision start working. At the same time, under the influence of crisis of sovereign debts in the Eurozone, the tendency to differently high-speed integration is planned. For restoration of financial stability in the Eurozone it is necessary to use special temporary and constant stabilization funds.

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ГЕНЕЗИС ФОРМ РЕГУЛИРОВАНИЯ ФИНАНСОВЫХ РЫНКОВ В КОНТЕКСТЕ ДОСТИЖЕНИЯ ФИНАНСОВОЙ СТАБИЛЬНОСТИ

Резюме
Рассмотрены реформы регулирования финансовых рынков США и стран Европейского союза, целью которых является восстановление финансовой стабильности. Особое внимание уделено изменениям в системе надзора и регулирования финансовых рынков, сочетанию микро- и макропруденциального надзора.
Ключевые слова: финансовая стабильность, финансовый кризис, реформы регулирования, макропруденциальный надзор.

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ГЕНЕЗИС ФОРМ РЕГУЛЮВАННЯ ФІНАНСОВИХ РИНКІВ У КОНТЕКСТІ ДОСЯГНЕННЯ ФІНАНСОВОЇ СТАБІЛЬНОСТІ

Резюме
Розглянуто реформи регулювання фінансових ринків США та країн Європейського союзу, метою яких є відновлення фінансової стабільності. Особливу увагу приділено змінам у системі нагляду та регулювання фінансових ринків, поєднання мікро- і макропруденційного нагляду.
Ключові слова: фінансова стабільність, фінансова криза, реформи регулювання, макропруденційний нагляд.