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INTERNATIONAL INVESTMENT ACTIVITY:

Lecture notes

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Igor Sikorsky Kyiv Polytechnic Institute"
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under the educational program "International Economy"
specialty 051 "Economics"

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INTERNATIONAL INVESTMENT ACTIVITY: LECTURE NOTES

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The study guide contains theoretical material in terms of topics provided by the curriculum of the discipline "International Investment Activity" and dedicated to the main investment tools and global trends in the development of investment activity. Questions for self-control and tasks for independent work are proposed for each topic. Intended for students of master's training in specialty 051 "Economics". It will also be useful for students of economic specialties, specialists of enterprises and organizations of various forms of ownership.

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PREFACE

The discipline "International investment activity" is devoted to the study of patterns and mechanisms of functioning of certain segments of international investment markets.

The study of the discipline will contribute to the students' acquisition of theoretical knowledge about activities on international investment markets, to understand the specifics of international investment instruments, to be able to justify the feasibility of investing .

The purpose of the course is the development of students' understanding of the patterns of international investment activity, the formation of knowledge and the acquisition of analytical skills in the field of foreign and foreign investments.

The subject of study is the mechanisms of international investment activity in various segments of the international investment market.

The discipline "International investment activity" is selective and its study allows students to develop additional competencies :

ZK 2 Ability to abstract thinking, analysis and synthesis.

ZK 8 Ability to conduct research at an appropriate level.

FC 1 Ability to apply scientific, analytical, methodical tools to substantiate the strategy of development of economic entities and related management decisions.

FC 3 The ability to collect, analyze and process statistical data, scientific and analytical materials, which are necessary for solving complex economic problems, to draw reasonable conclusions based on them.

RN 1 Formulate, analyze and synthesize solutions to scientific and practical problems

RN 8 Collect, process and analyze statistical data, scientific and analytical materials necessary for solving complex economic tasks

Topic. 1. ESSENCE AND FACTORS OF INTERNATIONAL INVESTMENT ACTIVITY

1. Economic essence of international investment activity.
2. Causes and essence of international movement of capital.
3. Classification of investments
4. Factors influencing FDI
5. Motivation for using investment resources.

Basic concepts: investment, international investment, international investment market, capital market, securities market, real investment, financial investment, portfolio investment, individual investor, institutional investor, corporate investor,

1.1. Economic essence of international investment activities

Investment is the investment of capital in one form or another in a business in order to further increase or preserve it.

International investment is created with the help of both economic and social measures, as well as legal norms, which are an integral part of the investment legislation of the state that accepts the capital of foreign investors. The most popular instruments among governments in both base and host countries are: – provision of state guarantees by both base and host countries; – insurance of foreign investments, which can be carried out by state and private agencies; - avoidance of double taxation of profits of enterprises with foreign investments; – administrative and diplomatic support, foreign investors are the object of state protection from the authorities of the host country [1, 70].

The international investment market is a regulator of the set of economic relations that arise between the seller of investment resources and their buyer, residents of different countries. It differs from other markets by the specific nature of its product, which is represented by international investments. In the economic literature, **international investments** are defined as international capital flows in the form of

direct and portfolio investments. Accordingly, the international investment market is divided into the market of real investment objects and the financial market. The market of real investment objects includes: the market of direct foreign investments, the real estate market, the market of other real investment objects. The financial market includes: capital market (stock market, credit market) and money market.

On *the market of real investment objects*, real investments are implemented, that is, those economic resources that are directed to increase the real capital of society, to expand or modernize production.

In global practice, *the volume of such investments is considered* one of the most important indicators of the prosperity of the national economy, as a factor of macroeconomic stabilization of the country.

In the economic literature, a distinction is made between *net real investments* , aimed at increasing fixed capital and the formation of new fixed and part of working capital for production and non-production purposes, and *gross real investments* , which include net real investments and the amount of one-time costs that ensure simple reproduction.

The market of real investment objects includes the market of direct foreign investments, which is realized, as a rule, in long-term capital investment in foreign enterprises with the aim of obtaining profits and directly influencing the economic activity of the enterprise. Direct foreign investments ensure the arrival of new technological, economic, management and marketing knowledge to the country, increasing the level of employment of the population and contributing to general economic development. Direct investments include initial investments and reinvestments. In addition, direct investment includes all intra-corporate transfers of capital in the form of credits and loans between the direct investor and affiliates, subsidiaries and associated companies.

Real assets are a source of income in the economy, and *financial assets* characterize its distribution among investors. Financial assets and the markets in which they are traded play an important role in the development of the economy. They provide an opportunity to multiply real assets.

The peculiarity of financial resources that serve fixed and working capital determines its division into the money market and the capital market.

Short-term, highly liquid and low-risk monetary instruments called cash equivalents, or simply money, circulate *on the money market*. *Part of the money market is the currency market*

the market that services debt obligations in foreign currency. *Money market instruments* include certificates of deposit, commercial certificates promissory notes, bank acceptances, Eurodollars, repurchase agreements.

Long-term and risky investments of firms, governments and households are made *in the capital market*. The capital market is divided into credit and stock markets, which are characterized by a wide variety of financial tools

Securities are traded *on the stock market*. They have no intrinsic value because their value is determined by the assets they represent. The security reflects the ownership right of the investor and defines the conditions under which he can exercise this right. Most securities can easily pass from one owner to another, along with their rights and obligations.

Capital market comes in the form of four segments: long-term fixed income securities markets, equity markets, and derivative securities markets such as options and futures.

The securities market is divided into the primary market, where new issues of securities are bought and sold, and the secondary market, where existing securities are placed. Placement of securities on the primary market can be carried out by companies that are going to become an open joint-stock company and offer their shares to the general public for the first time

a circle of investors, or companies that carry out re-issuance.

Quite often, the initial issue is carried out with the involvement of underwriters - investment banks that guarantee the placement of securities. As a rule, the sale of securities is carried out by several investment banks, which form an emission syndicate under the management of the main bank. At the same time, the issuing company sells

securities to underwriters and transfers the risk associated with their sale to a wide range of investors.

The main **subject** of investment activity, which makes decisions about investing own, borrowed or borrowed property or intellectual values in investment objects, is **the investor** .

Individual, institutional, corporate investors and the government are distinguished. The differences between them lie in the scale of managed resources, the nature and methods of decision-making. **An individual investor** independently (without intermediaries) carries out investment activities. **Institutional investor** is a financial intermediary that accumulates the funds of individual investors and carries out specialized investment activities, as a rule, in transactions with securities. Institutional investors include investment funds and companies, pension funds, insurance companies, mutual funds, and banks. Enterprises and organizations of various economic sectors are **corporate investors** . **The government** acts as a specific investor .

Participants investment activities are *physical and legal entities* that ensure the implementation of investments as executors of orders or instructions of the investor .

Regarding subjects of international investment activities, the following concepts are used:

foreign investment investor - a donor subject who is a resident of a certain country (country of base) and who invests in objects abroad;

foreign recipient of investments - an entity that is not a resident of the country of base and that receives funds from an investor who is a resident of the country of base;

foreign investor — an entity that is not a resident of the host country and that invests in recipients who are residents of the host country;

the recipient of foreign investments is an entity that is a resident of the host country and that attracts funds from foreign investors.

1.2. The reasons and essence of the international movement of capital.

The international movement of factors of production (capital, resources, labor) is regulated by the same laws as international trade in goods: factors are moved to those countries where they are paid more (higher interest rate, wages, license fees, etc.).

International movement of capital is a one-way movement abroad of a certain value and in commodity or monetary form for the purpose of obtaining profit or business benefit.

The main reasons for exporting capital abroad are:

- investment asynchrony, which is characterized by the concentration of a certain amount of investment resources in some countries and their deficit in others. It is the prerequisite for the international movement of capital. Thus, each national economy has a certain amount of investment resources, which consist of its own and international investments and can be used for both domestic and foreign investment.

- relative capital surplus. This is manifested in the saturation of the domestic market with such an amount of capital, when its use in the national sphere does not bring profit, or leads to its decrease. The search for areas of profitable capital investment pushes beyond the borders of the national economy.

- processes of internationalization of production, development and deepening of international economic, political, cultural and other relations between countries.

- differences in production costs, the desire to bypass tariff and non-tariff restrictions, protect one's capital from inflation, the unpredictability of the economic and political situation in the country, the desire for a long period to ensure the satisfaction of one's economic, political and other interests on the territory of one or another country, etc.

- there are countries in which there is a shortage of investment resources, capital in monetary form.

- countries strive to attract foreign technologies to national production, to increase its scientific, technical and technological level, to carry out structural restructuring in the direction of export-oriented and high-tech industries.

- countries' efforts to solve population employment problems with the help of foreign capital, especially when there is tension in the labor market.

Forms of capital outflow:

Export - transfer of capital accumulated on the domestic markets of the country to a foreign jurisdiction to level the title risk, legalization

Capital flight - sudden, situational operations to withdraw capital from potentially risky markets

Export - a legal form of capital export in the form of investment by residents abroad in the course of ordinary economic activity

Capital flight :

this is the transfer of significant amounts of capital to countries with a more favorable investment climate (to avoid a high level of taxation, the negative consequences of inflation, the risk of expropriation, etc.). The main purpose of capital flight is to guarantee its profitable placement in other countries.

Net inflow of capital : this is the difference between the amount of cash inflow from abroad (through loans, sale of financial assets to foreign investors) and the amount of capital outflow in the form of loans to foreign borrowers or purchase of financial assets of foreign issuers.

Inflow is greater than outflow - Net recipient

The outflow is greater than the inflow - Net investor

Kindleberger Ch. P. believes that capital flight is "abnormal movement of capital from the country, which is stimulated by one or a whole complex of fears and suspicions."

V. Klein believes that capital flight is "the accumulation of foreign net assets by the private sector at a time when the state considers it necessary to accumulate foreign net liabilities or reduce its foreign net assets"

Making a decision on capital flight is determined by a combination of four factors:

- expected profitability,
- risk (mainly socio-political),

- information and transaction costs,
- confidentiality

Economic motives causing the withdrawal of capital abroad

- title risk insurance;
- productive placement of capital in markets with higher profitability;
- optimization of taxation;
- legalization of capital obtained illegally.

Theories of capital movement:

S. Hymer's theory of market power - the subject of investment activity, which exports capital, seeks to dominate the market and achieve market power. Foreign investment is carried out with the aim of suppressing competition and maintaining control over the market. The so-called "defensive investments" are also practiced: the creation of production facilities abroad, which are almost unprofitable, with the deliberate aim of undermining the positions of competitors in these markets.

Theory of internalization - each firm pursues the goal of minimizing transaction costs (costs for concluding agreements). With a decrease in transaction costs, the operations of firms begin to acquire an "internal character", that is, markets are internalized. The goal of minimizing transactions remains the main motive for moving operations abroad.

Internalization is an economic strategy aimed at reducing or eliminating negative external factors by transforming them into internal ones.

The internalization strategy can be implemented in several ways:

- 1) concentration in the hands of one TNC and its branches of the necessary technologies and productions and the transition to domestic (transfer) prices. At the same time, the external negative impact on the level of profitability is reduced;
- 2) The company can reduce the volume of production or sales in this market (and, therefore, external factors) to the optimal level at which acceptable efficiency will be established.

3) The company can agree with the manufacturer of this effect on the division of costs (the so-called Coase's theorem).

4) State intervention by imposing on the producer negative factors (e.g., environmental pollution) with a tax equal to the external effect, forcing him to reduce or eliminate the effect itself

The concept of industry competitiveness - explains the international movement of capital by increasing technological competition between capital market subjects.

The concept of technological accumulation considers the international movement of capital as a consequence of the development of technology, the innovation process. A firm creates new technologies in order to consolidate control and ownership based on its specific technological advantages.

The concept of defense of national sovereignty is based on the fact that the growth of foreign investments in the national economy can cause a decrease in the share of domestic production. That is why governments follow a policy of countering the expansion of the influence of capital-exporting countries or regulate the export-import of capital.

The concept of currency space - the main incentive for the transfer of production capacities (capital in material form) abroad is the presence of competitive advantages over the recipient country. Investors from countries with a stronger currency than the currency of the recipient countries have such advantages.

1.3. Classification of investments

Investments can be classified according to various criteria (Fig. 1.2).

The most significant differences between some investments and others are as follows.

Real investments — investment of capital (funds) in real assets of spheres and branches of the national economy with the aim of updating existing ones and creating

new material goods. In domestic business practice, such investments are called production or capital investments.

Financial investments are defined as investments in various financial instruments (assets). Similarly, they are interpreted in Ukrainian legislation, namely as economic transactions that involve the acquisition of corporate rights, securities, derivatives and other financial instruments. Among financial investments, the most significant share is invested in securities.

- **short-term investments** are capital investments for a period of up to a year, and **long-term investments** are designed for a period of more than a year or are not limited to any period at all;

Private investments are made by citizens, as well as non-state owned enterprises, and **state investments** are made by central and local bodies.

- **internal investments** — investment of funds in investment objects, placement within the territorial boundaries of this country.
- **foreign investments** are made by foreign citizens, foreign legal entities and states.
- **foreign investments** — investments in investment objects located outside the territorial boundaries of this country.

Direct investment is an investment of capital with the purpose of contributing to the receipt of entrepreneurial profit (income), and investments that are determined by long-term economic interest and ensure the investor's control over the investment object.

Direct investments are both primary investments and *reinvestments* (the share of the investment object's income that is not distributed and not transferred to the direct investor). In addition, direct investments include all intra-corporate transfers of capital in the form of credits and loans between the direct investor and branches, subsidiaries and associated companies.

On **the market of real investment objects**, real investments are implemented, that is, those economic resources that are directed to increase the real capital of society, to expand or modernize production. Real investments can also be divided from the point

of view of the stage of development of the business entity and the goals of their implementation into:

- net investments or zero investments are capital investments aimed at the formation of an investment object;
- reinvestment or recovery investment;
- extensive investments are investments that are directed to the expansion of the sphere of activity of the investment object, namely, the organization of subsidiaries, the opening of branches, representative offices, the expansion of the range of manufactured products, the increase of production volumes, the organization of new types of activities, etc.;
- intensive investments are aimed at reducing the costs of raw materials and materials, increasing labor productivity, reducing the need for production areas and containers, reducing energy consumption, capital costs, that is, material, labor and financial resources;
- Direct investments are investments in the main production means , intangible assets and current assets means

Investments in fixed assets include:

- acquisition (production) of new equipment;
- modernization of existing equipment;
- construction and reconstruction of buildings and structures;
- technical rearmament;
- new technological equipment of existing equipment.

Investments in working capital provide for:

- new and additional production stocks;
- new and additional stocks of finished products;
- increase in debtors' (debtors') accounts.

Investments in intangible assets involve the acquisition of a new technology (patent, license) or trademark (brand).

Associated investments are investments in objects territorially and functionally related to the target production object (electricity networks, sewers, investments in environmental protection, social infrastructure, etc.).

Real investment is a category of cross-border investments made by a resident of one economy (direct investor) in order to establish a long-term interest in an enterprise (direct investment enterprise) that is a resident of another economy.

The motivation of the direct / real investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence of the direct investor on the management of the direct investment enterprise.

"Long-term interest" is confirmed when the direct investor owns at least 10% of the voting rights in the direct investment enterprise. The goals of direct investment are different from the goals of portfolio investments, so investors usually do not expect to influence the management of the enterprise. The numerical value of the share of the foreign investor in the ownership of the firm, which is a sign of direct foreign investment, differs significantly in different countries. Thus, in Belgium/Luxembourg, the USA, Sweden and Finland, any investment is formally considered foreign direct investment if it exceeds 10% of the company's ownership; at least 20% - in Italy and France; 25% - in Germany, New Zealand and Japan; 50% - in Spain.

Direct investment enterprises are corporations that can be subsidiaries in which they own more than 50% of the votes, or associated companies in which they own between 10% and 50% of the votes, or they can be quasi-corporations, such as branches that effectively are 100% owned by their respective parent structures.

The relationship between a direct investor and its investees can be complex and have little or no connection to governance structures.

In tables 1.1.-1.2. UNCTAD data on FDI importing and exporting countries are given, where the USA, the People's Republic of China and Hong Kong are always in

the top ten. The People's Republic of China actively uses Hong Kong as an outlet for trade and economic relations with the rest of the world. Therefore, it should be understood that the absolute leaders of FDI exports and imports are actually two international actors - the USA and China. The USA, China and Hong Kong accounted for 43.5% of world FDI imports and 37.2% of world exports. China still lags behind the U.S. in capital exports, but the gap is trending closer. In 2021, China's total capital exports accounted for 13.6% of global exports, compared to 24.9% for the US. But by the volume of capital imports, China was significantly ahead of the US by 2021. (Table 1.1.)

Table 1.1.-Attraction of foreign direct investments

IMPORT	2000		2014		2020		2021	
	Billions, USD	%	Billions, USD	%	Billions, USD	%	Billions, USD	%
USA	314,0	23,1	201,7	14,4	150,8	15,7	367,4	23,2
China	40,7	3,0	128,5	9,2	149,3	15,5	181,0	11,4
Hongkong	54,6	4,0	113,0	8,1	134,7	14,0	140,7	8,9
Singapore	14,7	1,1	73,3	5,2	75,4	7,8	99,1	6,3
Canada	66,8	4,9	59,0	4,2	23,2	2,4	59,7	3,8
Brazil	32,8	2,4	63,8	4,6	28,3	2,9	50,4	3,2
India	3,6	0,3	34,6	2,5	64,1	6,7	44,7	2,8
RSA	0,9	0,1	5,8	0,4	3,1	0,3	40,9	2,6
British Virgin Islands	8,0	0,6	40,5	2,9	-45,0	4,1	62,0	2,5
The Russian Federation	2,7	0,2	29,2	2,1	34,8	1,0	60,8	2,4

Portfolio investment is the investment of capital in securities for the purpose of obtaining income (dividends); such investments do not provide real control of the investor over the investment object.

Table 1.2.- Direct investment abroad

EXPORT	2000		2014		2020		2021	
	Billions, USD	%	Billions, USD	%	Billions, USD	%	Billions, USD	%
USA	142,6	12,3	333,0	24,2	234,9	30,1	403,1	23,6
Germany	57,1	4,9	84,1	6,1	60,6	7,8	151,7	8,9
Japan	31,6	2,7	130,8	9,5	95,7	12,3	146,8	8,6
China	0,9	0,1	123,1	8,9	153,7	19,7	145,2	8,5
The United Kingdom	232,7	20,0	-151,3	-11,0	-65,4	-8,4	107,7	6,3
Canada	44,7	3,8	60,3	4,4	46,5	6,0	89,9	5,3
Hongkong	54,1	4,7	124,1	9,0	100,7	12,9	87,5	5,1
The Russian Federation	3,2	0,3	64,2	4,7	6,8	0,9	63,6	3,7
Ireland	4,6	0,4	41,2	3,0	-45,0	-5,8	62,0	3,6
Republic of Korea	4,8	0,4	28,0	2,0	34,8	4,5	60,8	3,6

1.4. Factors influencing foreign direct investment (FDI)

Factors affecting the attraction of foreign investment in the country are objective phenomena affecting the process of foreign investment. The investment process is a subjective process carried out by people. Therefore, the factors influencing the attraction and other factors depend on the investment strategies of the investment entities. Factors are divided into the following categories: supply factors; demand factors, political factors (Table 1.3)

Table 1.3 - Factors influencing FDI decision-making

Supply factors	Demand factors	Political factors
Production costs	Consumer access to the company's goods or services	Ability to bypass trade restrictions
Logistics	Marketing advantages	Factors stimulating economic growth
Availability of resources	Use of competitive advantages	
Access to technology	Mobility of customers	

Supply factors. Making a decision on the use of FDI as an exit to foreign markets depends on demand factors:

Production costs. In many cases, companies make FDI decisions based on the need to reduce production costs. Locating businesses abroad can be more profitable due to low land prices, low tax rates and rents for the use of real estate for commercial purposes, due to the availability of cheaper skilled or unskilled personnel.

Logistics. The decision to produce products abroad can be made in the event that export requires significant transport costs. *For example, Heineken uses FDI as part of its internationalization strategy, since its products consist largely of water. Production of drinks directly at the place of their consumption costs the company much cheaper than transporting them from breweries in Holland. Often, companies invest capital in countries where they do business to reduce distribution costs. For example, the Brazilian orange juice producer Citrovita stores and distributes its products through a terminal in Antwerp instead of supplying its products from Brazil to stores in Europe. This allows the company to take advantage of low tariffs for transportation of products in unpackaged form.*

Availability of natural resources. Companies can use FDI to gain access to resources that are important to their operations. For example, due to the reduction of oil production in the USA, oil companies were forced to invest in the acquisition of oil production rights in various countries. International companies often negotiate with the governments of the countries in which they do business to obtain access to raw materials in exchange for FDI. For example, the Ayala Corporation from Manila built several factories for the production of canned tuna on the Indonesian island of Sulawesi. The construction of these factories was one of the clauses of the agreement with the Indonesian government to allow Philippine vessels based on the island of Mandanao to fish in Indonesian territorial waters. This agreement benefited both countries: more than 8,000 residents of the Philippines and Indonesia work at 9 canneries and 600 fishing vessels. This allows us to export tuna products worth 24 million dollars. annually to the countries of North America and Europe.

Access to key technologies. Gaining access to technology is another incentive for FDI. It may be beneficial for companies to acquire an ownership interest in an existing company in order to develop or renew a new technology. *For example, a number of Swiss pharmaceutical manufacturers have used investments in small American bioenergy companies as a low-cost way to gain access to modern biotechnologies. In the same way, in the 90s, the Taiwanese company Acer Inc., a manufacturer of personal computers for 100 million dollars. The US acquired 2 computer companies located in Silicon Valley with the aim of using their technology and distribution network to increase Acer Inc's share of the US personal computer market.*

Demand factors. The use of FDI as a way to enter the international market may be based on the need to expand the product sales market.

Consumer access to the company's products or services. Many types of commercial activities of companies require a physical presence of the company in the market. For example, fast food restaurants, retail businesses must provide access to consumers in their halls.

Marketing advantages. FDI can provide companies with marketing advantages of several types. The physical presence of the enterprise on the territory of the country can increase the "visual presence" of the foreign company's products on the market of the country in which the business is conducted. In addition, a foreign company can benefit from the orientation of local consumers to purchase domestically produced products. For example, by placing advertisements, the Toyota company made widely known the positive impact of its American enterprises on the US economy. Companies can also use FDI to improve customer service. The management of Delta Products, a Taiwanese company that manufactures battery power supplies for portable computers, was concerned that it was unable to respond quickly to customer requests by manufacturing products in China and Thailand. In order to improve service, the company moved part of its production facilities to Mexico, close to the border with the United States.

Use of competitive advantages. FDI can be a better way for a company to use existing competitive advantages. A company that owns a well-known trademark or technology may prefer to carry out its activities abroad instead of exporting products. For example, the Pari Mutuel Urban company manages the work of 7,000 non-racetrack totalizers located in Europe. For this, the company developed an original network consisting of computers, terminals and satellite communications, which took it to the 7th largest among French service companies, with annual sales of \$6 billion. USA. The use of modern technologies made it possible to increase the annual income by 25%, as well as to expand the network to Switzerland and Monaco.

Mobility of customers. FDI of its customers or clients can serve as a motive for investment activity abroad. Opening a new business close to the customer's business reduces the likelihood that a competing company from the host side will attract the customer to its side. For example, some Japanese car companies have built new car assembly plants in the US. In response to this, Japanese component suppliers opened their production facilities, warehouses and research centers in this country. The need to locate production facilities in the US was due to the use of the Just-in-time inventory management method in these companies, which involves minimizing the amount of parts stored at the assembly plant and puts an end to the unfavorable conditions of suppliers whose facilities are located in Japan.

Political factors

Ability to bypass trade restrictions . In many cases, companies build their enterprises on the territory of other countries in order to bypass existing restrictions on the export of products to these countries. For example, in the late 90s, Fuji Foto Film Company invested 200 million dollars. in the construction of a complex of enterprises for the production of photographic film intended for sale on the American market in Greenwood (South Carolina). Previously, the film was supplied to consumers from companies located in Japan and the Netherlands. Producing the film directly in the US instead of exporting it allowed Fuji to avoid paying the 3.7% US film import tariff and

to avoid being accused by Kodak of illegally selling Japanese film at dumped prices in the US.

Factors stimulating economic growth . Most authorities are interested in the growth of the welfare of their citizens. The governments of many countries offer foreign companies incentives to locate enterprises in their jurisdictions, such as low utility bills, employee training programs, infrastructure improvements (construction of new highways, railways), tax reductions, or temporary tax exemptions. Multinational corporations often benefit from competition between regulatory authorities in different administrative regions for the right to enter into a contract with a foreign company. Thus, the government of the state of Alabama granted the Hyundai company benefits in the amount of 118.5 million dollars. on the condition that the company will build its plant on the territory of the state, where 2,000 workers will be able to work (2005). Similar benefits were received by the Toyota company, which decided to build a truck assembly plant in Texas. Benefits amounted to 133 million dollars. USA, and they included the construction of a new railway line, the training of workers, the payment of fees for the preparation of the site for the construction of the plant, as well as tax benefits.

1.5. Motivation for using investment resources

It is advisable to consider the motivation for the use of investment resources from the standpoint of several groups of subjects of the investment process: individuals, corporations, and governments.

model of supply of saved resources by households (individuals) reflects the essence of the theory of intertemporal choice. The model is built on the assumption that the principle of choice for a rational person will be that he will make such a decision relative to his resources that will ensure the highest possible level of well-being. An important issue of the theory of intertemporal choice is the reaction of an individual to a change in the market interest rate. The relationship between the interest

rate and the amount of savings reflects the individual savings offer. A graphic representation of such dependence is the curve of the individual offer of savings (Fig. 1.1.).



Rice. 1.2. Individual savings supply curve

At relatively low values of the market interest rate, the increase in the profitability of savings leads to an increase in their volume, and when the market interest rate exceeds a certain level, the volume of savings begins to decrease. Usually, the value of interest rates corresponds to the growing part of the individual savings supply curve (an increase in the market interest rate leads to an increase in the supply of savings, albeit with a low elasticity).

In Ukraine, despite the war, there is an increase in savings (Fig. 1.2.)

The portfolio formation model of H. Markowitz allows you to find the optimal solution for corporate investments based on the assessment of the ratio of expected profitability and standard deviation of possible investment projects in the investment portfolio. The model of the optimal portfolio was created for its use in transactions with financial instruments, but it is possible to extend the use of the model for the analysis of material investment processes.

According to the Mandell-Fleming model, the account of capital movement abroad depends positively on the difference in the profitability of investment projects, i.e., the lower the profitability of investment projects in the host country compared to the profitability of foreign investment projects, the greater will be the export of capital and the smaller will be the import, and vice versa .



Rice. 1.2. **Growth and redistribution of savings in Ukraine.**

There are four options for the mobility of corporate capital:

- 1) lack of capital mobility, which implies such an influence of legislative and other barriers that international flows of corporate capital do not respond to fluctuations in the internal profitability of investment projects;
- 2) the option of low capital mobility, which assumes a rather large influence of legislative and other barriers, which leads to a weak dependence of the volume of capital imports on changes in the profitability of capital investments;
- 3) the option of high capital mobility, in which international flows are sensitive to even small fluctuations in the profitability of investment projects within the country, but there is a difference between the profitability of investment projects within the country and abroad;
- 4) the option of absolute capital mobility, under which international flows can freely move to and from the country, responding to even the smallest fluctuations in the profitability of investment projects.

When investing abroad, the corporation uses certain models of the relationship between exchange rates, interest rates and inflation rates.

According to the theory of a single price, the purchasing power of the dollar is the same in any country, but in reality, differences in inflation rates in different countries are not always related to changes in exchange rates: this leads to the appearance of currency risks. Additionally, the corporation takes into account that although the theoretically possible interest rates on the integrated global capital market are the same, real government regulation and taxes lead to differences in real interest rates.

According to the approach of D. Keynes , the purpose of the corporation's activity will be that it will try to maximize the market value of its own capital, that is, it will try to achieve the highest capitalization of its securities.

According to D. Tobin's approach , the corporation will try to get the greatest possible profit in the current year by investing borrowed financial capital to the extent that the profit from each new investment is greater than the cost of borrowed funds for investment.

Governments make decisions regarding the provision of resources belonging to the state, mainly in the form of interstate credits, government loans and technical assistance (grants, subsidies, free consultations, development of programs for various purposes, internships and studies abroad).

Regardless of the goals declared by the governments in the provision of financial and technical assistance, the factor that determines the direction of the movement of financial capital is the long-term own economic goals of the governments of those countries that have concrete economic grounds for making decisions regarding the volumes and directions of providing financial resources within their own long-term and current goals of monetary policy.

Financial institutions operate on the basis of a portfolio approach. This approach assumes that each subject tries to achieve the greatest welfare by placing his wealth in the form of a portfolio of assets, guided by his own preference criteria.

The process of decision-making by a financial institution regarding how to obtain the greatest income, operating with securities, and to reduce uncertainty regarding the receipt of this income, is described by the theory of portfolio formation by H. Markowitz. The theory makes it possible to find the optimal investment decision based on the assessment of the ratio of expected profitability and standard deviation of possible portfolios, each of which is a set of individual investment projects.

The motivations of operations with the resources **of international financial institutions** that provide credits and loans on a commercial basis are quite close to the motivations of the activities of national financial institutions. A significant difference is the amount of financial capital and the presence of a significant influence of the macroeconomic indicators of the recipient countries.

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. Reveal the essence of international investment activity.
2. How are the concepts of "capital market", "market of real investment objects", "securities market" related to each other?
3. Who belongs to the participants of investment activities?
4. Justify the reasons for the movement of capital.
5. What does capital outflow depend on?
6. What are the main ideas of theories of capital movement (classical theories of capital movement; Keynesian and neo-Keynesian approaches to international capital movement, etc.)?
7. State the classification of investments.
8. Justify the factors influencing decision-making regarding foreign direct investment.
9. What is the mobility of corporate capital?
10. To reveal the main ideas of motivation for the use of investment resources from the positions of: a) natural persons; b) corporations; c) governments.

Task 1.1. The International Investment Position (IIP) is a statistical report reflecting the value and structure of a country's external financial assets and liabilities at a certain point in time . Use the link to select a country and examine the parameters of MIP: the dynamics and ratio of the main components (direct, portfolio, derivative investments) in the context of the impact of the pandemic and military aggression in Europe; influence on the final result (position) .

<https://data.imf.org/?sk=7A51304B-6426-40C0-83DD-CA473CA1FD52&sId=1542640530277>

Task 1. 2. Conduct a comparative analysis of the structure of assets and liabilities of institutional intermediaries using the link: https://read.oecd-ilibrary.org/finance-and-investment/oecd-institutional-investors-statistics-2020_b1f7c31b-en#page1 .

Task 1.3. Investigate the motives of capital flight from Russia and China.

- Are there common features of this escape?
- How does this flight affect the economies of both countries? Justify
- the answer is based on the macroeconomic indicators of these countries.
- Investigate capital movement trends in Ukraine.

Sources: <https://www.intellinews.com/massive-capital-flight-from-russia-in-2022-left-by-four-main-channels-295854/>

<https://markets.businessinsider.com/news/stocks/capital-flight-china-economy-fastest-pace-growth-investment-yuan-2023-9>

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Topic 2. REGULATION INTERNATIONAL INVESTMENT ACTIVITIES

- 2.1. The evolution of the development of the legal foundations of international investment relations
- 2.2. Methods and levels of regulation of international investment relations
- 2.3. International investment rules
- 2.4. Peculiarities of regulation of international securities markets
- 2.5. Regulation of investment activity in Ukraine

Basic concepts: investment codes and laws, investment dispute, investment agreement, investment insurance, minimum international standard, "Calvo doctrine", principles of territorial sovereignty of states, Multilateral Investment Guarantee Agency, EU directives.

2.1. The evolution of the development of the legal foundations of international investment relations

Three periods can be distinguished in the development of international legal regulation of foreign investments.

The first period is the first half of the 20th century . The emergence of socialist countries led to the complete nationalization of private property. At the same time, disputes were initiated by foreign investors and their states, which considered acts of nationalization illegal and demanded compensation. The expropriating states, in turn, refused to pay compensation. Other disputes arose in connection with the seizure by former owners of property located abroad during nationalization. In the domestic doctrine, a position was developed regarding the legal relationship between the host state and a foreign investor in the case of the implementation of unilateral sovereign measures by the state. The first period of S.I. Krupko called "**State and private property**".

The second period: " The state and the foreign investor " . It is characterized by the fact that in connection with the strengthening of the economic independence of the

countries of Asia, Africa and Latin America in 1950-1970, investment codes and laws were adopted in the states - importers of capital. Disputes arose both in connection with the nationalization of capital investments and as a result of a unilateral change or termination of investment agreements by the state. In 1965, the Washington Convention was concluded, which established the International Center for the Settlement of Investment Disputes (ICSID), which, as a way of protecting rights, is fundamentally different from international commercial arbitrations and national courts. In 1972, the European Convention on State Immunity was concluded.

During this period, the following conceptual provisions were defined:

- an investment dispute between the host state and a foreign investor qualifies as a private law dispute;
- the theory of international public-legal responsibility of an individual is rejected;
- state sovereignty over natural resources is recognized;
- general principles of expropriation were developed:
- the state has the right to carry out expropriation on a non-discriminatory basis on legal grounds, in the public interest, with the payment of compensation;
- recognized the right of the state to unilaterally terminate and terminate the investment agreement in the public interest and with the payment of compensation.

The third period: From the first half of the 80s, the topic of legal regulation of relations between the host state and a foreign investor acquired new significance in connection with the opening of the Eastern European market. This circumstance led to the creation of capital-exporting states of national investment insurance programs with the help of guarantees to reduce political risks. On the international scale, a significant event was the signing of the Convention on the Establishment of the Multilateral Investment Guarantee Agency on October 11, 1988.

Periods in the history of international legal regulation of investment relations: colonial, post-colonial and modern. (D.K. Labin, D. Carro and P. Juillard):

The first stage is the approval by developed countries of general principles of international law in the field of protection of international investments.

The second stage is non-recognition (rejection) by developing countries of the general principles of international law in the field of international investment protection.

The third stage is the restoration by developed and developing countries of the general principles of international law in the field of protection of international investments.

Minimum international standard

A broad interpretation of the responsibility of states for damage caused to the person and property of foreigners arose in the middle of the 19th century. as a result of the influence on international law of the Western ideology of laissez-fair (non-intervention) and the liberal concept of property.

The theory was formed: *the host state in its domestic legislation is obliged to define a regime in relation to the foreign investor and his property that corresponds to the "minimum international standard".*

The right of the host state to expropriate foreign property is recognized only if certain conditions are met:

- 1) seizure of a private property must not be discriminatory;
- 2) it must be carried out for public purposes;
- 3) it must be accompanied by the payment of prompt, adequate and effective compensation.

Provisions on the protection of the rights of non-residents only within the framework of the national regime are established:

- in the final document of the First International Conference of American States (Washington, 1889);
- in the Convention on the Rights and Duties of States, adopted at the VII International Conference of American States (Montevideo, 1933).

The Calvo Doctrine, in contrast to the international minimum standard, introduces the concept of a national standard, which is based on the principles of territorial sovereignty of states:

- 1) the principle of equality of residents and non-residents before the law;
- 2) the principle of regulation of the legal status of non-residents and their property by domestic legislation;
- 3) the principle of non-interference of other states, in particular states whose citizens are foreign investors, with the permission of disputes between foreign investors and national governments regarding the legal status of non-residents and their property;
- 4) the principle of the absence of the state's obligation to compensate foreign investors for damage to their property caused as a result of civil war or acts of violation of public order, since the state legislation does not provide for such compensation.

2.2. Methods and levels of regulation of international investment relations

Modern international regulation of investment activity was formed over decades. We will recall the most important events in this regard in chronological order:

- In 1929, at the initiative of the League of Nations, a conference was convened in Paris with the aim of concluding a multilateral international convention that would determine the norms of treatment of foreigners and their property. However, it was not possible to adopt relevant documents at this conference.

- In 1944, the International Monetary Fund and the International Bank for Reconstruction and Development were created.

- In 1946, the USA offered to adopt the Charter of the International Trade Organization. But it was not ratified by the required number of states.

- On December 14, 1962, UN General Assembly Resolution 1803 (XVIII) "On permanent sovereignty over national natural resources" was adopted.

- In accordance with UN General Assembly Resolution 2087 (XX) "On Financing Economic Development", a number of documents have been published:

- 1) UN document E/4446 "Foreign investment in developing countries";
- 2) UN document TD /35, "The role of private entrepreneurship in investing and ensuring the export of goods from developing countries";

3) UN document E/4614 "Treaties on taxation between developed countries and developing countries".

- The Convention on the Consideration of Investment Disputes between States and Persons of Other States was signed on March 18, 1965 and entered into force on October 14, 1966.
- On December 12, 1967, the Council of the Organization for Economic Cooperation and Development (OECD) adopted the draft OECD Convention "On the Protection of Foreign Property".
- On December 12, 1974, the UN General Assembly adopted the Charter of Economic Rights and Duties of States (Resolution 3281). It states that each state has the right to regulate foreign investment within its national jurisdiction in accordance with its laws and other regulations and in accordance with national goals.
- In 1979, the Code of Foreign Investments was adopted within the framework of the Andean Group. It regulates the main contradictions that exist between developed countries and developing countries in matters of international legal regulation of TNC activities.
- The TNC Code of Conduct was adopted in February 1988.
- In 1985, the Seoul Convention on the Establishment of the Foreign Investment Insurance Agency was adopted.

International investment activity, playing a key role in the system of modern global economic relations and having a significant potential for influence (both positive and negative) on economic development, should be regulated at the national, international and supranational levels. Such regulation can be carried out with the help of a set of special legal, administrative, economic and socio-psychological methods, and some tools of stimulation and restriction.

Legal methods are implemented through the system of civil and procedural law.

Administrative methods legally determine economic subjectivity, regulate ownership issues, dispute resolution procedures in court, etc.

Economic methods are implemented through a system of subsidies, loans, and implementation of fiscal policy.

Social-psychological methods are focused on the formation and development of one or another ideology, education of the appropriate type of mentality of citizens and society as a whole with the help of organizationally designed institutions.

The state policy of regulation of foreign investments is carried out in relation to foreign property, in tax and customs-tariff spheres, in currency and price spheres, etc. In practice, it is implemented with the help of various measures. One of the generally accepted classifications of public policy measures is the classification developed by the OECD, which includes five groups of measures.

The majority of international investment agreements provide for the mandatory promotion of foreign investments, first of all, by the host country. In separate agreements, the host country undertakes to implement a policy of encouraging the export of entrepreneurial capital to the country with which the agreement is concluded.

General rules of the regime, as a rule, provide for fair, non-discriminatory, preferential or national regimes.

Payment transfer rules are the most important element of the agreement. At the same time, the host country seeks to receive specific and broad guarantees not only regarding the general rules for transferring funds, but also regarding the use of one or another currency, currency resources, and transfer terms.

Requirements for the results of economic activity are one of the key problems in investment relations. It is resolved by providing a guarantee of the impossibility of confiscation or nationalization of property belonging to foreign investors, or a guarantee of compensation for their property in the event of its nationalization.

The following important international institutions contribute to international investment activity:

- Multilateral investment guarantee agency. It promotes direct investment flows to developing countries and countries with economies in transition, offers a range of information and consulting services;

- Foreign Investment Service (1986), managed by the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the World Bank. At the initiative of host countries, the Service recommends the most effective ways of attracting foreign investment.

Relations between many countries are regulated by complex agreements at *the supranational level* within the framework of integration groups. This ensures the free movement of capital, harmonizes the economic policy of the participating countries.

2.3. International investment rules

There is a multi-level place a **system of international investment regulation** designed to overcome existing national restrictions. It includes bilateral, regional and multilateral investment agreements.

The Organization for Economic Co-operation and Development (OECD) has long worked on creating and improving investment laws. In 1961, the Code on the Liberalization of Current Investment Operations and the Code on the Liberalization of Capital Movements were created, which limited the capabilities of OECD member countries in regulating investment flows.

The TNC Recommendations, which were an integral part of the Declaration, presented several approaches to the regulation of foreign investments, aimed at solving the problem of relations between host countries and foreign investors, for example, on issues of corruption, anti-competitive behavior, prevention of internal regulation. The implementation of the provisions of these documents is regulated by the OECD Committee on Investment and Multinational Enterprises (CIME - Committee on Investment and Multinational Enterprises), which periodically issues methodological materials containing explanations for behavior in certain unforeseen situations. Despite the efforts of CIME, in international practice there were some difficulties regarding the practical use of the agreements mentioned above, since their main provisions were reduced to general principles.

In international bilateral agreements, as a rule, the following investment issues are regulated: definition of investments and investors; conditions of import of foreign direct investments; investment promotion; general rules of the regime; payment transfer; requirements for the results of economic activity; deprivation of the investor's property rights; dispute resolution; norms of behavior of corporations.

Bilateral investment agreements can contribute to the growth of FDI, but they are quite limited in their scope. Existing differences between separate agreements of this kind make it difficult to regulate transnational capital flows, which have a pronounced multilateral and supranational character.

At the same time, the number of investment commitments within international regional integration groups is growing

- NAFTA (from 01.01.20 [USMCA](#) (United States—Mexico—Canada Agreement))
- NAFTA introduced a “right of incorporation” for investors in member countries. Member countries must adhere to the principle of non-discrimination in the establishment, acquisition, expansion, management, implementation of operations and sale of investments.
- NAFTA was far ahead of GATT in reducing requirements for foreign investors
- Member countries do not have the right to implement policies that limit the activities of foreign investors in the field of: export activities; internal sources of funding; trade balance; technology transfer; currency balancing.

2.4. Peculiarities of regulation of international securities markets

Regulation of investment activity on the securities market has its own specifics. In international practice, there are **two main models** of securities market organization. One involves the dominance of commercial banks in this market (Germany, Japan, France), the other is mixed, that is, it involves the active role of both banking and non-banking financial and credit institutions (USA, Great Britain).

State regulation of the securities market is carried out in the form of **direct intervention** in its functioning, as well as in the form of **indirect influence** on this market. **Means of direct intervention include:**

- the entire complex of law-making activities of representative bodies on the problems of the securities market;
- resolutions and orders of executive authorities on these issues;
- measures taken by other state bodies to introduce new and change old provisions and norms related to the activity of the securities market (licensing of securities market participants, restrictions and prohibitions on circulation of securities, registration of securities, etc.)

The system of levers of indirect influence includes:

- control over the money supply in circulation and the volume of loans through state influence on loan interest rates;
- tax policy of the state;
- government guarantees for deposits, credits, loans of the private sector;
- exit of the state to the debt capital markets;
- foreign economic policy of the state (regulation of transactions with foreign - currency, gold, measures to stimulate exports, etc.).

In world practice, **two models of securities market regulation are distinguished:**

1. Regulation of the stock market is the predominant function of state bodies and only a small part of the powers is transferred by the state to the association of professional participants of the securities market .

2. Most of the powers are transferred to self-regulatory organizations (associations of professional participants in the securities market), while the state retains the main control positions.

The most important element of state regulation is **legislative regulation of the securities market .**

The following international documents are generally recognized guidelines in the creation of national legislation:

- EU directives (mandatory for EU member states);
- IOSCO resolutions;
- Recommendations of the Group of Thirty (authoritative group of international experts).

The need for state regulation of the securities market is due to the following reasons:

- the national interests of the state (macroeconomic and macropolitical priorities) are realized to a greater extent on the securities market;
- in the securities market, the interests of various market participants are constantly present and actively interact, which may come into conflict with each other, and to ensure the stability and legal regulation of the market, the regulation of relations between all its participants, the state implements an appropriate regulatory system;
- the main actor in the securities market is the investor. Without the creation of a reliable system of protection of the rights and interests of investors in the securities market, primarily individuals, it is impossible to ensure the further development of the capital market.

State regulation of the securities market covers:

Means of direct intervention:

- the entire complex of law-making activities of representative bodies on the problems of the securities market;
- resolutions and orders of executive authorities on these issues;
- measures taken by other state bodies to introduce new and change old provisions and norms related to the activity of the securities market (licensing of securities market participants, restrictions and prohibitions on circulation of securities, registration of securities, etc.)

Means of indirect influence:

- control over the money supply in circulation and the volume of loans through state influence on loan interest rates;
- tax policy of the state;
- government guarantees for deposits, credits, loans of the private sector;

- exit of the state to the debt capital markets;
- foreign economic policy of the state (regulation of transactions with foreign - currency, gold, measures to stimulate exports, etc.).

securities market regulation :

- maintaining order on the market, creating normal conditions for the work of all its participants;
- protection of market participants from dishonesty and fraud of individuals or organizations, from criminal encroachments;
- ensuring the security of the financial system;
- creation of the same "rules of the game" for all market participants;
- ensuring a free and open process of pricing securities based on supply and demand;
- creation of an efficient market in which there are always incentives for entrepreneurial activity;
- in certain cases, creation of new markets, support of markets and market structures, market initiatives and innovations necessary for society;
- achievement of social goals, for example social or distributive.

2.5. Regulation of investment activities in Ukraine

In order to stimulate the attraction of strategic investors to the economy of Ukraine, increase Ukraine's investment attractiveness, create new high-paying jobs, as well as increase the competitiveness of the economy through the introduction of state support for large investment projects, the Law of Ukraine " *On State Support of Investment Projects with Significant Investments in Ukraine*" was adopted .

On August 9, 2023, the Verkhovna Rada of Ukraine adopted the Law of Ukraine " *On Amendments to Certain Legislative Acts of Ukraine Regarding the Implementation of Investment Projects with Significant Investments*" (hereinafter referred to as the Law), which entered into force.

The main purpose of the Law is to stimulate the attraction of foreign and domestic investments by simplifying the requirements for investment projects with significant investments, improving the forms of state support for the implementation of such projects, which will create favorable conditions for attracting a wider range of investors and increasing the number of investment projects with significant investments, as well as promote the development regions where they will be implemented.

Amendments to the Law of Ukraine "On State Support of Investment Projects with Significant Investments in Ukraine" are foreseen in part:

- expansion of the spheres in which an investment project with significant investments can be implemented (the sphere of electronic communications, the production of bioethanol, which is intended for production as a fuel component, the production of biogas and biomethane, has been added);
- providing an opportunity to the applicant no earlier than 18 months before the date of submission of the application to the authorized body to make significant investments in investment objects in an amount not exceeding 30% of the total amount of significant investments necessary for the implementation of investment projects;
- enabling the applicant to act as an investor with significant investments, if he is a separate legal entity created for the implementation of an investment project and a party to a special investment agreement as an investor;
- addition of forms of state support, namely: compensation from state, local budgets and other sources, not prohibited by law, of the cost of engineering and transport infrastructure facilities built by the applicant or investor with significant investments (roads, communication lines), means of heat, gas, water and electricity supply, engineering communications, etc.), necessary for the implementation of an investment project with significant investments; compensation for the costs of joining and connecting to engineering and transport networks, necessary for the implementation of an investment project with significant investments; exemption from compensation for losses of forestry

production for the implementation of an investment project with significant investments;

- reduction of the limit on the volume of significant investments (from EUR 20 million to EUR 12 million) and the number of new jobs created during the implementation period of an investment project with significant investments, namely: the requirements for job creation regarding involvement in the investment process have been changed and a greater range of sub enterprises - not only large, but also medium-sized enterprises;
- determining the possibility of finalizing and not returning the documents submitted by the investor, in particular the technical and economic feasibility study and the special investment agreement, as part of the assessment of the investment project with significant investments, as well as the possibility of conducting negotiations involving representatives of the authorized institution to agree the provisions of the special investment agreement after obtaining a conclusion on the feasibility of implementing the investment agreement a project with significant investments and the conclusion of a special investment agreement;
- ensuring the return of state support in full in case of failure to reach the volume of significant investments specified by the draft law (12 million euros), the impossibility of increasing the volume of state support, when in fact the volume of significant investments is greater. than determined by the special investment agreement, as well as the possibility of adjusting the amount of state support, if the actual volume of significant investments is less than that stipulated by the special investment agreement, by making changes to such an agreement.

It is also envisaged to amend the Land Code of Ukraine in terms of adding regulations on exemption from compensation for losses of forestry production of an investor with significant investments for the implementation of an investment project with significant investments.

Another mechanism for attracting investments is *industrial parks* - potential industrial sites for the relocation of companies from other countries in order to

diversify supply chains, which solve the issue of reducing the time to the start of work (Time-to-Market) of companies, taking into account the time needed to find an optimal location, start of construction and commissioning of objects.

The Law of Ukraine "On Industrial Parks" provides for a simplified procedure for the lease or ownership of land plots within industrial parks, durability and stability of economic relations within industrial parks, provision of state incentives for the development of registered industrial parks. Such state stimulation can be carried out at the expense of state, local budgets and other sources not prohibited by law, as well as by accompanying investors by local and central executive authorities, specialized institutions and organizations in solving issues related to the development of industrial parks.

In addition, on June 21, 2022, the Verkhovna Rada of Ukraine adopted the Laws of Ukraine "On Amendments to the Tax Code of Ukraine on Creating Favorable Conditions for the Activity of Industrial Parks in Ukraine" (hereinafter - Law No. 2330) and "On Amendments to Article 287 of the Customs Code of Ukraine on the creation of favorable conditions for the operation of industrial parks in Ukraine (hereinafter - Law No. 2331).

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. How did the system of regulation of international investment relations develop?
2. What are the main ideas of the minimum international standard? Assess its impact on international investment activity.
3. What justified the need to adopt the "Calvo doctrine" as the basis for regulation of international investments?
4. What is the essence of legal, administrative, economic and socio-psychological methods of regulation of international investment activities?
5. In which documents are international investment rules manifested? Voice the main ideas of one of these documents.

6. Describe the models of securities market organization.
7. What are the goals of securities market regulation ?
8. How investment activity is regulated in Ukraine.

Task 2.1. Formulate the main stages of development of regulation of international investment activities of Ukraine.

Task 2.2. Investigate the activities of self-regulatory organizations (SROs) in the sphere of investment activity regulation at various levels (national, international).

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Topic 3. INVESTMENT MARKET DEVELOPMENT IN THE ERA OF GLOBALIZATION

1. Development trends of the investment market in the era of globalization
2. Structural features of the distribution of investments in the conditions of globalization
3. Situation of the international investment market

Basic concepts: capital market, globalization, integration of national economies, professional investors, information and financial control, information standards of collateral mechanisms, integrated investment infrastructure, deregulation, speculative capital,

3.1. Development trends of the investment market in the era of globalization

Globalization is characterized by the systemic integration of world and regional economies. Accelerated economic growth, introduction of modern technologies and management methods are observed. There are a number of differences in the modern process of integration of national (and regional) economies into a single world economy:

1. Most countries have opened their borders for trade, finance, investment and information. Not only developed countries, but also developing countries are reforming their economies.
2. If at the beginning of the century globalization caused a reduction in transport costs, now it is caused by a decrease in the cost of communication.
3. Over the past 25 years, capital markets have become world (global) markets. The growing volume of international trade agreements led to an increase in monetary turnover.

4. The international capital market serves as a field for investments by professional investors (investment and pension funds) and private owners of capital. On average, only 15% of transactions on the foreign exchange market are related to export, import, and long-term turnover of capital. Others are purely financial in nature.

5. About 20% of the products of the world economy are manufactured by branches, TNCs. A third of world trade covers agreements between base companies and their foreign affiliates, and another third - trade between companies that are part of transnational strategic alliances. The UN has more than 65,000 TNCs.

6. Investors and entrepreneurs try to protect themselves from currency risks

7. Savings and investments are placed more efficiently. Investors have a wider choice for the allocation of their portfolio and direct investments.

8. Economic globalization is taking place alongside a revolution in technological processes. A country's place in the world is determined by the quality of human capital, the state of education, and the level of use of science and technology in production.

There are changes in investment processes and technologies:

1) the possibility of informational and financial control over the use of the investor's investment resources,

2) implementation of unified information standards of collateral mechanisms, accounting reporting, presentation of projects and programs, enterprises, regions and states in information systems,

3) creation of an integrated investment infrastructure (banking, legislative, organizational) investment service.

4) development and implementation of integral mechanisms and technologies for managing investment processes (in regional and branch aspects).

- 5) unification of information support with an in-depth in-depth description of each object of investment and business,
- 6) legislative assurance of the reliability of information, coordination by interstate multilateral agreements,
- 7) organizational support of transactions on the markets of goods, finance, services and investments in the Internet environment, unification of elements of economic law of the countries of the world, which ensure the security of such transactions,

The development of investment institutions is determined by the following trends:

- 1) globalization of the institutions themselves, their merger and internationalization.
- 2) investment institutions should increasingly gradually reorient themselves to create conditions for the penetration of foreign capital, create favorable conditions for such penetration.
- 3) the development of the investment toolkit will be carried out through information modeling of investment services and only for that purpose building the necessary (the very) material elements of it.

3.2. Structural features of the distribution of investments in the conditions of globalization

The main feature of the global economy is that it is informational and financial, that is, it is a global market of liberalized capital flows that freely move around the world with the help of the latest technologies and include, along with traditional ones, a wide range of new financial instruments. **Deregulation of the currency sphere and financial markets** contributed to a sharp increase in the mobility of financial capital, primarily speculative capital. According to the Bank of International Settlements, the average volume of daily currency transactions on the global market was: 1998 – 1,527 billion, 2001 - 1,239 billion, 2004-1934, 2007- 3,324, 2010-3,981, 2013- 5,345, 2016 - 5,067 billion dollars. USA, 2019 - 6595.47.

Globalization is characterized not so much by the growth of quantitative indicators of the movement of international capital in the traditional form of direct foreign investment, **but by qualitative changes in the structure of capital flows - the formation of the global stock market and the internationalization of speculative capital**, which provoked the separation of finance from the real economy and their seventy-fold increase in the volume of world trade (according to sums of daily transactions). The same trends are confirmed by the calculations of the experts of the International Currency Review magazine, according to which the world GNP increased by 83% between 2000 and 2008 (from USD 31,492.8 million to USD 57,530 million, respectively). While the growth of only official financial reserves in the world increased during the same period by 180%. According to data for 2020, at the functional level, the global balance sheet consists of three interrelated components: the balance sheet of the real economy, the financial balance sheet, and the balance sheet of the financial sector. Each is roughly \$500 trillion, or the equivalent of roughly six times GDP.

According to VcKinsey& Company, between 2000 and 2020, the global balance sheet and net worth more than tripled. Assets grew from \$440 trillion, or about 13.2 times GDP, in 2000 to \$1,540 trillion in 2020, while net worth grew from \$160 trillion to \$510 trillion. Average net worth per capita was \$66,000, but there is considerable variation across economies, and even more so across households within an economy. Across the countries in our sample, per capita net worth ranged from \$46,000 in Mexico to \$351,000 in Australia. Net worth ranged from 4.3 GDP in the United States to 8.2 GDP in China.

The direction of investment flows is influenced not only by the economic and scientific and technical potential of the donor countries and recipient countries of foreign capital, but also by **the regional integrated potential** . The investment policy of the EU, for example, is mainly intra-regional in nature. In the foreign investments of the leading EU countries, the share of non-OECD countries is only 20%. And the East Asian region demonstrates a special potential of informal integrated connections, based on the commonality of organizational forms of national business and its

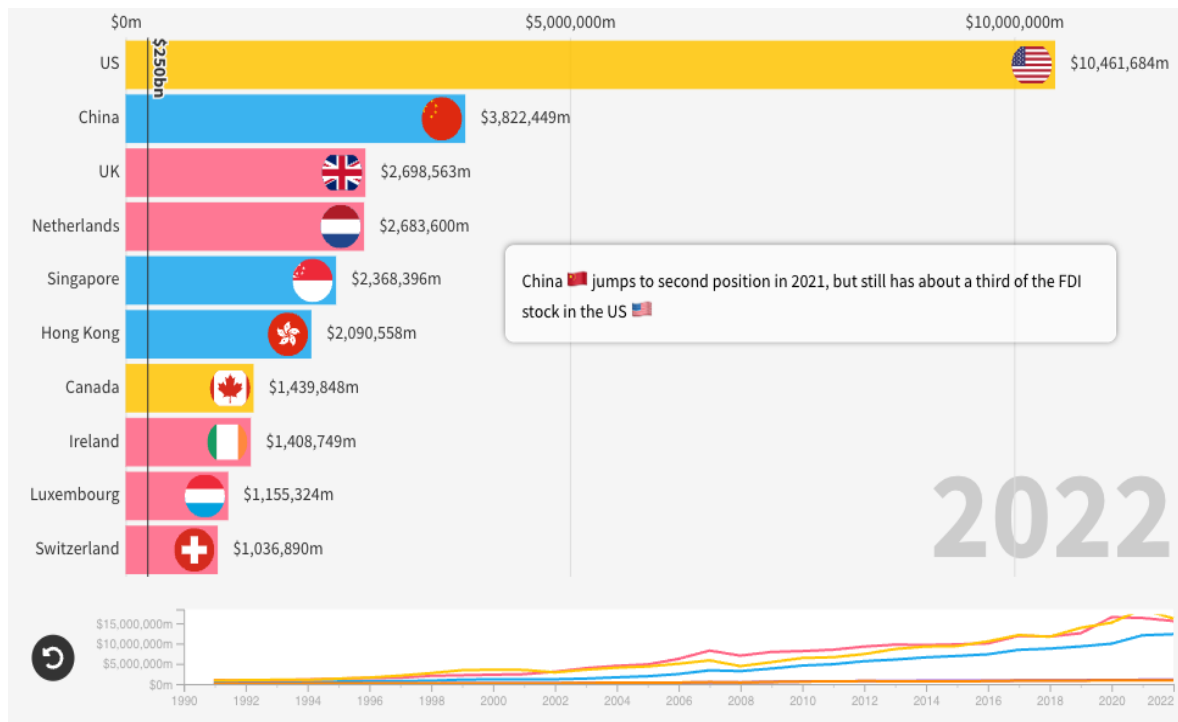
traditions. Such a commonality provides a real and sub-regional concentration of investment flows and facilitates the adaptation of East Asian corporate cultures to the requirements of the information economy.

UNCTAD's World Investment Report 2023 shows the growing annual investment gap facing developing countries as they work towards the Sustainable Development Goals (SDGs) by 2030. The gap is about \$4 trillion a year – compared to 2, 5 trillion dollars in 2015 when the SDGs were adopted.

The fall is felt mainly in developed economies, where FDI fell by 37% to \$378 billion. Investment flows to developing countries increased by 4% – albeit unevenly, with a few large developing countries attracting most of the investment, while flows to least developed countries declined. Global foreign direct investment (FDI) is set to decline by 12% in 2022. Developing countries need investments in renewable energy in the amount of about 1.7 trillion. dollars USA every year, but attracted only 544 billion dollars. FDI in clean energy in 2022. Although investments in renewable energy sources have almost tripled since 2015, most of the money went to developed countries (Fig. 4.1.).

The international investment market represents the sphere of exchange of investment capital and investment goods between economic subjects of different countries. The situation of this market is determined by a set of factors that determine the ratio of demand, supply, price level, competition and volume of deals on the international investment market.

The conjuncture of the international investment market is determined by the phase of development of the world economy. The decrease in investment activity in 2008-2009 was a consequence, an indicator and one of the personifications of the global financial and economic crisis, when the drop in the volume of investments in the world was observed at the level of 41% (2009) and 12% (2008).



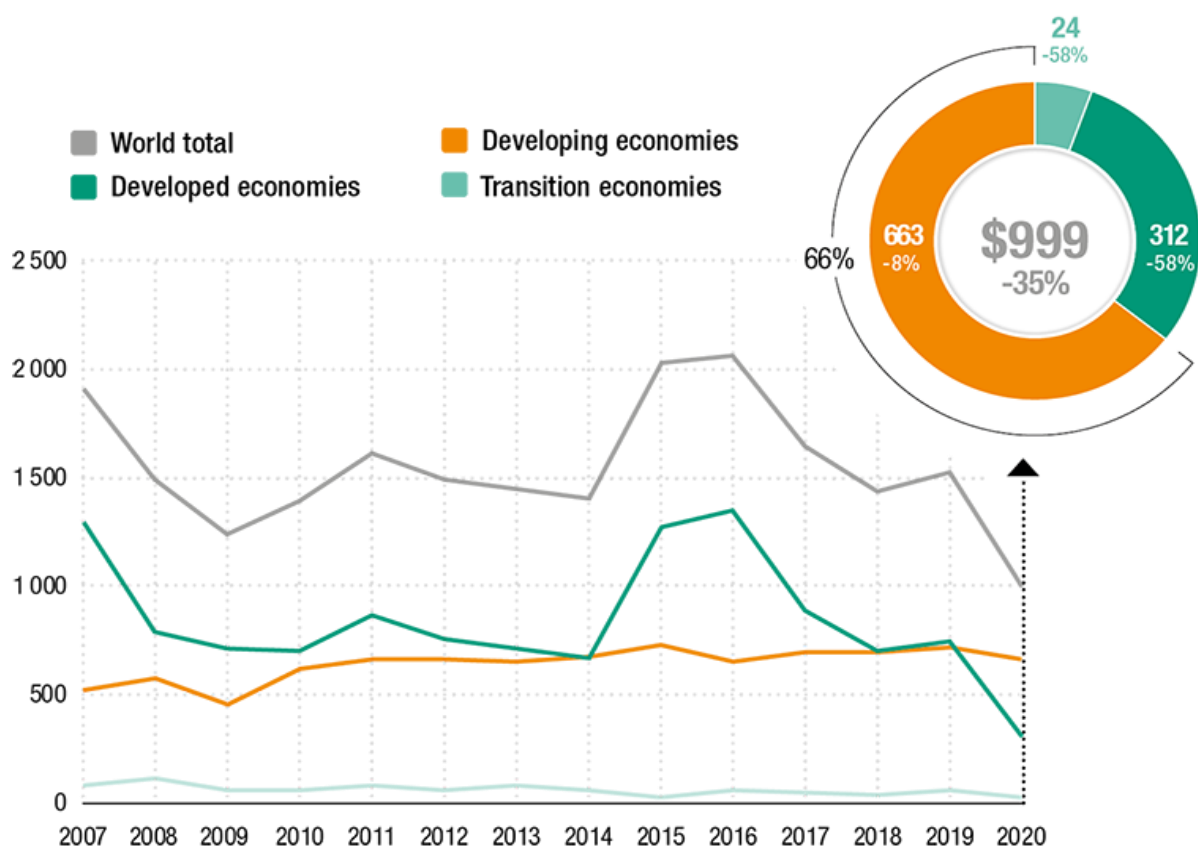
Rice. 4.1. Top 10 countries by the volume of FDI in 2022

3.3. Situation of the international investment market

The recovery of direct foreign investments took place in 2010 with the beginning of the post-crisis rise of the national economies of the developed donor countries. The export of direct foreign investment in the world increased in 2010 by about 7.5% (by 1,197 billion US dollars) in relation to 2009. The flows of direct foreign investment worldwide fell by 35% in 2020 to 1 trillion. dollars from 1.5 trillion dollars last year, the report says. Quarantines caused by the COVID-19 pandemic around the world have slowed down existing investment projects, and the prospect of a recession has forced multinational enterprises (MNEs) to reconsider new projects.

The decline was largely directed towards advanced economies, where FDI fell by 58%, partly due to corporate restructuring and intra-firm financial flows. FDI in developing economies was relatively steady, declining by 8%, mainly due to strong flows in Asia. As a result, developing economies account for two-thirds of global FDI, up from slightly less than half in 2019 (Figure 4.2).

The dynamics of foreign direct investment in the countries of the EU, G20, OECD and in the world is almost synchronous.



Rice. 4.2. Foreign direct investment inflows in the world and by economic groups, 2007–2020 (million USD and %)

Crisis phenomena that periodically arise in the global economy and financial system reveal a number of problems that slow down the dynamics of the global investment market:

- growth of disproportionality in the sources of investment financing in favor of credit resources and reduction of the specific weight of own capital;
- financialization of investments and a decrease in the level of real investment;
- functional transformation of the segment of the international financial market of property rights from the attraction of investment resources to the real sector of the economy in the direction of the growth of the capitalization of company shares;
- integration of real estate market segments into the structure of the financial market and transformation of its individual objects into the latest financial instruments;

– transformation of the institutional environment of the investment market, in particular, the deterioration of the financial condition of investment banks and a decrease in trust in them.

At the first stage, in 1999, the inflow of direct foreign investments in the world amounted to 1,500 billion dollars. USA.

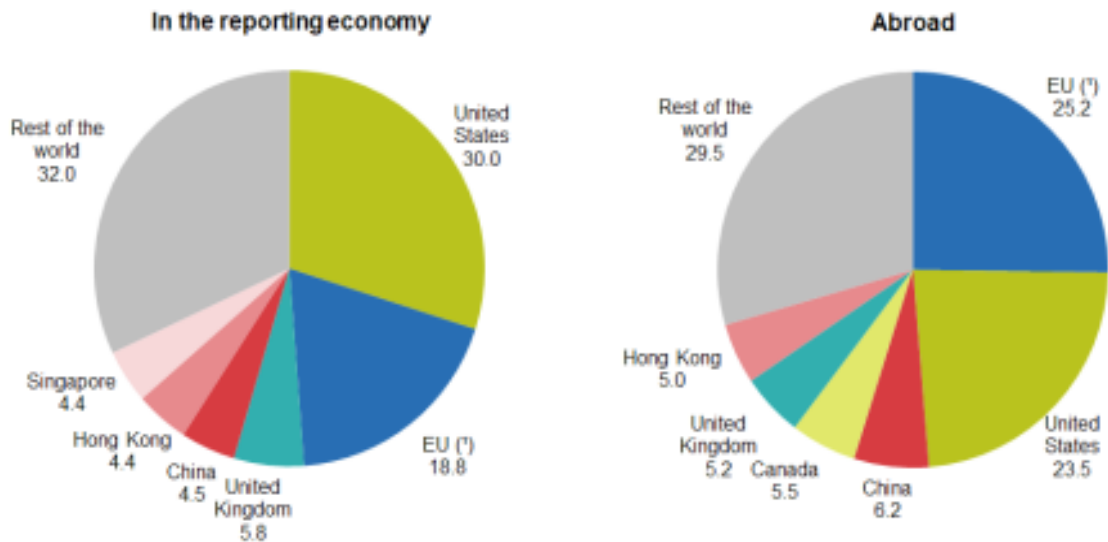
The second stage of 2007, the volume of FDI exceeded 2000 billion dollars. the USA, and fluctuations in the inflow of direct foreign investment into the EU countries amounted to 1,000 billion dollars both in 1999 and in 2007. USA. Fluctuations in the OECD and G20 countries are within the range between inflows of foreign direct investment in the world and EU countries. OECD investors accounted for about 85% of global investments (or USD 1,018 billion), which represents an 11% annual increase over the previous year (compared to a decrease of 45% (USD 916 billion) in 2009) and 2008 -13% (US\$ 1,670 billion).

The third stage (2006–2010) saw a significant decline in investment rates. In the EU countries, the inflow of foreign direct investments decreased by 50.0%, in the world - by 2.7%, in the G20 countries - by 13.6%, in the OECD countries - by 44.0%. A significant decline was observed in Canada, France, Greece, Hungary, Italy, the Netherlands, Sweden and Switzerland.

The fourth stage 2011-2019 - after a small surge, the volume of investments continued its decline, which was intensified in connection with the pandemic.

In 2021, just under one-fifth (18.8%) of global investment stocks were located in the EU; its share in global foreign investment was somewhat higher and reached 25.2%. The EU recorded the highest share of external FDI stocks in 2021 and the second largest share of domestic stocks; the opposite situation, with the highest domestic inventories and the second largest foreign inventories, was observed in the United States. The United Kingdom has the third largest share of the global FDI stock for inward investment, while China has the third largest share of outward investment.

World stocks of foreign direct investment, 2021
(% of total)



Note: the figure shows the six countries/geographic aggregates (among those in Table 2) with the highest values of inward and outward investment. Excludes offshore financial centres in the Caribbean.
(*) Shown in relation to extra-EU partners. Includes special purpose entities (SPEs).
Source: Eurostat (online data code: bop_fdi6_pos) and UNCTAD (FDIMNE database)

eurostat

Rice. 4.3. World stock of foreign direct investment, 2021
(% of total volume)

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. How do globalization processes affect the development of international capital markets? Justify your answer.
2. How did the latest technologies affect the processes of organization of international capital markets? Justify your answer.
3. Do you agree with the statement that the main feature of the global economy is that it is informational and financial? Justify your answer.
4. How does regional integrated potential influence the direction of investment flows?
5. Justify the factors influencing the capital market situation.
6. What negative factors influence the slowdown in the dynamics of the global investment market?

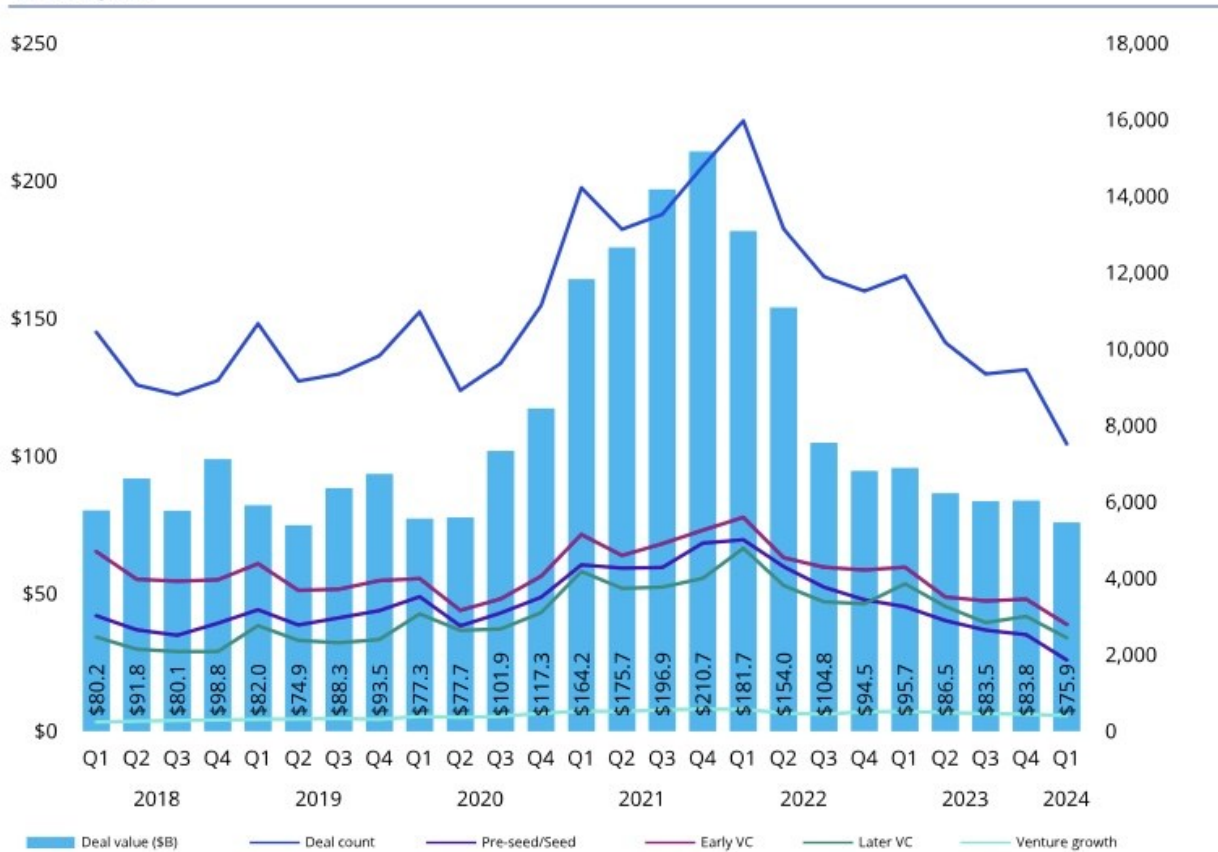
Task 3.1.

Prepare for the discussion of the main trends in the development of venture investing based on the KPMG report <https://kpmg.com/xx/en/home/campaigns/2024/04/q1-venture-pulse-report-global.html>

- Why is venture capital important for innovation?
- Can it be said that Ukrainian companies have venture business experience? Give examples.
- What is the regional distribution of venture investments related to?
- Analyze the dynamics of venture financing in the world (Fig. 4.4.) Formulate conclusions.

Global venture financing

2018–Q1'24



Source: Venture Pulse, Q1'24, Global Analysis of Venture Funding, KPMG Private Enterprise. *As of March 31, 2024. Data provided by PitchBook, April 17, 2024.

Rice. 4.4. Dynamics of global venture financing

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Topic 4. Foreign direct investment (FDI)

4.1. The essence of direct foreign investment

4.2. Attractiveness of foreign direct investment (FDI) based on Dinning's eclectic paradigm

4.3. Methods of direct foreign investment

Key concepts: foreign direct investment, controlling stake, horizontal and vertical FDI, conglomerate, export platform, eclectic paradigm, foreign branches, partnership, joint venture, trust, foreign contractor.

4.1. The essence of direct foreign investment

Foreign direct investment (FDI) is an investment by a party in one country in a business or corporation in another country with the intention of creating a lasting interest. Long-term interest distinguishes FDI from foreign portfolio investment, where investors passively hold securities from a foreign country. Foreign direct investment can be made by acquiring a long-term interest or expanding your business abroad.

Foreign direct investment (FDI) is a long-term investment of material resources by non-resident companies in the country's economy (for example, for the purpose of organizing and building enterprises) . Calculated in millions of US dollars. This is the most desirable form of capital investment for developing economies, because it allows the implementation of large projects; in addition, new technologies, new corporate management practices, etc. are coming to the country. An investment in a foreign firm is considered FDI if it creates lasting interest. A lasting interest is considered established when an investor receives at least 10% of the votes in the company

The key element of direct foreign investment is *the element of control* . Control means the intention to actively manage and influence the activities of a foreign firm. This is the main factor that distinguishes FDI from passive foreign portfolio investments. For this reason, a 10% share of the foreign company's voting stock is required to determine FDI . However, there are cases when this criterion is not always

applied. For example, it is possible to exercise control over more widely traded firms even though they own a smaller percentage of the voting stock.

Foreign direct investment offers advantages for both the investor and the foreign host country (Table 4.1.). These incentives encourage both parties to participate and allow FDI. For businesses, most of these benefits are based on cost reduction and risk reduction. For host countries, the benefits are mainly economic. Despite its many advantages, FDI still has two main disadvantages, namely:

- Displacement of local enterprises
- Repatriation of profits

Table 4.1.- Advantages of direct investment

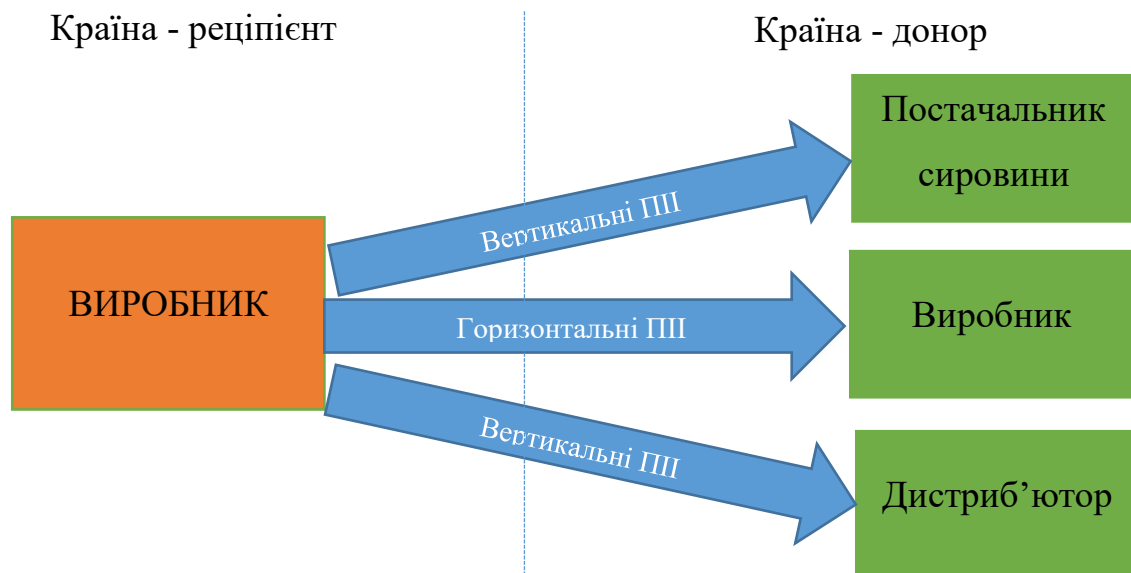
For the investor	For the receiving party
<ul style="list-style-type: none"> — Diversification of the market — Tax benefits — Lower labor costs — Preferential tariffs — Subsidies 	<ul style="list-style-type: none"> — Economic stimulation — Development of human capital — Increase in employment — Access to management experience, skills and technology

The arrival of large firms such as Walmart can crowd out local businesses. Walmart is often criticized for crowding out local businesses that cannot compete with lower prices. In the case of profit repatriation, the main concern is that firms do not reinvest the profits back into the host country. This leads to a large outflow of capital from the host country. As a result, many countries have regulations restricting foreign direct investment.

There are two main types of FDI: horizontal and vertical FDI (Fig. 4.2.)

Horizontally: the business expands its activities on the territory of the country abroad. In this case, the business conducts the same activity, but in a foreign country. For example, the opening of McDonald's restaurants in Japan would be considered horizontal FDI.

Vertical: the business expands in a foreign country, moving to another level of the supply chain . In other words, the firm conducts various activities abroad, but these activities are still related to the core business. Using the same example, McDonald's can purchase a large farm in Canada to produce meat for its restaurants.



Rice. 4.2. Types of direct investment

However, two other forms of FDI are also observed: conglomerate and platform FDI.

Conglomerate: the business will acquire an unrelated business in a foreign country. This is uncommon, as two barriers to entry must be overcome: entering a foreign country and entering a new industry or market. An example of this would be the UK-based Virgin Group's acquisition of a clothing line in France.

Platform: the business expands in a foreign country, but the results of the foreign operations are exported to a third country. This is also called export platform FDI. Platform FDI usually occurs in low-cost locations in free trade zones. For example, if the Ford company acquired production facilities in Ireland with the main purpose of exporting cars to other EU countries.

4.2. Attractiveness of foreign direct investment (FDI) based on Dunning's eclectic paradigm

Based on the internalization theory of the British economist JH Dunning, the eclectic paradigm is an economic and business method for analyzing the attractiveness of foreign direct investment (FDI). . The eclectic paradigm model follows the OLI (Ownership , Location , Internalization) structure. The framework has three levels: ownership, location, and internalization. The eclectic paradigm suggests that companies are less likely to pursue foreign direct investment if they can obtain a service or product provided in-house at a lower cost. So:

- The eclectic paradigm is an economic and business method of analyzing the attractiveness of foreign direct investment.
- The eclectic paradigm model follows the OLI framework. The framework has three levels: ownership, location, and internalization.
- Ownership can be defined as ownership of a unique and valuable resource that cannot be easily imitated, which creates a competitive advantage over potential foreign competitors.

Advantage of ownership

Ownership advantage can also be seen as a competitive advantage that comes from FDI. Ownership, in this case, can be defined as the ownership of a unique and valuable resource that cannot be easily imitated, which creates a competitive advantage over potential foreign competitors.

The internal drawbacks or challenges associated with FDI, from an ownership perspective, revolve around the liabilities associated with foreignness, as the potential investor is not a local resident of the FDI destination country. Challenges may include (but are not limited to) possible language barriers or lack of knowledge of demand trends common to local consumer markets.

Companies and their management teams usually have to consider opportunities to transfer their competitive advantage to other external markets to balance the above

liabilities. Ideally, an attractive investment should include significant economies of scale, a solid reputation, a well-known brand, advanced technology, etc.

Advantage of location

Potential business host countries considered for FDI should have multiple competitive advantages; location is one of them. Location advantage focuses more on the geographic advantages of the host country or countries. An example of a geographic advantage would be access to the ocean (for shipping or other purposes) compared to a landlocked country. Other benefits of location may include low cost of labor and raw materials, lower taxes and other tariffs, well-trained workforce, etc. Porter's rhombus model can usually be used to estimate location preferences.

Companies and their management teams generally need to consider whether there are any locational advantages, as noted above, in the market they wish to enter. If there are advantages, companies may consider investing through FDI or other avenues (such as franchising or licensing) provided there is demand in foreign markets.

The advantage of internalization

In order for companies to choose the investment path or method that best suits their needs, their management team must analyze the benefits of internalization. They typically need to consider whether it would make more sense to have value chain activities performed locally by their team or outsourced to another country. Advantages of outsourcing from different countries may include (but are not limited to) lower costs and better skills for performing activities in the value chain and/or better knowledge of local markets. In this case, management can choose one of two courses of action. He can either transfer his production to the original equipment manufacturer, or obtain a license for the development of his product to an independent foreign company. However, if a company does so, it must maintain control over its operations and attract FDI. This can be done through investments from the ground up, joint ventures with local partners or by purchasing existing local companies.

4.3. Methods of direct foreign investment

An investor can make foreign direct investment by expanding his business in a foreign country. An example of this is Amazon's opening of a new headquarters in Vancouver, Canada. Reinvestment of profits from operations abroad, as well as intra-corporate loans to foreign subsidiaries, are also considered foreign direct investments. A domestic investor can obtain voting rights in a foreign company in several ways:

- ***Acquisition of a voting block of shares of a foreign company***

An acquisition is the act of one company taking over or acquiring a controlling stake in another company. This can be done by buying the assets of that company or buying shares in the company. If the buyer buys more than 50% of the company's stock, shares or other assets, he gets the right to make decisions about the company without the participation or permission of other shareholders.

Acquisitions are often beneficial to the acquiring company in terms of market coverage and product mix. The purpose of such acquisitions for the acquirer is to grow the business rapidly and provide the company with much faster and profitable growth compared to conventional organic growth. Acquisitions in business are quite common and in most cases are carried out with the approval of the target company; although they can also happen despite his disapproval.

Acquisitions are considered a source of corporate growth for a company because they create major growth steps, providing a wider market reach and creating a new customer base for the acquirer. With a single acquisition, the acquiring company can achieve three to five years of organic growth in one step. A wider reach and a new customer base bring new potential sources of income that will help increase the company's profits. The acquisition also provides the acquiring company with a new set of products and services. This overall new line with new customers and new products will help strengthen the company's existing portfolio and give you more opportunities to grow sales.

The success of the acquisition depends on the organization of the acquisition process: assessment, structure, operational integration. The buyer must ensure that each

step in the acquisition process is managed effectively by properly planning resources and building a multidisciplinary team.

Mergers and acquisitions

The merger and acquisition (M&A) process has many stages and can often take anywhere from 6 months to several years.

A typical 10-step M&A process includes:

1. *Development of an acquisition strategy* is for the buyer to have a clear idea of what he expects to gain from the acquisition – what is his business objective for acquiring the target company (for example, expanding product lines or gaining access to new markets)
2. *Setting M&A search criteria* identifies key criteria for identifying potential target companies (for example, revenue size, geographic location, or customer base)
3. *Search for potential acquisition objects* - the buyer uses the specified search criteria to search and evaluate potential target companies
4. *Start purchasing planning* - the buyer contacts one or more companies that meet the search criteria and offer good value; The purpose of initial conversations is to gain more information and see how the target company is amenable to a merger or acquisition
5. *Evaluation analysis* . Obtaining information on current financial indicators to evaluate the business and the company according to the purpose of the acquisition.
6. *Negotiations* – after creating several valuation models of the target company, the buyer should have enough information to make a reasonable offer; after presenting an initial offer, the two companies can discuss the terms in more detail
7. *Due Diligence* – *M&A due diligence* is a comprehensive process that begins after acceptance of the offer; due diligence is aimed at confirming or correcting the buyer's

assessment of the value of the target company by conducting a detailed study and analysis of each aspect of the target company's operations - its financial indicators, assets and liabilities, customers, human resources, etc.

8. *Purchase and sale agreement* . If the inspection is completed without any particular problems, the next step is to conclude the final contract of sale; the parties make the final decision on the type of purchase agreement, whether it will be an asset purchase or a stock purchase

9. *Financing strategy for acquisition* . The buyer is studying options for financing the deal.

10. *Closing and integration of the acquisition* – The acquisition agreement is finalized and the management teams of the target company and the acquirer are working together on the process of merging the two companies.

The vast majority of acquisitions are competitive or potentially competitive. Companies typically have to pay a "premium" to acquire a target, which means having to offer more than competitors. To justify paying more than competitors, the acquiring company must be able to do more with the acquisition than other participants in the M&A process (ie create more synergies or have a better strategic rationale for the transaction).

There are usually two types of buyers in M&A deals: strategic and financial. Strategic buyers are other companies, often direct competitors or companies in related industries, so that the target company fits well into the buyer's core business. Financial buyers are institutional buyers, such as private equity firms, that seek to own, but not directly manage, the acquisition. Financial buyers often use leverage to finance acquisitions in *leveraged buyouts (LBOs)* .

In corporate finance, a *leveraged buyout (LBO)* is a transaction in which a company is purchased using debt as the primary source of consideration. These

transactions typically occur where the private equity firm borrows as much as possible from various lenders up to 70-80% and finances the balance with equity.

One of the most important steps in the M&A process is the analysis and evaluation of acquisition targets. This typically involves two steps: evaluating the target on a stand-alone basis and evaluating the deal's potential synergies. There are 2 types of synergy:

Hard synergies are direct cost savings to be realized after the M&A process is completed. Hard synergies, also called operating or operational synergies, are benefits that are almost certain to result from a merger or acquisition, such as salary savings that will result from eliminating redundant personnel between the acquirer and the target companies.

Soft synergy, also called financial synergy, is the increase in revenue that the buyer expects to receive after the deal closes. They are "soft" because the realization of these benefits is not as guaranteed as "hard" synergy savings.

- ***Joint ventures with foreign corporations***

Foreign cooperation is a union (union or association) created for the collective performance of agreed tasks with the participation of resident and non-resident legal entities. The basic concept of foreign cooperation is joint participation between the host and foreign countries to create an organic form of enterprise in the host country that includes relationships aimed at obtaining profit. It is an inflow of foreign capital and technology to the host country, supported by commercial considerations of profit and private expectations.

Key points of international cooperation:

1. A strategic alliance between one or more resident and non-resident legal entities.
2. Before starting cooperation, both organizations must obtain prior permission from the country's government.

3. During the ongoing process of obtaining a permit, the subjects of cooperation prepare a preliminary agreement.
4. Individual representatives of residents and non-residents, after obtaining the necessary permission, sign the preliminary contract. A signature acts as a written acceptance of each other's expectations, terms and conditions.
5. After the establishment of foreign cooperative entities, joint business is started in the domestic country.
6. The term of foreign cooperation is specified in writing.

CLASSIFICATION OF FOREIGN COOPERATION

Since no country is self-sufficient, all countries depend on each other to meet their needs. Interdependence between countries is a common phenomenon. Foreign partnerships are extremely beneficial for solving the problem of resource scarcity and obtaining advanced technologies at a low cost.

Due to the effects of liberalization, privatization and globalization, foreign participation in the Indian market is increasing rapidly. Indian companies are interested in foreign partners because the foreign market can provide them with technical and market expertise.

1. Financial cooperation : the inflow of foreign investments takes place in the host country. A foreign company provides financing through:
 - Acquisition of a share of ownership
 - Provision of long-term loans
 - Providing a credit line
2. Technical cooperation: the arrival of foreign technology takes place in another country. Integration of foreign technology with domestic. The foreign company provides various services such as professional services and expertise, installation of automated equipment in developing countries, and much more. It helps to eliminate the existing technological gap and the influx of modern technologies into the native country.

3. Marketing cooperation: the arrival of foreign goods and services takes place in the host country. Integration of the foreign and domestic market. A foreign country agrees to participate in the sale of goods by a domestic country.

- ***Creation of a subsidiary of a domestic firm in a foreign country***

A foreign subsidiary is a company that is majority owned or controlled by a company in another country. R companies that own or control them are called "parent companies". If a parent company does nothing *but* hold shares in a subsidiary or companies, it is known as a "holding company". Together, these related companies are sometimes referred to as a "corporate group". The exact definition of a subsidiary depends on the laws of the country in which it is incorporated. A black company exists if the parent company has a majority of the voting rights of the shareholders or members of the company.

If the parent or holding company owns 100 percent of the subsidiary, it is called a "wholly owned subsidiary." Foreign subsidiaries may be created from scratch in a new international location or they may involve a merger or acquisition of an existing company in a foreign location .

A subsidiary can be distinguished from a branch of an international enterprise that does not have a separate legal entity in the jurisdiction of expansion.

Some notable examples of foreign subsidiaries include:

RJ Reynolds Tobacco . This collection of subsidiaries incorporated in the United States produces popular cigarette brands including Camel and Pall Mall. As a result of the acquisition in 2017 they are now wholly owned and controlled by British American Tobacco headquartered in London, UK.

Marc Jacobs This British subsidiary is an acquisition of the Swiss confectionary conglomerate Nestle SA and produces such popular British confectionery products as fruit lozenges and fruit gums. Marc Jacobs International, LLC, a popular American

clothing brand, is a foreign subsidiary of French luxury goods conglomerate LVMH Moët Hennessy Louis Vuitton (LVMH), headquartered in Paris.

Some of the main advantages of setting up a foreign subsidiary include:

1. Access to new markets for your products and services

The creation of a foreign subsidiary creates a legal entity in another country. Legal entities can sell their products and services to the local population. They can also import and export goods.

In addition, companies with a local presence can expand their brand awareness in new markets to potentially increase their profits. Foreign countries offer enormous opportunities for growth, and even some of the lesser-known "medium-sized economies" provide viable markets for business expansion.

2. More affordable options for production

In some markets, establishing a foreign branch can give you access to lower costs of goods and labor. Many overseas markets also have a highly developed manufacturing infrastructure, which not only allows you to lower the cost of materials, but also lower the cost of manufacturing goods in bulk, which of course can help you minimize the overall cost of production.

3. Access to technical skills

Many foreign countries—increasingly in Asia—provide great access to advanced technologies and new ways of thinking about technical issues. For example, Japan offers a high level of technical expertise that continues to attract foreign investment. Thanks to foreign subsidiaries, an international business can recruit a truly global team. The use of a foreign subsidiary may also facilitate the payment of compensation shares to foreign employees. Read more in The Ultimate Guide to Thing Options to Foreign Employees.

4. Access to local knowledge

By setting up a legal entity in a foreign country, a company can establish new business relationships with local partners and create joint ventures that leverage local knowledge.

5. Advanced expansion capabilities

In some situations, entering a new country can support enhanced business growth and increased profits that would not be possible in the home country, especially when the domestic market is crowded with competition.

6. Simplified processes and incentives

Some countries openly welcome foreign investment and simplify the process of company registration. They can even create incentives to encourage foreign investment, such as:

- Tax benefits
- There are no minimum capital requirements
- Special economic zones
- Free trade zones
- Faster registration process
- Absence or a small number of restrictions on foreign ownership of companies

Some of the more notable disadvantages of setting up a foreign subsidiary include:

1. Increase in cost and time

Setting up a foreign subsidiary can often take a lot of time and money, which often prevents many foreign companies from making this investment. Paid-up capital requirements vary by country and industry, but are sometimes quite substantial. For example, in Singapore, the paid-up capital requirement for an insurance brokerage firm is \$300,000 , and for travel agencies it is \$100,000.

2. Prohibitions on foreign ownership

Some countries regulate certain industries and prohibit foreign ownership. In some situations, foreign ownership is not allowed, while in others, ownership must be predominantly local, but a foreigner can invest a certain percentage in the business. Some countries historically did not want companies to be wholly foreign owned. For example, the United Arab Emirates required a foreign investor to have a local partner with at least 51% ownership before establishing a foreign subsidiary until the law was changed in 2019. There are still certain industries in the UAE that restrict the presence of foreign workers.

3. Complex immigration requirements

Working abroad often leads to complex immigration requirements. It may be difficult for you or your employees to obtain a work visa or permit. Approval may take several weeks. Visas can only be for short-term stays, and there are often restrictions on what business activities you can engage in.

4. Comprehensive compliance requirements

One of the biggest challenges in setting up a foreign subsidiary is getting it right. There are often very complex rules related to hiring staff, calculating wages, complying with tax requirements and declaring your business.

Alternatives to creating a foreign branch

1. Foreign branches

In a foreign branch, the foreign enterprise has only *a minority, not a majority*, share of the shares of the foreign enterprise. This can be an advantageous form of foreign investment because it can better manage reputational risk (this form of investment is less "visible" than a foreign subsidiary) and limits financial risk by involving a smaller stake in the foreign enterprise. On the other hand, an investment in a foreign subsidiary will not provide the same degree of control as a foreign subsidiary and may have tax

disadvantages (for example, losses in one subsidiary cannot usually be offset by profits in another to reduce the overall tax burden of the group).

2. Independent contractors

Instead of establishing a foreign subsidiary, businesses may choose to engage one or more independent contractors who work abroad. In such an arrangement, individual contracts would be signed with each independent contractor, setting out their obligations to the company.

The disadvantages of this approach include:

- *Failure to fulfill the terms of the contract* . Without a legal presence in a foreign country, it is usually much more difficult (and expensive) to try to enforce these conditions in that country's legal system.
- *Potential underclassification of employees* . If the relationship between the independent contractors and the hiring company is interpreted by the tax authorities as an employment relationship, significant tax liabilities and penalties may apply.
- *Tax uncertainty* . The presence of independent contractors may, depending on the circumstances, create a "permanent establishment of a dependent agent" which may result in a corporate tax liability.

3. Partnership

In a partnership, individuals come together to manage a business (domestic or foreign), and under the terms of the partnership agreement, those individuals assume certain obligations and agree to share in the assets, profits, and liabilities of the business. In a general partnership, the parties are jointly and severally liable for the company's debts. In some countries, it is also possible to create a limited liability company .

4. Joint venture

A joint venture involves two different enterprises (one of which may be foreign) that join together for a separate business project or venture in another country. This may include setting up a separate company as a vehicle for that joint venture: if the foreign company has a majority ownership interest in that joint venture, it will be a *foreign subsidiary*. If no subsidiary is created, the venture is called an unincorporated joint venture, and the obligations and distribution of profits are governed almost entirely by a written joint venture agreement. A joint venture allows the resources of several parties to be pooled, reducing the need for large capital contributions and limiting the liability of participants.

5. Foreign trusts

A foreign trust (sometimes called an "offshore trust") is a trust created abroad by a person (settler) who is not resident there. The rules for foreign trusts depend on:

- a) location of the founder/donor
- b) location of beneficiaries
- c) the location of the trust itself (where the trustees are located and what is determined by the law governing the trust).

Foreign trusts are commonly used as a form of international tax management and asset protection. But it is also possible to conduct business abroad through a foreign trust structure. For example, trading trusts are an extremely common form of business in Australia and New Zealand that can have significant tax advantages.

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. Reveal the essence of direct foreign investment
2. Under what conditions is an investment in a foreign company considered a direct foreign investment?
3. What is the key element of foreign investment?
4. What is the difference between horizontal and vertical foreign investment?
5. Justify the positive sides for the faucet - the recipient and the donor country of foreign investments.
6. What is the negative manifestation of foreign investment? Justify your answer.
7. What is the essence of FDI through a conglomerate and an export platform?
8. What methods can be used for direct foreign investment?

Task 4.1. Research the dynamics of foreign direct investment in Ukraine using the data on the website <https://index.minfin.com.ua/ua/economy/fdi/>.

Task 4.2. Based on JH Dunning's theory of internalization and the structure of the OLI (Ownership , Location , Internalization) structure, conduct a comparative assessment of the investment attractiveness of the two countries. Formulate conclusions.

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Topic 5. INTERNATIONAL ACTIVITY ON THE STOCK MARKET

5.1. General features of investing in ordinary shares

5.2. Classification of ordinary shares

5.3. International stock market

5.4. Initial Public Offering (IPO)

Key concepts: common stocks, preferred stocks, income stocks, growth stocks, speculative stocks, defensive stocks, cyclical stocks, dividends, price risk, market risk, bankruptcy risk, foreign stocks, euro stocks, depositary receipts.

5.1. General features of investing in common shares

Ordinary shares (ordinary shares, common shares or common stock) represent a share of ownership in the corporation that issues it. As an owner, a shareholder has the right to vote in the main decisions of the company made at the shareholders' meeting. A shareholder may or may not receive a dividend. The board of directors of the company decides whether dividends will be awarded and their amount. A dividend is a shareholder's share of a corporation's earnings for the most recent quarter or year.

Preferred shares Some companies have preferred shares in addition to ordinary shares. The company's internal rules (its Articles of Association) determine how preferred shares differ from ordinary shares. Preferred shares are hybrid securities with elements of both a debt instrument and equity capital. Although they are technically a form of equity investment, they also have the characteristics of a debt instrument, in particular, they provide fixed income. Preferred shares have a priority right (seniority) over ordinary shares to receive profits and, in case of bankruptcy, to sell assets. As a rule, preferred shares:

- are non-voting, except in certain circumstances, for example, when dividends have not been paid on them
- provide for the annual payment of a fixed amount of dividends; the amount is

determined at the time of the first issue and is payable before the payment of dividends on ordinary shares

— have priority over ordinary shares in case of payment of funds upon liquidation of the company.

Preferred shares can be cumulative, non-cumulative and (or) participating. If dividends cannot be paid for a given year because the company did not make enough profit, dividends will not be paid on ordinary preferred shares. However, if the preferred shares are cumulative, the right to dividends is accumulated. If there is sufficient profit, the cumulative preferred shares will give the right to receive unpaid dividends in the following year. If the shares are non-cumulative, the first year's dividends will be forfeited.

Example ABC Company normally pays a preferred stock dividend of \$2 per share, but this time announces that it does not have the earnings to meet this obligation for the coming year. Cumulative preferred shares will pay a dividend of \$4, and ordinary preferred shares will pay a dividend of \$2. Any \$2 not paid for the previous period will be forfeited.

Participating preference shares entitle the holder to a basic dividend of, say, 3% per annum, but the directors can charge a higher dividend for any year in which earnings exceed a certain level. In other words, the owner of preferred shares can participate in excess profits.

Also, preferred shares can be convertible or redeemable. Convertible preferred shares provide for the possibility of conversion into ordinary shares of the company at specified intervals and taking into account predetermined conditions. Redeemable shares, as their name suggests, have a date on which they can be redeemed, i.e. the holder of the preference shares will be paid the par value of the shares, after which the shares are cancelled.

Banks and other financial organizations are permanent issuers of preferred shares. So, for example, an investor can become the owner of Standard Chartered non-cumulative outstanding preference shares of £1 par value each, which pay a dividend of 73/8%, worth £1,000. This means that:

- the investor will receive income in the form of fixed dividends in the amount of 7 3/8% annually, which is paid in equal installments every six months, on April 1 and November 1.
- The dividend is calculated by multiplying the amount of shares held in cash terms (£1,000) by the interest rate of 7 3/8%, giving a total annual dividend of £73.75 before tax, payable in two installments.
- The dividend will be paid provided the company earns sufficient profits and is payable prior to the payment of dividends on common stock.
- The term "non-cumulative" means that if the company does not have enough profit to pay dividends, it is lost, the debt is not carried over to the next period.
- the term "non-redeemable" means the absence of a fixed date on which the shares are redeemed; the capital will be returned only in case of liquidation of the company. In the event of the liquidation of the company, the investor will receive the nominal value of the shares, i.e. £1,000, which is payable before the payment to the holders of ordinary shares

Dividend is the income that the investor receives for the acquisition of risk capital. Companies pay dividends from their profits, which form distributable reserves. This is the profit after deduction of taxes, received during the existence of the company and exceeds the amount of dividends paid. Example The company ABC was established several years ago. During its existence, the company received 20 million dollars. USA profit and paid 13 million dollars. US dividends. So, the reserves to be distributed at the beginning of the year amount to 7 million dollars. USA.

Risks of Owning Shares To determine the level of risk associated with owning shares in a particular company, you should consider the issuing company, including its management, the industry in which it operates, and even the country or countries in which it does business. To compensate for potential risk, stocks offer the opportunity to receive relatively high income when the company's business is successful. The main risks associated with owning shares can be classified into four categories.

Price and market risk Price risk is the risk of a decrease in the share price in the

future. Although the company may continue to pay dividends, investors may face a loss of capital.

Bankruptcy Risk The risk that the issuer will go bankrupt and the common stock will depreciate. In general, large, well-established companies are unlikely to fail, so the risk may seem negligible. However, examples of the bankruptcy of such giants as Enron and Lehman Brothers show that this risk is real and cannot be ignored. Shares of new companies that have yet to report earnings in their financial statements may carry a significant risk of the issuer's bankruptcy.

Currency risk . The risk that changes in exchange rates will have a negative impact on the value of the investment. Example For example, a European investor buys today 1,000 shares of an American company, for example, at a price of \$1. USD per share at an exchange rate of USD 1. USA: €0.75. The total value of the shares in this case would be \$1,000. US or 750 euros. Let's assume that the shares rose in price and began to cost \$1.2. USD per share, and the investor sold his shares for USD 1,200. USA, earning a profit of 20% in dollar terms. However, in the event of a change in the exchange rate, the profit may not be fully realized. If the dollar rate fell, say, to \$1. USA: EUR 0.60, then the sales revenue when converted back to EUR would be only EUR 720. Therefore, exchange rate fluctuations can both reduce and increase profits (if the exchange rate changed in the opposite direction).

Thus, common shares represent a speculative investment instrument, on the one hand, unacceptable for those whose investment goal is capital preservation, and on the other hand, ideal for those whose goal is capital growth or wealth accumulation.

5.2. Classification of common shares

It is customary to divide ordinary shares into several large groups, which differ among themselves in terms of the degree of exposure to various financial risks, adverse economic conditions, the level of profitability, the nature and stability of the company's profits, etc. Moreover, each of these groups may include companies representing various sectors of the economy, although, on the other hand, two companies operating

in the same industry may belong to different groups of shares. Therefore, all ordinary shares are divided into the following main groups:

- **Blue chips stocks** (blue chips stocks) are the most famous and prestigious stocks. Joint-stock companies of this category pay dividends for a long time in favorable and unfavorable years for the company. A blue chip company's market capitalization is usually in the billions. It is usually the market leader or one of the top three companies in its sector, and it is usually a household name. Blue chip stocks can be good investments and are among the most popular stocks to buy for investors. Some examples of blue chip stocks are IBM Corp., Coca-Cola Co., Microsoft, American Express, McDonald's and Boeing Co.

Blue chip stocks are usually a component of the most authoritative market indices or averages, such as the Dow [Jones Industrial Average](#), the Standard & Poor's (S&P) 500 and Nasdaq-100 in the United States, the TSX-60 in Canada, or the [FTSE index](#) in the United Kingdom.

- **Income shares** – ordinary shares, the current yield of which is comparable to the yield of securities with fixed income. As a rule, these are shares of the best companies in the industry. Income stocks typically offer a high yield that can generate most of the security's total return. Although there is no specific cutoff for classification, most income stocks have lower volatility than the overall stock market and offer stable, above-average dividend yields (Table 5.1.)

Table- 5.1. **Stocks with high dividend income**

Symbol	Company name	dividends, USD	Dividend yield, %
NHI	National Health Investors Inc.	1.10	6.59
APAM	Artisan Partners Asset Management Inc.	0.83	6,10
PRU	Prudential Financial Inc.	1.10	5.35

IBM	International Business Machines Corp.	1.63	5.14
SAFT	Safety Insurance Group Inc.	0.90	4.48
WASH	Washington Trust Bancorp Inc.	0.52	4.42
PNW	Pinnacle West Capital Corp.	0.83	4.26
PFG	Principal Financial Group Inc.	0.56	4.25
OMC	Omnicom Group Inc.	0.65	4.13
NWE	Northwestern Corp.	0.60	4.10

Source: <https://www.nerdwallet.com/article/investing/how-to-invest-dividend-stocks>

- growth shares are the most attractive group of shares for investors seeking significant capital growth with limited risk (Table 5.2.):

- the company must demonstrate regular and continuous growth in net profit per common share that exceeds the growth of the economy as a whole,
- this growth must be foreseen;

Table 5.2.- Growth shares

Company	Mid-year growth rate sales for 3 years, %	Branch
Shopify (NYSE: SHOP)	46	electronic commerce
Alibaba (NYSE: BABA)	35	electronic commerce and cloud computing
Square (NYSE: SQ)	43	digital payments
MercadoLibre (NASDAQ: MELI)	55	electronic commerce
Facebook (NASDAQ: FB)	24	digital advertising

JD.com (NASDAQ: JD)	25	electronic commerce
Netflix (NASDAQ: NFLX)	29	entertainment broadcast

- speculative shares - shares that do not have stable success on the stock market, but have the potential for significant price growth. Dividends on such shares are either insignificant or not paid at all. Risky shares can be:

- promotions of new releases;
- stocks in which the ratio between market price and earnings per share changes frequently;
- shares of small companies in developing industries;
- cheap shares;

- defense shares - issuers of defense shares, as a rule, are representatives of the utilities, pharmaceutical industry, food products, and mass consumer goods sectors. In other words, issuers of defense shares are companies whose business is directly related to the livelihood of people, with everything that a person needs every day (Table 5.3).

Table 5.3. – **Defensive and cyclical actions**

Cyclical shares	Defense actions
<ul style="list-style-type: none"> • JPMorgan Chase (NYSE: JPM) • Apple (NASDAQ:AAPL) • General Motors (NYSE: GM) • Boeing (NYSE: BA) • Texas Roadhouse (NASDAQ: TXRH) 	<ul style="list-style-type: none"> • Dominion Energy (NYSE:D) • Costco (NASDAQ:COST) • Equity Residential (NYSE:EQR) • General Mills (NYSE:GIS) • Coca-Cola (NYSE: KO)

Cyclical shares (table 5.3.):

- The issuers of these shares are companies whose profits are closely related to the general state of the economy.

- When the economy is booming, consumer spending on durable goods, such as homes and cars, increases. Accordingly, the construction industry and the automobile industry are representatives of issuers of cyclical shares.
- Shares of this group are more suitable for investors who are able to monitor economic cycles and quickly make investment decisions depending on the changing general economic conditions.
- Cyclical stocks are exposed to macroeconomic changes when their returns follow economic cycles.
- Cyclical stocks are the opposite of defensive stocks.
- Cyclical stocks typically have higher volatility and are expected to produce higher returns during periods of economic strength.

The classification of shares exists so that an investor can orientate himself on what profit and, accordingly, financial risk he can count on, working with one or another group of shares.

5. 3. International stock market

The size of the international stock market is quite modest compared to the international bond market. The ratio is about 20 to 80%. This is due to the specificity of shares as a financial instrument. Stocks are a riskier financial asset than bonds. Therefore, international investors, especially institutional investors, traditionally prefer to buy bonds rather than shares.

Features of the modern development of the international stock market are:

- constant growth in the issuance of international shares, which is explained both by the privatization of public sector companies in developed and developing countries, and by the development of the process of mergers and acquisitions in developed countries;

- cross-country movement of corporate equity capital occurs mainly through the mechanism of depository receipts, and not in the form of foreign shares or Euro shares;
- predominance of direct purchase of securities on foreign stock markets over investing in foreign shares on one's own national market;
- integration of the debt and equity segments of the international securities market: with the appearance of Eurobonds, which are convertible into shares, the interconnection of the Eurobond and international equity markets is growing;
- the strengthening of the integration of the largest national stock markets, which is manifested in the interaction and consolidation of their trading and settlement and clearing systems and, as a result, the growth of capital flows between their countries

The international stock market covers three types of financial instruments:

- foreign shares;
- euro shares;
- depository receipts.

Foreign shares (Foreign Equity) are shares issued by a non-resident corporation on the financial market of another country.

Until the 1980s, the market for foreign shares had two forms: first, there was a market for shares of foreign companies that were issued or quoted in a national financial center, and later, a market for shares that were traded in many countries, but quoted only in the country of issue.

The market of foreign shares is represented by the following markets:

- the market of shares of non-resident companies that are issued or quoted on the national financial market of a certain country in its currency;

- the market for shares that are issued and listed on the stock exchange only in the country of issue, but are sold on the stock markets of several countries;
- the market of shares that have received cross-listing on stock exchanges of different countries through mutual price quotation systems and, accordingly, which are traded on stock exchanges and over-the-counter markets of these countries.

Most often, foreign shares are traded both on the stock market of the country of issue of these shares, and on the stock exchanges of those countries in which they received a listing. Investing in internationally registered shares offers significant advantages to investors[^]

First, there is no need to exchange currency when buying or selling such securities. This allows you to bypass currency risks caused by exchange rate fluctuations.

Secondly, investors get the opportunity to avoid certain taxes and restrictions related to the purchase of shares in the country of their issue.

Thirdly, all the risks of investing in securities on the markets of other countries — political risk, economic risk, liquidity risk, etc. — can be significantly limited. After all, investing in internationally registered shares eliminates the problem of availability and quality of information about foreign markets or individual securities. The above advantages determine the stable demand for foreign products shares

Two main groups of national markets of foreign shares can be distinguished. The first group includes the national markets of those countries that have the highest level of stock market capitalization in the total capitalization of the world stock market. These are the markets of the USA and Great Britain. In such markets, the share of foreign shares in the total number of shares is relatively small, but they are the leaders in terms of absolute indicators of issued foreign shares and their trading volumes.

The second group of foreign share markets is represented by the stock markets of those countries whose capitalization has a relatively small share in the global capitalization of the stock market, but the share of foreign shares in the total number of shares issued on this national market is the leading (Switzerland and the Netherlands in the 1980s, Luxembourg in the 90s) or significantly (France and Germany in the 80s, Amsterdam, Brussels, Germany and Switzerland in the 90s).

The main factors determining the degree of development of the foreign share market in a certain country are:

- The presence of a developed highly liquid financial market, on which a significant amount of financial resources is concentrated.
- Availability and quality of information on securities and protection of investors' rights. An investor's access to the necessary information enables him to quickly evaluate financial products and make informed decisions regarding the purchase of certain securities.
- Transaction costs for the issue and circulation of securities. The direct costs of issuing and circulating shares consist of two components: the costs of the issue and the costs of concluding transactions in the secondary market. In turn, transaction costs of the secondary market include commissions to intermediaries and payment of settlement and clearing services.
- The degree and nature of state regulation. The attractiveness of the national market as a place for issuing foreign securities largely depends on its characteristics, such as the presence of restrictions on trading in foreign securities or investing funds in foreign securities, the strictness of legislative requirements for regulating the activities of joint-stock companies, including foreign ones, etc. .d.

— Tax regime. The intensity of the development of the foreign shares market is also significantly influenced by the national tax collection policy — taxation of income from securities trading, ownership of foreign shares, income from capital gains, taxation of money transfers abroad, etc. This is because investors focus on the after-tax rate of return.

Euroshares market

Euroequity refers to shares that are offered for sale simultaneously on several national stock markets.

Accordingly, Euroshares are simultaneously available to investors from different countries. Euroshares have the same characteristics regarding the currency of issue and the territory of placement and circulation as Eurobonds. Euroshares are sold by international bank syndicates and, as a rule, are bought for euro currencies. They are quoted in offshore financial centers, mainly in London, to a lesser extent in Luxembourg and Singapore. Income received from Euroshares is not subject to any national taxation.

The first wide issue of Euroshares was carried out in 1971 by the American company Bakster Laboratores, which through its foreign branches issued 500,000 preferred shares. The issued shares were offered for sale almost all over the world, and investors from Switzerland, France, Great Britain, Germany and Holland subscribed to them. But the Euroshare market began to develop only in 1983, mainly due to the appearance of syndicated issues. The second factor that determined the development of the Euroshares market was caused by changes in the demand trends of institutional investors — their efforts to implement international diversification of the asset portfolio by purchasing shares of foreign corporations.

In the 1990s, the number of companies, especially American ones, offering tranches of Euroshares was constantly growing. The volume of euro issues increased, the composition and number of market participants expanded. But the scale of the

Euroshare market remains relatively small. Thus, in the mid-1990s, the volume of euro shares offered for sale was only 4-7% of the total volume of issues on the euro securities markets.

In table 5.4. provides an overview of the ten largest stock markets in the world, measured by the percentage ratio of the market capitalization of registered national companies to the world capitalization of the stock market (market capitalization in % of the world) until 2018. In addition, the table shows the percentage of local GDP to the total world GDP, as well as the local market capitalization as a percentage of local GDP. National currencies are converted into US dollars

Table 5.4. - The largest stock markets in the world

Country	Market Cap in % of World	Local GDP in % of World	Market Cap in % of Local GDP
United States	43,48	24.42	147.89
China	9,13	16,28	45,52
Japan	7.68	5.81	106.90
Hong Kong	5.51	0.42	1055.92
France	3.48	3.26	84,87
India	3.04	3.14	76,79
Canada	2.75	1.98	112.91
Germany	2.61	4.65	44,28
South Korea	2.03	1.98	81.96
Switzerland	2.03	0.83	204.38

As shown in Table 4.4, by 2018 the US market accounted for approximately 43.48% of the global stock market capitalization, followed by China (9.13%) and Japan (7.68%). Meanwhile, the US economy accounted for 24.42% of global GDP, while China accounted for 16.28% and Japan for 5.81% of global GDP. Despite their leading role in global percentage market capitalization, the market capitalization of the US was only 147.89% of local GDP, while, for example, this figure was equal to 1055.92% for Hong Kong or 204.38% for Switzerland.

These numbers are an example of the fact that the US market is still the largest stock market in the world. On the other hand, however, the numbers show impressively

that, according to the World Bank, almost 60% of all stock market capitalization and almost 75% of global GDP is accounted for by international markets.

Market of depository receipts

Depository receipts originated in the USA in the late 1920s. Their appearance was caused by the ban of American legislation on trading in foreign securities on the territory of the USA. To circumvent these restrictions, the investment bank "JP Morgan" issued derivative securities on the shares of the British company Selfridges in 1927. This financial instrument acquired its modern form in 1955, when the Securities and Exchange Commission issued the S-12 form for the registration of all depository programs. Form S-12 was later replaced by Form F-6, which is still in use today. ADRs are traded on the U.S. exchange and over-the-counter market. These securities were registered as U.S. securities.

Depository Receipt (English: Depository Receipt) is a document that states that the securities have been deposited in a custodian bank (custody) in the country of the issuer of shares in the name of the depository bank and entitles its owner to benefit from these securities.

Excluding the difference due to changes in the exchange rate, the price of these receipts changes in accordance with the change in the price of the underlying securities, except in cases where the participation of foreign investors is limited in the local market.

A Depository Receipt (DR) is a negotiable certificate issued by a bank and represents shares of a foreign company traded on a local stock exchange. A depository receipt gives investors the opportunity to own shares of foreign countries and gives them an alternative to trading on the international market.

A depository receipt, which was originally a physical certificate, allows investors to own stocks in other countries.

American Depository Receipt (ADR) – a common type of ADR, (since the 1920s)
The word "depository" is associated with the technology of issuing these papers:

- A large bank (depository) accepts a certain number of shares or debt securities (bonds, promissory notes) of a foreign issuer,
- deposits them (places them in storage) in one of the local banks in the country of issue of the papers,
- and then issues receipts on his own behalf.
- They indicate that the issuer's country of origin actually holds certain securities.

5.4. Initial Public Offering (IPO)

One of the ways to attract external investments is the initial public offering of shares. Initial Public Offering (IPO) - an offer that the company makes to all interested investors. A package is put up for sale , the size of which does not exceed the blocking one. This allows the owners to maintain control over the company. However, the IPO procedure forces the issuer to disclose quite a lot of information about itself.

The initial public offering of securities is the public sale of company shares on the stock exchange to a wide range of investors, carried out for the first time. The appearance of the IPO is caused by the fact that it is not always possible to attract capital through lending. Receiving a loan implies its return. And the money received from the placement of shares does not need to be returned. IPO is one of the effective and common ways of attracting funds for company development. During the IPO, it is possible to place shares both on the domestic securities market and on foreign markets. On the foreign market, instead of the shares themselves, companies often sell their derivatives, these derivatives are called depository receipts. A depository receipt is a security issued on the foreign market and confirms ownership of the corresponding number of "domestic" securities. A depository receipt is issued, as a rule, by a reputable depository bank of global importance. Issuance of depository receipts has the following advantages: expanding the circle of potentially informed investors, strengthening the image and trust of the issuer.

The instrument of initial public offering of securities allows to attract funds without obligations to return them in a certain future. This is the main difference

between IPO and other ways of raising loans. The next advantage of the IPO is that companies (banks) that enter the public stock market for the first time, and even more so the international stock market, have the opportunity to get a competent idea of their own value.

Advantages and disadvantages of IPO . The advantages of IPO in comparison with other forms of borrowing, which determine the choice of IPO as the main tool for attracting investments in foreign countries, include the following.

1. *Attracting open-ended capital* that does not need to be serviced. This is a very important advantage. So, for example, bank loans are relatively expensive, and with their help it is difficult to meet the needs of enterprises in large and long-term investments. At the same time, the maximum term of issuing bonds on the domestic market does not exceed 5-6 years. Shares are issued for an indefinite period.

2. *Acquisition of market value (capitalization)* . Only thanks to the entry into the public market, the company and business find market capitalization. The value of a public company, as a rule, is always higher than the value of a private company, primarily due to the existing liquidity and the availability of fairly easily discovered information about the company.

3. *Improvement of the company's financial condition*. Due to the issue of shares, equity increases, which does not happen in the case of lending or issuing bonds. During the IPO, the company's equity capital increases both due to the increase in share capital as a result of the sale of company shares, and due to additional capital due to the receipt of issue income.

4. *Attracting investments in the future on more favorable terms* . Acquiring the status of a public company is usually accompanied by an increase in its net worth and an increase in own funds, which allows attracting cheaper financing in the future. If the shares are in demand, the company has the opportunity to make additional *issues on favorable terms*.

5. *Provision liquidity of the company's owners* . Liquidity is achieved by the fact that the value of the company is always known, as it is determined by the market. This

advantage is also related to the absence of legal procedures for the purchase and sale of shares (unlike a loan), as well as the simplification of mergers and acquisitions.

6. *Increase in the value of shares* . The price of shares may increase significantly compared to the price of the initial offer. There are at least four reasons why investors are willing to pay a high price for the securities of public companies:

- Expanding the circle of potential investors in such shares;
- The level of development and business experience are usually associated with the status of a public company;
- Availability of information about the public company;
- Increased requirements offered to such companies by stock exchanges and other regulatory bodies.

7. *Preparation of financial statements according to international standards* . The availability of accounting reports prepared according to international standards is a necessary condition for IPO on Western platforms and a desirable condition for placing shares on domestic ones. The availability of international reporting is a factor in the issuer's transparency.

8. *Improving the image, increasing the prestige of the company* . The attention with which the financial community and the press follow a company that has announced plans for an IPO provides such a company with free advertising, which positively affects its corporate image. In addition, the stock exchange on which the company's securities are traded is interested in increasing the volume of trading of its shares, which means that it conducts additional active marketing, which, due to financial constraints, is not always acceptable to the issuing company itself. An increase in the number of people wishing to purchase the company's shares can lead to an expansion of the scope of its activities, as new shareholders are interested in establishing business relations with such a company.

9. *Obtaining a listing on the stock exchange* . The goal of many companies that have decided to acquire public status is to obtain a stock exchange listing, which greatly facilitates trading operations with corporate shares and provides public recognition,

since stock listing is perceived by many as an indicator of the reliability, scale and financial capabilities of the company.

10. *Staff retention and motivation* . The task of attracting, retaining and motivating key personnel is equally relevant for start-ups and small companies as well as for mature large companies. Any employee dreams of receiving a large and adequate reward for the efforts they have spent for the benefit of their company. In the presence of a developed stock market, where companies can go out with their shares, various stock option schemes are actively used to increase the interest of key business employees. Salary turns out to be a less attractive incentive for conscious and appropriate work compared to a one-time and significant reward. The belief in the possibility of receiving a substantial amount at one fine moment is a rather effective motive that encourages the staff to work selflessly for the benefit of their company and their own.

Summing up, all the above advantages of IPO can be combined into two big advantages.

- 1) Advantages associated with attracting long-term capital;
- 2) Advantages received by the company upon acquisition of public status.

At the same time, very often the attraction of long-term capital is not the main purpose of conducting an IPO, the more important reason for the decision to conduct an IPO is the acquisition of public status.

The disadvantages of IPO include the following .

1. Partial loss of freedom, control and privacy (if needed) by the company. Before and after the public offering of shares, the company is forced to cover in detail all the main aspects of its activities, all changes, while carefully guarded and previously hidden information becomes available to an indefinite wide range of users, among whom there are competitors, and customers, and company employees, and detractors.

2. The IPO requires certain substantial costs of advertising, payment of commissions to PR agents, underwriters, transformation of financial statements into European or American format, additional fees to auditing organizations, legal firms (consultants), which are not required when raising loan funds by obtaining them in the bank

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. Explain the concept of a share as a security. What is the difference between common and preferred shares?
2. By what parameters can shares be classified?
3. Is it possible to draw a clear line between income stocks and growth stocks? How can they be identified?
4. Describe cyclical and defensive stocks? Is there a relationship between market value? Justify your answer.
5. What are the segments of the international stock market?
6. What is the essence of Euroshares as an investment tool?
7. Carry out a comparative analysis of the mechanism of withdrawal to international markets through Euroshares and depositary receipts.

Task 5.1. Explore regional and international stock markets. Identify the main trends that are present in the studied segments.

Task 5.2. Research the industry list of issuers of shares on the leading stock exchanges of the world and Ukraine and their main indicators: nominal and market value, capitalization, size and frequency of dividend payments. Draw conclusions

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Topic 6. INTERNATIONAL BOND MARKET

6.1. The structure of the international loan capital market

6.2. The essence and types of bonds

6.3. Major bond markets

Basic concepts: money market, capital market, national (domestic bonds), Eurobonds, zero-coupon bonds, convertible bonds, mortgage bonds, municipal and corporate bonds, foreign bond markets, Eurobond market.

6.1. Structure of the international loan capital market

Distinguish between the institutional and operational structure of the world loan capital market.

The institutional structure includes official institutions (central banks, international financial and credit organizations), private financial and credit institutions (commercial banks, insurance companies, pension funds), exchanges, firms.

Depending on the type of loan transactions, the international market is divided into three sectors: the world money market, the market of medium and long-term foreign and Euro loans, and the financial market.

World money market - this is the market short-term foreign and Eurocredits due date from one day up to a year Here prevail interbank loans / deposits (rooms banks deposits on accounts of others banks) , deposit certificates , promissory notes, bank acceptances.

The market of medium and long-term foreign and European loans (market syndicated (consortium) loans . Development began in the 70s of the 20th century. and was associated with implementation roll of valid loans (short-term periodically renewed loans with a " floating" rate).

World financial market - the market bond loan started form in the second half 60s WITH his appearance on the world market loan capitals became function two parallel market: traditional market of foreign loans placed by non-resident borrowers

on national markets , and the market is vropozyk , which are placed on euro market
Until the beginning of the 90s . on euro loans it was close 80% of the total international
amounts loan Main feature European loan is that What for creditors, and often and for
borrowers currency loans is foreign .

Main sectors of the debt market:

- sectors of treasury bonds, government agencies;
- municipal and corporate sectors;
- the sector of secured corporate bonds;
- residential and commercial mortgage lending sector.

In turn, the national market includes the local bond market and the foreign bond market. Issuers of the local bond market are residents of the country where the bond is issued and then traded. Issuers of the foreign bond market do not have legal registration in the country in which the bond is produced and traded.

In addition to the domestic (national) market, there is also an external market, which is also called the international market. Bonds circulating on the foreign market, as a rule, have the following features:

- they are underwritten by international syndicates;
- their simultaneous placement among investors of different countries is carried out;
- they are issued outside the jurisdiction of any individual country;
- they may not register.

The foreign market is sometimes called the offshore market or the Eurobond market. So-called global bonds can be issued and circulated on foreign markets - debt obligations that are simultaneously placed on the markets of several countries. Global bonds may have tranches denominated in different currencies.

6.2 . The essence and types of bonds

Bonds are debt obligations, or promissory notes, in which the issuer of the bonds undertakes to return the borrowed amount within a predetermined period with the payment of remuneration at a fixed interest rate for the duration of the ownership of the bonds. The total amount to be repaid is called either the "principal amount of the loan" or the "face value." The date the loan is repaid is called the "maturity date," the interest rate on the bond is called the "coupon," and the holding period is called the "term of circulation."

The bondholder does not participate in the profits of the corporation and can count only on the return of the principal amount of the loan and the annual payment of interest at a fixed rate.

The international bond market is a combination of national bond markets and the Eurobond market. There is also a global bond market.

The following are circulating on the national markets:

- **domestic** bonds issued by national borrowers and denominated in the national currency;
- **foreign bonds** issued by foreign borrowers, but usually denominated in the national currency.

On the world financial market are functioning bonds different type : ordinary or " straight"; with a " floating" interest rate rate; with zero interest (coupon); converted bonds , bonds with an option.

More than 60 % represent *ordinary, Yes called direct bonds* , according to which to the owner is paid fixed percentage (as as a rule , annual coupons) for the whole loan term .

Rate and accordingly income on *bonds from " floating" rate* fluctuate in dependencies from change market percent A variety bonds with a variable rate there are *bonds with indexed percentage* Percentage of such bonds not tied before the change rates percent on market capitals, and to the index prices on certain goods (for example, oil or gold).

Bonds with zero with a coupon (without a coupon) allow owners get income is not annually, and only once, at redemption bonds Interest on bonds are taken into account when installation emission course

Converted bonds (convertible bonds) became widespread in the 1980s and 1980s. They bring to the owner less income compared with " direct", however, they give right through a certain time to exchange them on shares of the borrower company in case if dividends by shares will be higher, than interest on bonds

Bonds with option , i.e with by right of choice an investor different options agreements (for example, the right to purchase one Troy an ounce gold in advance set price). If the price on gold on market rose above set price, then purchase such bonds was of particular interest .

Unsecured bonds (debentures) are bonds under the general obligation of the corporation that issues them. They are an unsecured loan.

When there is more than one issue of unsecured bonds in circulation, its priorities must be determined. **Subordinated unsecured bonds** (subordinated debentures) have a lower priority than non-subordinated ones . In the event of the bankruptcy of the corporation, the obligations under the bonds with a lower priority will be repaid after the obligations under the bonds with a higher priority have been fully satisfied.

Since the end of the 70s, **Euronotes** - securities issued by corporations for a term of 3-6 months with a "floating" rate - have become widespread on the market. Although these are short-term papers, they are used to provide medium- and long-term loans.

Mortgage bonds - These are debt obligations secured by the corporation's property. In the event of its bankruptcy or insolvency, bondholders have the right to receive this property, which they can sell to satisfy their claims. Owners of mortgage bonds with collateral are protected by the terms of the bond agreement. It may be prohibited to issue bonds secured by property that serves as security for other bonds (if the issuance of such bonds took place, they must be of a "lower order" or "secondary", that is, their holders can claim the property only after the requirements have been met holders of previously issued bonds as collateral. Property acquired by corporations after the issuance of bonds can also be used as their security.

According to the issuer, bonds are divided into: state, municipal and corporate.

6.3. Major bond markets

Debt certificates have been traded internationally for several centuries. Kings and emperors borrowed heavily to finance their wars. In the 14th century, Edward I financed his wars by issuing bonds launched in Italy by the great banking families of the time. Centuries later, a grand coalition against Louis XIV led by William of Orange was financed by a group of Dutch families operating from The Hague. The Rothschilds later became famous for supporting the British war effort against Napoleon I through their European family network.

Although debt financing has always been international in nature, there is still no single international bond market. The international bond market is divided into three groups of bond markets:

- Internal bonds. They are issued by the local borrower and are usually denominated in the local currency.
- Foreign bonds. They are issued on the local market by the foreign borrower and are usually denominated in the local currency. The issuance of foreign bonds and their trading are under the supervision of national regulators.
- Eurobonds. They are signed by a multinational syndicate of banks and placed mainly in countries other than the currency in which the bonds are denominated . These bonds are not traded on a specific national bond market.

Until the early 1960s, only foreign bonds were traded on the international bond market.

Issuance of foreign bonds is profitable for their issuers due to access to national debt capital markets. Theoretically, any issuer can issue bonds on the domestic market of another country, but in practice, only participants with a high credit rating have access to the foreign bond market.

The largest foreign bond markets include:

The market of Switzerland (Zurich), which appeared in the 1960s and today is

the largest foreign bond market in terms of issues. The Swiss market attracts foreign borrowers due to the stability of the national currency and the development of the banking infrastructure. "Chocolate" bonds (Chocolate Bonds) are issued to the bearer with a minimum denomination of 5 thousand Swiss francs and with an annual coupon;

The market of Japan (Tokyo), which began to develop intensively only in the second half of the 1980s. Issuers with lower credit ratings than in other markets are admitted to Japan's foreign bond market (borrowers from countries with transition economies have access here). Samurai Bonds are issued in yen for a term of 3 to 20 years with semiannual coupons. The volume of the issue is from 10 to 100 billion yen. The main issuers are national governments and banks;

The US market (New York), which in the 1990s proved to be the most liquid among individual markets. The American market attracts foreign borrowers due to the large capitals of US institutional investors and the variety of financial instruments. The volume of the issue is a maximum of 500-700 million dollars. USA for one tranche. Yankee Bonds are usually issued by multinational institutions, foreign governments or their agencies, private corporations, banks, etc.

About 80-90% of international bonds (bonds placed on foreign markets) are Eurobonds. A typical Eurobond is a bearer debt security in the form of a fixed-rate certificate that pays income once a year. Repayment of the Eurobond takes place at the end of the term by a simultaneous payment or within a certain period from the repayment fund.

Eurobonds are issued in a currency that is usually foreign to the issuer. They are placed through an international syndicate of underwriters among foreign investors, for whom the currency of the Eurobond issue is also, as a rule, foreign.

International bond portfolios typically invest 40% or more of their assets in fixed income instruments issued outside the United States. These portfolios invest primarily in investment-grade issues, but their strategies may differ. Some take a conservative approach, sticking to high-quality bonds from developed markets. Others are more adventurous, holding some lower-end bonds from developed or emerging markets. Some portfolios invest exclusively outside the US, while others invest in both US and

non-US bonds. Many maintain significant allocations in currencies other than US dollars at all times, while others have the ability to make significant adjustments between their US dollar and other currency exposures.

The largest funds of this type:

- VALIC Company I Intl Govt Bond Fund
- BlackRock Strategic Global Bond Fund
- Eaton Vance Global Sovereign Opps
- Federated Hermes Intl Bd Strat Port
- DoubleLine Global Bond Fund
- PGIM Global Total Return Fund
- Hartford World Bond Fund

The Eurobond market is an offshore market where borrowers and lenders meet because of their low cost and lack of regulation. The Eurobond market is only one segment of the so-called Euromarket, which also includes the Eurocurrency, Euronote, Eurocommercial paper and Euroshare markets.

Euromarkets are offshore capital markets in the sense that the currency of the denomination is not the official currency of the country where the transaction takes place. For example, a Malaysian firm deposits in US dollars not in the US, but in a bank outside the US, for example in Singapore or Switzerland. This US dollar deposit outside the US is called a Euro deposit.

Euromarkets are well-developed, complex markets where traded instruments are denominated in many currencies, not just major currencies. For example, in 1996 the Eurobond market included issues denominated in Egyptian pounds, Polish zlotys and Croatian kuna. However, in the beginning, the Euromarkets were simply Eurodollar markets. For example, the first Euromarket was a market for short-term US dollar deposits and US dollar loans, where European banks acted as intermediaries between investors and borrowers.

Long before World War II, banks outside the US accepted deposits denominated in US dollars. In the 1950s, when the countries of the socialist camp had to carry out

international trade transactions in hard currency, these countries were left with balances in US dollars, which were initially kept in New York. But as tensions rose during the Cold War, the communist government transferred these balances to banks in London and other European centers.

Although the Cold War may have started the Eurocurrency market, there were other factors that stimulated its development. Historically, the pound sterling has played a key role in world trade. Much of the trade was denominated in pounds sterling. Two events contributed to the strengthening of the US dollar as a currency for international trade:

In 1957 The United Kingdom introduced controls over borrowing and lending by British banks to non-residents in pounds sterling. These institutions then turned to the US dollar to finance their international trade.

In 1958, Western European countries, in preparation for the creation of the European Economic Community (now the EU), allowed banks to freely trade in US dollars to finance trade.

The US government, unknowingly, gave a very important stimulus to the growth of the euro market with several regulatory acts. During the 1960s, the US government introduced several measures to control international capital flows aimed at improving the US balance of payments:

In 1963, the US government introduced an interest equalization tax (IET) on foreign securities owned by an American investor. The government's idea was to equalize the after-tax interest rate paid by U.S. and foreign borrowers, and thus discourage U.S. residents from buying foreign securities (reducing capital flight). The IET forced non-US corporations to pay higher interest rates to attract US investors. Therefore, non-US corporations began to look to the Euro market to borrow US dollars.

Since the IET did not significantly reduce capital outflows, the US Federal Reserve introduced another financial regulation in 1965, the Foreign Credit Restraint Program (FCRP). The FCRP limited the amount of credit that US banks could extend to foreign borrowers. Foreign subsidiaries of US multinational corporations were considered “foreign” under the FCRP. The government's idea behind the FCRP was to

reduce capital flight. The FCRP program began as a "voluntary" program, but was changed to a mandatory program in 1968. Once again, foreign borrowers and American subsidiaries were forced to go elsewhere to borrow US dollars.

(3) In 1968, the government enacted the Foreign Investment Program, which limited the amount of domestic U.S. dollars that U.S. corporations could use to finance foreign investment.

As a result of restrictions on investments in foreign securities, borrowers came to the conclusion that it is more profitable to sell stock assets in other countries. The term eurobond (eurobond) in a broad sense is used for bonds distributed outside the borders of the issuer's country or the country in whose currency the denomination is specified. Thus, a bond issued by an American corporation denominated in yen (or US dollars) and sold in Germany is a Eurobond. Ukraine is an active participant in the process of issuing euro bonds. Due to the fact that Eurobonds are not taxed and their market is not regulated, they provide advantages for issuers and for investors. For example, a branch of a French corporation in another country issues bearer Eurobonds. The corporation does not pay taxes, and the tax paid by the bond buyer depends on the country in which he is a resident.

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. What is the essence of a bond as a debt instrument?
2. Common and distinctive features between a bond and a bank loan.
3. Name the types of bonds
4. What factors influenced the emergence of Eurobonds?
5. Reveal the structure of the international debt market.
6. Why do government bonds have higher liquidity than stocks?

Task 5.1. Choose a country and do your research:

A) Corporate bonds:

— Segment the national market by industry.

- Highlight the largest issuers.
- Analyze the dynamics of the exchange rate value of their bonds on national and international stock exchanges

B) Municipal loans:

- Purpose of borrowing
- Profitability
- Quotations on national and international stock exchanges.

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Topic 7. DERIVATIVE FINANCIAL INSTRUMENTS

7.1. Concepts and features of derivative financial instruments

7.2. Main types of derivative securities

7.3. Characteristics of derivatives market participants

7.4. The influence of derivative financial instruments on the development of the financial crisis in the USA

Basic concepts: primary and derivative financial instruments, options, warrants, futures, options, depositary receipts, share certificates, bond certificates, option premium, hedger, speculator, arbitrator, offset agreement, SPV (special purpose vehicle) - the cream of the law a person created by an organization for a specific purpose, ABS (assets based securities) - securities based on assets

7.1. Concepts and features of derivative financial instruments

Depending on the subject of the agreement, financial instruments are divided into primary and derivative. Primary financial instruments include agreements, the subject of which are cash (or their equivalents), such as, for example, accounts payable and receivable; promissory notes; shares; bonds; factoring, financial leasing; credit line guarantees; insurance agreements of a financial nature, etc.

Derivative financial instruments are instruments, the mechanism of issue and circulation of which is related to the purchase and sale of certain financial or material assets, or they can be defined as contracts concluded for the purpose of redistributing financial risks and provide for the fixation of all the conditions for carrying out a certain operation in the future (purchase, sale, exchange, emission) with the instrument that is the subject of the transaction.

Derivative financial instruments (derivatives) got their name from the English term "derivative", because their value is derived from the value of the underlying instruments, which are the basis of the agreement. The basic instrument in such contracts of a financial nature can be both separate types of primary financial

instruments - cash in national and foreign currencies, securities, financial indicators in the form of indices, exchange rates, interest rates, and derivatives themselves.

Derivative securities are securities, the mechanism of issue and circulation of which is associated with the right to purchase or sell them within the period specified by the contract. Derivative securities are a tool for reducing the financial risk of investors, participants of the stock market.

The functions of derivative securities derive from the characteristics of the rotation of the underlying securities:

- 1) certificates of rights arising from ownership of basic securities (certificates, shares, bonds);
- 2) provision of additional benefits to the owners of the main securities. This function is performed by *options, warrants, futures* , which provide an opportunity to purchase or refuse to purchase basic securities;
- 3) ensuring the functioning of basic securities;
- 4) forecasting the dynamics of exchange rates and insuring the owners of major securities against a decrease in exchange rates. This function is performed by *futures and options* ;
- 5) the possibility of replacing the main securities with their surrogate forms. *Share certificates, bond certificates and depository receipts* perform this function ;
- 6) ensuring the penetration of basic securities into foreign stock markets. This function is performed by depository receipts.

7.2. Main types of derivative securities

The right to subscribe for shares — this is a preferential right for the shareholders to purchase securities of the enterprise of a new issue in proportion to their existing contribution. This right can be used by the owners of ordinary shares, if it is provided by the articles of association.

The right to subscribe to a share consists in ensuring the protection of shareholders against the reduction of their share of ownership in the enterprise in the

event of the issuance of additional shares of the same series. This is important for owners of controlling stakes and large stakes.

Each shareholder who has the "right to subscribe" receives from the issuer a special certificate or certificate of rights, in which the number of shares and the sale price of securities of the new issue are indicated.

Rights of the owner " rights to subscribe for shares" :

- 1) buy shares;
- 2) sell the "right to subscribe for shares";
- 3) ignore the offer.

Option is a security considered as the result of an option contract. According to this contract, one of the participants acquires the right to buy (sell) a certain number of securities at a specified price in a certain period of time, and another participant undertakes, if necessary, to sell (buy) securities at the agreed price for a cash prize. Usually, options are issued on ordinary shares.

Two main types of option contracts:

- 1) a contract for the purchase of securities;
- 2) a contract for the sale of securities together with securities.

Market option participants can act as: a buyer of a call option, a buyer of a seller's option, a writer of a seller's option.

When buying put options on a possible decline in stock prices, an investor can buy options with the right to sell at a fixed price after a certain period of time. If the stock price falls, then the option holder can sell it to the stock company to reduce the stockholder's losses.

A warrant is a type of security associated with an obligation that the seller gives to the buyer in terms of ownership of securities. Warrants are issued for ordinary shares, while there is a guarantee of ownership, that is, the obligation of the seller to transfer ownership without retaining the right to retain it by the seller.

A warrant is a long-term security. The holder of the warrant has the right to exchange it for a certain number of common shares at a fixed price within a certain period of time if the share price reaches a certain stipulated level.

Warrants are issued simultaneously with bonds, preferred shares and debentures. After issuing the main securities with a warrant, it can be separated from them and independently rotate on the stock market.

Futures is an agreement under which one party undertakes to sell, and the other - to buy securities of a certain type, in a known quantity, at a certain price and at a certain time in the future.

A futures contract can be concluded only through a brokerage company that is a member of the clearing house exchange, which guarantees its execution. After concluding the agreement, it is registered in the clearing house, which from that moment becomes a party to the agreement for both the seller and the buyer (for the buyer, it is the seller, and for the seller, the buyer). Because futures contracts are standardized and guaranteed by a clearinghouse, they are highly liquid.

Since the exchange gives guarantees to its members to ensure the agreements concluded on it, it must provide these guarantees with something. Therefore, the participants of the futures contract, regardless of the position, must make a certain deposit in the form of a sum of money - **the initial margin**, which goes to a special account - the margin.

The amount of the initial margin is set by the clearing house (exchange) and may change depending on its goals. **The following factors are taken into account when determining the amount of the margin:**

- maximum price deviations of the asset underlying the contract for past periods;
- the possibility of a special reduction of the initial margin, if the exchange wants to attract participants to the market of this contract.

The exchange also sets the minimum value of the initial margin. The balance on the client's margin account cannot be less than the minimum value of the initial margin.

An option is a financial instrument (contract) that is not considered binding, that is, the investor can fulfill this term agreement or not. This is the right (due to the payment of a certain amount of premium) to buy or sell a financial instrument during a certain period of time at a set price.

Operation with an option — an economic operation of a business entity, which

involves the sale (purchase) of an option, i.e. the right to purchase (sell) products of seasonal production, securities or currency values at any time during a specified time, with the fixation of the sale price for the day conclusion (purchase) of an option.

The buyer of the option pays the seller a fee - *the option premium* - for the right to choose, and executes or does not execute the option contract depending on the decision made by the buyer. The option is executed at the price of the asset fixed at the time of the conclusion of the contract, which is the exercise price (strike price).

There are two types of option contracts based on the terms of execution: American and European. An American option can be exercised on any day before the expiration date of the contract. European - only on the day of execution of the contract.

There are also two types of options - the buyer's option - call (call option) and the seller's option - put (put option).

With a call option, the owner of the contract receives the right, but not the obligation, to purchase the securities (futures contracts) specified in it, starting from the moment of purchase of this contract and ending on the date of its execution, at the price specified in it.

Under a put option, the owner of this contract receives the right, but not the obligation, to sell the securities specified in it, starting from the moment of purchase of the option contract and ending on the date of its execution, at the price specified in it.

An investor who buys a call or put option is the "owner" of the option, the other party to the option contract is its "writer".

A depository receipt (certificate) is a security that certifies the right of ownership of a resident investor to a specified number of securities of a foreign issuer, the total volume of the issue of which is recorded in a foreign depository institution. They can be issued by legal entities - residents who are participants of the National Depository System, provided that correspondence relations are established between the depository, which stores the global certificate for the total volume of depository receipts issued, and a foreign depository institution that keeps records of the ownership of securities, which are the basis of depository receipts.

Table 8.1.- **Characteristics of the main derivative securities**

Elements	Forward	Futures	Option
Types of agreement	Off the stock exchange	On the stock exchange	Outside and on
Terms of the agreement	They are set by counterparties	standard	On the stock exchange, prices are set by the stock exchanges/securities commission OTC market - market value
Contract size	By agreement	standard	By agreement
Delivery date	By agreement	standard	By agreement
Guarantee contribution	Not required	contribution	Depends on trust
Guarantee of execution of the agreement	Not guaranteed	Settlement chamber of the stock exchange	The exchange or clearing house guarantees

According to Article 25 of the Law of Ukraine " On Capital Markets and Organized Commodity Markets" dated February 23, 2006. - No. 3480-IV depository receipt is a registered derivative security that certifies the right of its owner to receive from the issuer of the depository receipt the income that will be received by the issuer of the depository receipt for a certain number of securities of a foreign issuer placed outside of Ukraine, the owner of which is the issuer of the depository receipt and which are the basic asset of the depository receipt, as well as the right to demand the realization by the issuer of the depository receipt of all other rights under the securities that are the basic asset of the depository receipt, including the right to manage the issuer of securities that are the basic asset of the depository receipt, according to the instructions of the holder of the depository receipt.

The basic asset of one issue of depository receipts can be securities of a foreign issuer, which provide their owner with the same rights under such securities. Derivative securities, derivative contracts and other financial instruments defined by the National Securities and Stock Market Commission cannot be the underlying asset of the depository receipt.

The issuer of depository receipts can issue them on the condition that it is the owner of securities that are the underlying asset of the depository receipts, or has the unconditional right to acquire ownership of such securities in the amount determined by the prospectus (decision on the issuance of securities) of the depository receipts, immediately after placement of depository receipts. The issuer of depository receipts is obliged, within the terms established by the National Commission for Securities and the Stock Market, in compliance with the terms of the law, to ensure the encumbrance of the underlying asset, which will result in the impossibility of alienating the underlying asset during the circulation of the depository receipts.

All income from securities that are the basic asset of a depository receipt, paid to the issuer during the period of circulation of such a depository receipt, belong to the owner of the depository receipt, unless otherwise provided by the prospectus (decision on the issue of securities) of the depository receipts. The issuer of the depository receipt is obliged to transfer such income to the holder of the depository receipt within the period established by the prospectus (decision on the issue of securities) of the depository receipts.

DRs are usually denominated in US dollars or Euros, although there are examples of shares being issued in some other countries, including Hong Kong and Japan.

Depository Receipt (English: Depository Receipt) is a document that states that the securities have been deposited in a custodian bank (custody) in the country of the issuer of shares in the name of the depository bank and entitles its owner to benefit from these securities. Excluding the difference due to changes in the exchange rate, the price of these receipts changes in accordance with the change in the price of the

underlying securities, except in cases where the participation of foreign investors is limited in the local market.

The word "depository" is related to the technology of issuing these papers. A large bank (depository) accepts a certain number of shares or debt securities (bonds, promissory notes) of a foreign issuer, deposits them (places them in storage) in one of the local banks in the country of issuance of the securities, and then issues receipts on its behalf. They indicate that the issuer's country of origin actually holds certain securities.

Historically, the appearance of depository receipts is connected with the ban of the British government on the export of shares of local companies abroad. The attempt to avoid this prohibition led to the emergence of such a mechanism as depository receipts. Depository receipts were first issued in 1927 by the American bank JP Morgan to enable Americans to invest in the shares of the British retailer Selfridge.

Depository receipts are issued with a certain ratio to the deposited securities. The value of the coefficient depends on the market price of shares on the national market and is specified in the depository agreement, which is concluded between the issuer of the underlying securities and the depository bank that issues the depository receipts.

For example, DRs of Ukrainian companies were issued in the ratio:

Centernergo PJSC | 1: 10; PJSC "Azot", Cherkasy | 1:30;

PJSC "NVO named after Frunze" | 1:20; PJSC "Zaporizhtransformator" | 1: 100

PJSC "Zaporizhstal" | 1: 50; JSC "Ukrtelecom" | 1:50

PJSC "Zhydachiv cardboard and paper mill" | 1:400

PJSC "Poltava GZK" | 1:50; PJSC "Azovstal" | 1: 10

PJSC "Dniproenergo" | 1:4; JSC "Styrol" | 1:5

PJSC "Nizhnyodniprovsky Pipe Rolling Plant" | 1:6

PJSC "Ukrnafta" | 1: 6; PJSC "Khmelnyskoblenenergo" | 1:40 a.m

Types and types of issues of depository receipts (DR)

American Depository Receipts (American Depository Receipts, ADR) are traded on major US stock exchanges and over-the-counter markets, denominated in US dollars

and governed by US law.

European Depository Receipts (European Depository Receipts, EDR) are traded on European, usually London and Luxembourg stock exchanges, denominated in euros, they are circulated through the Euroclear and Clearstream clearing systems. issued in 1999 by Citibank and the Paris Stock Exchange, denominated in euros).

Global Depository Receipts (GDR) is a depository certificate that confirms the right to shares of a foreign company and circulates on global capital markets. Examples of global depository receipts are the British "American Master Global Depositing Receipts" and "European Master Global Depository Receipts".

Types of depository receipt issuance projects . American Depository Receipts issuance projects can be guaranteed and unsponsored ("sponsored and unsponsored"). The first are conducted on the initiative and with the active participation of the foreign issuer, while the others do not require it.

Types of depository receipt issuance projects:

- on the possibility of trading on the exchange and over-the-counter markets of the USA;
- according to the rights and obligations of the issuer, the depository and the investor who bought the depository receipts;
- according to the requirements for registration of depository receipts.

Non-guaranteed drafts of the issue of American Depository Receipts

- Non-guaranteed ADRs — are not initiated and not controlled by the issuer. As a rule, they are carried out by a broker in response to the demands of investors, but can also be initiated by an investment bank. The broker acts as a market maker for the issue and works together with a US bank that, acting as a depository, issues depository receipts. The depository and the issuer jointly file an application pursuant to Rule 12g 3-2 (b)y with the US Securities and Exchange Commission requesting an exemption from the full reporting requirements (pursuant to the Securities and Exchange Act of 1934 p.).
- Since ADRs are not guaranteed, projects are exempted from full reporting. In the USA, they can be traded only on the over-the-counter market, and they can be quoted

only in the "pink pages" (a list of shares and their prices on the over-the-counter market). The only requirement of the US Securities and Exchange Commission is to provide the Commission with information published by the issuer at home. This is due to the situation when the investor requires as much information as possible about the foreign company whose shares he is going to purchase with the help of depositary receipts, because he is really taking a risk by investing his own funds.

Guaranteed projects of depositary receipts

There are several types of guaranteed ADR projects, which differ in the degree of involvement of the issuer in them and disclosure of information about himself.

Guaranteed drafts of depositary receipts of the first level. This type of project is currently the most popular among Ukrainian issuers. This is due, firstly, to the fact that it is the cheapest compared to other projects, and secondly, in the process of implementing such a project, the issuer is subject to the least requirements regarding the disclosure of information about itself. Many issuers start with these programs before moving to a more sophisticated level.

Guaranteed (listed) depositary receipts of the second level . Depositary receipts of this type are included in the listing on one or more American stock exchanges or the NASDAQ over-the-counter trading system. Form F-6 is used for project registration under the 1933 Law. Parts of such data must be in accordance with American financial reporting principles (GAAP) and Instruction S-X.

Guaranteed depositary receipts of the third level . For the purpose of increasing the company's capital, a foreign issuer may:

- a) private placement of depositary receipts under Rule 144-A with the offer of securities to qualified institutional buyers (a qualified institutional buyer is considered a legal entity that owns securities in the amount of \$100 million);
- b) public placement of depositary receipts;
- c) international (global) placement of depositary receipts with a private or public offering of securities newly issued in the USA.

Depositary receipts placed publicly may be listed on the New York Stock

Exchange, the American Stock Exchange and others

US stock exchanges. Their circulation is also possible in NASDAQ. In third-level depository receipt programs, as in other guaranteed projects, the deposit agreement is concluded after their registration with the Commission.

7.3. Characteristics of derivatives market participants

Depending on the purpose for which derivatives market participants open their positions, they are divided into three groups:

hedgers,

speculators (traders, traders)

arbitrators

A hedger is a person who insures on the futures market his financial assets or the results of transactions made on the spot market. *For example, a market participant needs to buy currency in 3 months. There is an upward trend in its exchange rate, so the exchange rate that will be established in three months is unknown. The futures market offers the hedger a number of tools that allow him to fix the exchange rate of the currency that he will buy only 3 months later.*

A speculator is a person who tries to make a profit at the expense of price changes in the futures market. A speculator buys (sells) futures contracts in order to sell (buy) them at a more attractive price in the future. So, if the price of the contract on the futures market rises, then the speculator will try to open a long position, and then close it by conducting an offset agreement, winning on the difference in the prices of futures contracts. If, as a result, the speculator is able to bear additional risk for receiving income, then the hedger is willing to pay for reducing the risk of possible losses.

An arbitrageur is a person who makes a profit by simultaneously buying and selling the same asset in different markets. The arbitrageur's income arises if there is a price difference or a parity relationship is violated in these markets. The basis for arbitration may arise out of the blue. After it, the difference in prices is equalized and

the violation of parity relations is eliminated. At the same time, the basis for conducting arbitration agreements disappears.

If a hedger and a speculator change their risk when conducting transactions (hedgers reduce, speculators increase), then arbitrage operations are not associated with risk

An offset agreement is an agreement with the opposite content to a futures **agreement** to liquidate a position by transferring obligations under a futures **agreement** to another person. The seller must buy and the buyer must sell the contract.

7.4. The influence of derivative financial instruments on the development of the financial crisis in the USA

The number of banks and other financial organizations that offered loans for the purchase of housing in the United States increased sharply. Profitability was low, because the lending rate for the final borrower was slightly higher than the cost of borrowed resources for the creditor bank, so banks were forced to increase sales volumes. In pursuit of sales volumes, some banks and their agents took an aggressive position in the market. Sub-prime lending (issuance of loans to persons with low incomes and credit ratings) developed. Bank capital is tied up, which could be used to invest in more profitable instruments, since mortgage lending requires banks to reserve a certain (increased) amount sufficient to cover expected losses. Banks have invented a way to eliminate this type of loans from their balance sheets by moving mortgage loans to the balance sheets of companies specially created for these purposes, the so-called SPV (special purpose vehicle). SPVs were financed by issuing bonds bought by other banks - ABS (assets based securities). *The SPV concept consisted in isolating the bond issuer from the creditor bank, "protecting" it from risks.*

A variety of ABS is MBS (mortgage backed securities) - bonds that are intended exclusively for mortgage lending by banks. They are used to remove (transfer) housing loans from the balance sheets of creditor banks and transfer the risks of non-repayment of loans to bondholders. Thus, the possible non-return of housing loans ceases to be the bank's business, and the losses related to this will be borne not by the banks, but by

bondholders. These instruments were rated by rating agencies as speculative or subprime - they are less liquid compared to investment-grade bonds, which makes them difficult to sell. MBS were bought to other banks and to such specific investors as pension funds, insurance and hedge funds. To increase the ratings of these bonds and improve the situation with the involvement of a wider range of investors, an instrument was created - ABS-CDO bonds (collateralized debt obligation). A distinctive feature of these papers was a special - trench repayment mechanism. Each tranche had a different order of repayment. Tranches that had to be paid at the end were considered more unreliable and therefore had a low rating. This made it possible to rank bonds according to their risk status. Banks got rid of the problem of reserving large amounts of funds. The liquidity of banks has increased.

CDOs assumed credit risks. New derivative instruments such as CDS (credit default swap) were used to insure them. Created in 1994 by JPMorgan. CDS is an instrument of financial insurance in case of default of banks and corporations on obligations. This is a contract under which one party, for a fee, undertakes to replace the other party in the event of non-fulfilment of a specified obligation. Lending mechanism: the CDS seller (insurance company, bank) undertakes to accept the issued swap at par in the event of default by the primary borrower. For this, the swap issuer receives regular premiums in the set amount - the CDS spread. Considering CDS as a regular bond, it is possible to determine the prices of CDS forwards and options.

Investors took into account sufficiently optimistic values of volatility and recovery coefficients. In practice, after the real estate crisis, everything turned the other way around. Traders and brokers expanded the volume of turnover of these instruments beyond the level necessary for hedging. Bank traders sold "credit risk" not once, but several times. They sold not only to stable and reliable professional banks and insurance companies, but also to brokers and hedge funds. Traders then sold the CDS derivative products mentioned above. These derivatives were not even close to the original loans. They were linked, and evaluated, through subjective indices of credit quality. Thus, the credit risk of the system has increased significantly. Instead of credit

risk for a loan of 10 million dollars. Ten sold risks for the same \$10 million loan were now circulating in the economy.

The newly created CDO instruments transferred real estate market risks and banking risks to the stock market. The CDS instrument, created for hedging credit risks, lost its primary importance and turned into a speculative instrument. Risk liabilities were excessively "inflated". 3. The mechanism of using default swaps does not reduce the risk, but transfers it from one market subject to another. Experts' assessments did not take into account crisis situations, the most optimistic forecasts were used. The lack of regulation of CDS made it impossible to realistically assess the state of the market of this derivative instrument, identify risks and take adequate measures. Many holders of CDS bonds had to write off the real value of their portfolios of these instruments in view of the economic situation that developed in connection with the real estate crisis. This led to massive bankruptcies of hedge funds and insurance companies.

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. Reveal the essence of derivative securities.
2. What functions do derivative securities perform?
3. To reveal the features of the main survivals of derivative securities.
4. What factors affect the initial margin under a futures contract?
5. What are the requirements for the issuer when issuing depository receipts?
6. Do Ukrainian enterprises have experience in issuing depository receipts?
7. What types of depository receipts are issued? How are they different?
8. Describe the various participants in the derivatives market.
9. How did derivatives contribute to the financial crisis?

Task 7.1. Prepare for the discussion:

- A) "The impact of derivatives markets on the economic growth of countries"
- B) Risks of using derivatives

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Topic 8. CAPITAL MANAGEMENT STRATEGIES

8.1. Fundamental and technical analysis of investment instruments

8.2. Theories of portfolio investment. The concept of a diversified investment portfolio.

8.3. Classification and management of the investment portfolio

8.4. Investment strategies

Basic concepts: profitability, risk, risk-free assets, diversification, types of investment portfolios, type of investor, investment goals, technical and fundamental analysis, strategies, investment portfolio management

1. Fundamental and technical analysis of investment instruments

Fundamental analysis is a method used by investors and traders to determine the intrinsic value of assets or businesses. It can be done from the bottom up and vice versa:

From bottom to top:

- company profit,
- balances,
- financial statements
- cash flow,
- competitors
- demography
- cost of capital
- inflation

Analysis of the company's business model includes:

- Sources of company income. American companies file a 10K, where they describe in detail where all of their income comes from. For example, Google generates 97% of its revenue through advertising.
- Geography of the company's activities: prohibition and restrictions on the activities of this company in the country, microenvironment in the country.

- The company's clients. The company focuses on small and medium-sized businesses or large enterprises. Shopify focuses on small and medium-sized businesses, while BigCommerce, which went public in August 2020, has large enterprises as its main revenue stream in its strategy.
- The value of the company's product. For example, during the quarantine, many small and medium-sized businesses went online, so the demand for the services of companies such as Fiverr, a platform for finding designers who create websites, increased.
- Attracting customers: direct sales or referral system; the level of customer churn and retention, the cost of attracting customers to the company.

Industry analysis. It is important to understand in which sector and in which industry the company operates. For example, the technological sector, the software industry. It is necessary to determine the size of the market and the growth rate of the industry. The AI-based software industry will grow at a CAGR of 41% through 2025. It is possible to draw conclusions about the behavior of the company on the market for the next 3-5 years.

It is necessary to determine the competitive advantages of the company in the market: patents, licenses, regulatory permits, access to valuable assets.

Operational and financial condition of the company:

- The general trend of the company's income. Analysis of cash flows.
- Debt load analysis. Generally, companies with a Net Debt/EBITDA ratio above 3 are not considered for analysis, as this indicates that the company cannot effectively manage its debt.
- Revenue prospects: growth in the number of customers, average revenue per customer, etc.

Company management . A strong leader is important for the success of the company. It is worth analyzing information about previous experience, in which industries he worked, what success was in previous positions, whether the company's management buys shares of its company, that is, whether it believes in the success of its business.

Mergers and acquisitions of companies. It is important to analyze the company's historical mergers and acquisitions, whether they were successful, whether the company is open to new acquisitions, what revenues this or that transaction brought to the company. Based on this analysis, you can formulate specific investment ideas for the company and determine what will be the trigger for future growth.

The ultimate goal of the analysis:

- Get the expected price of a stock and compare it with the current price.
- If the number is higher than the current price, it can be concluded that the company is undervalued.
- If it is lower than the market price, it can be assumed that the company is currently overvalued.
- Armed with the data from your analysis, you can make informed decisions about whether to buy or sell that particular company's stock.

Fundamental analysis and technical analysis differ in methodology

- **The efficient market hypothesis (EMH)** is an economic theory that assumes that financial markets reflect all available information about asset prices at any point in time.
- Developed by economist Eugene Fama in the 1960s, the theory states that it is nearly impossible for investors to outperform the market over the long term.
- Assets will be valued at their fair value because all known information will be traded until it is no longer useful.

Levels of available information:

- **Weak** - current prices take into account all historical data and therefore technical analysis is irrelevant. However, it leaves out other types of information and does not challenge the notion that techniques such as fundamental analysis or large-scale research can be used to gain an advantage.

- ***Half-strength form*** assumes that all public information is already included in the price (news, company statements, etc.) . Thus, proponents of this field believe that even fundamental analysis cannot provide any advantage. The only way to gain an edge over the market is to use private information that is not yet publicly known.
- ***Strong the form*** states that all public and private information is reflected in the asset's price – in addition to historical performance and publicly available information, any data available to insiders will also be used. This form states that any market participant cannot gain an advantage with any information because the market has already taken it into account.

Technical analysis (TA) is a type of analysis whose purpose is to predict future market behavior based on data on previous prices and volumes.

Unlike fundamental analysis (FA), which considers several factors surrounding an asset's price, TA is strictly focused on historical price movements. Therefore, it is used as a tool to study an asset's price movements and volume data, and many traders use it in an attempt to identify trends and favorable trading opportunities.

The first forms of technical analysis appeared in Amsterdam in the 17th century and Japan in the 18th century. Financial journalist and founder of The Wall Street Journal, Charles Dow, was one of the first to notice that individual assets and markets often move in trends that can be segmented and investigated. Later, his work gave rise to the Dow theory, which contributed to the further development of technical analysis.

In the early stages, the rudimentary approach of technical analysis was based on hand-made spreadsheets and manual calculations, but with the development of technology and modern computing facilities, TA has become widespread and is now an essential tool for many investors and traders.

Fundamental analysis (FA) uses a broader research strategy that pays more attention to qualitative factors. It is a method used to estimate the intrinsic value of a company, business or asset based on a wide range of micro and macroeconomic

conditions, such as company governance and reputation, market competition, growth rates and the state of the industry.

TA, which is mainly used as a tool for predicting price action and market behavior, FA is a method of determining whether an asset is overvalued or not, according to its context and potential.

While technical analysis is mainly used by short-term traders, fundamental analysis is generally preferred by fund managers and long-term investors.

One notable advantage of technical analysis is that it relies on quantitative data. As such, it provides a framework for an objective study of price history, removing some of the guesswork associated with a more qualitative approach to fundamental analysis.

Charles Dow, who was the first to discover *technical analysis of the market*, was firmly convinced that any dynamics of the price of an asset clearly follows trends and has its own explanations. And if you analyze supply and demand indicators, past events and future forecasts, price behavior can be predicted. To achieve the maximum accuracy of forecasts, *traders* are helped by indicators of technical analysis, many of which have appeared during the development of financial markets.

The volume indicator is a tool *of technical analysis of the market*, which allows you to track the number of deals concluded by *traders* in a certain time interval (Fig. 8.1.). The green and red bars on the graph above are indicators of the volume of transactions: red ones signal a decrease in volume, green - its increase. By analyzing the volume of transactions against the background of the price movement graph, you can confirm the strength of the trend or reveal its weakness and predict a price reversal. If prices rise and trading volume increases, a bullish trend is taking place. An increase in the volume of trades in case of a decrease in prices indicates a bearish trend.

Volume



Rice. 8.1. Volume indicator

Features of the volume indicator:

- the volume indicator has a tendency to sharp jumps, which can sometimes distort the real situation on the market;
- the higher the volume of the number of concluded deals, the higher the exchange rate dynamics;
- a confident trend is confirmed by a unidirectional increase in volume and price;
- if prices are rising - assets should be bought, prices are falling - sell;
- a decrease in volume may signal a trend reversal.

The Zigzag indicator can be used to filter for small price movements (Fig. 8.2.). For this, you can set the percentage deviation. The indicator draws a line only if the relative price movement is greater than the set deviation, thereby providing precision to the chart, eliminating market noise and ignoring lateral movements. Traders can use the indicator on its own to reflect the current trend, or in conjunction with other analysis techniques.

Zigzag



Rice. 8.2. Zigzag indicator

Each upward segment is followed by a downward segment, etc. The ZigZag indicator is similar to a moving average: they both signal a change in trend when the indicator reverses direction. Used alone or in combination with other methods, the ZigZag indicator is a useful tool for the technical trader's set. The advantage of the indicator is that it eliminates noise that can distort the forecast of trend behavior. Small fluctuations are simply not taken into account: the lines connect the higher and lower points of the price chart directly. Zigzag shows global market movements, but at the same time, it only records these changes in the past, without giving predictions for price behavior in the future.

Relative strength index (RSI) , or the index of relative strength, shows the greatest efficiency in conditions of a lateral trend (Fig. 8.3.). With active rate dynamics, *RSI* may give incorrect data. Such indicators of technical analysis are called oscillators, and they should be used with caution.

RSI (Relative Strength Index)



Rice. 8.3. Relative strength indicator (*RSI*)

J. Welles Wilder, an American mechanical engineer and real estate developer, introduced the Relative Strength Index (RSI) in his groundbreaking 1978 book, *New Concepts in Technical Trading Systems*. The Dealer's intent was to provide technical analysis tools for various financial markets, including stocks, commodities and currencies. His innovative contributions to the field of technical analysis also include other popular tools such as:

- Average True Range (ATR)
- Directional Movement Index (DMI)
- Parabolic SPR (stop and reverse)
- Average Convergence (MACD)

Algorithms of the indicator analyze price changes and make it possible to assess the degree of overvaluation or undervaluation of one or another asset and, therefore, predict the emergence of a bullish or bearish trend. Externally, *the RSI* is a broken line with values between 0 and 100. When using the Relative Strength Index (RSI), a low RSI below 30 usually indicates an oversold or undervalued position, creating a

potential buy signal. Meanwhile, a high RSI above 70 indicates that the stock is overvalued and could generate a potential sell signal. The "Moving averages" indicator function analyzes the averaged prices for the selected time interval. The chart is overlaid on top of the current price movement chart, giving a relative view of overall price trends. If the actual price of a security remains above the moving average for a long time, it can be assumed that it will continue to grow. Accordingly, a drop below the sliding line is a signal to lower the price of the asset. For more accurate forecasts, it is desirable to use several moving averages based on different time intervals. At the same time, in case of discrepancies, the value of the average, based on a longer period of time, is considered to be true. If the signals from several moving averages coincide, we can talk about a fairly accurate forecast.

8.2. Theories of portfolio investment. The concept of a diversified investment portfolio

The modern theory of international portfolio investment is based on the provisions and postulates of the investment theory and has a number of unique scientific provisions, conclusions and concepts that distinguish it from the traditional investment theory. For example, one of the fundamental foundations of the theory of international portfolio investment is the portfolio theory, which equally applies to investment processes in local markets. The theory of purchasing power parity, the international Fisher effect, etc., are inherent exclusively to international investment processes.

Markowitz Harry-Max Member of the American Academy of Arts and Sciences, professor emeritus of New York University. The winner of the Nobel Prize (1990) in the article "Choosing a portfolio"¹ proposed a mathematical model of the formation of an optimal portfolio of securities and methods of building such portfolios under certain conditions.

Markowitz formalized the concepts of yield and risk on the basis of probability distribution: *the expected yield of a portfolio of securities is defined as the average*

value of the probability distribution, and risk is defined as the standard deviation of possible yield values from the expected value . And thereby showed how investors can reduce the standard deviation of portfolio returns by choosing stocks whose prices change differently.

Markowitz's approach is in line with microeconomic analysis, as it emphasizes the behavior of an individual investor who forms an optimal, from his point of view, portfolio based on his own assessment of the return and risk of selected assets. Markowitz's model was mainly concerned with a portfolio of shares, i.e. risky assets.

James Tobin, president of the Econometric Society, president of the American economic association , the Nobel Prize Laureate (1981) proposed to include in the analysis risk-free assets, for example, government bonds (macroeconomic approach). In J. Tobin's approach, the main topic is the analysis of factors that encourage investors to form portfolios of assets, rather than keeping capital in any one form, such as cash.

Sharp William-Forsis, president of the American Financial Association, professor emeritus of Stanford University, developing the approach of H.-M. Markowitz, Sharp divided the theory of the portfolio of securities into two parts: systematic (or market) risk for the stock asset and unsystematic.

For an ordinary share, systematic risk is always associated with changes in the value of securities that circulate on the market (the yield of one share constantly fluctuates around the average yield of the entire asset of securities).

Unsystematic risk is associated with the influence of all other factors specific to the corporation that issues securities.

Having determined the special reaction coefficients of share or bond prices to changes in market conditions ("alpha" and "beta"), V.F. Sharp developed a formula for calculating the comparative degree of risk of securities based on the "line of efficiency of the debt capital market". *His scientific contribution to portfolio theory is succinctly formulated in the following principles:*

1. Investors prefer a high expected return on investment and a low standard deviation. Portfolios of common stocks that provide the highest expected return within a certain standard deviation are called efficient portfolios.

2. To determine the marginal impact of a stock on portfolio risk, it is necessary to take into account not the risk of the stock itself, but its contribution to the portfolio risk. This contribution depends on the sensitivity of the stock to changes in the value of the portfolio.

3. The sensitivity of the share to changes in the value of the market portfolio is denoted by the "beta" indicator. Therefore, "beta" also measures the share's contribution to the risk of the market portfolio.

4. If investors can borrow or lend at a risk-free interest rate, then they should always have a combination of risk-free investments and a portfolio of common stocks. The composition of such a stock portfolio depends only on how the investor evaluates the prospects of each stock, and not on its relation to risk. If investors do not have any additional information, then they should hold the same stock portfolio as others, that is, the market portfolio of securities.

The concept of a diversified investment portfolio provides for the distribution of available capital among various assets in order to reduce risk: the probability that all of them will be affected by adverse economic factors at the same time is extremely low

Reasons for diversification:

- at each individual moment of time, each of the investment assets is at its stage of the life cycle, so each has its own financial result;
- all types of investment assets are differently affected by general economic events and trends. The cost of the most important resources, the rate of inflation, the level of unemployment and other factors have both direct and indirect influence on investment assets, but the degree of this influence will differ significantly;
- the aggregate level of risk that an investor faces when building a diversified portfolio is significantly lower than the level of risk that occurs when working with each type of asset separately.

Diversification rules:

- Reduce the overall risk, which is the complexity of managing a diversified portfolio, taking into account your tasks and goals,

- Invest money in various types of assets and sectors of the economy,
- Work according to the plan
- Be sure to test the results.

The main principles of investment portfolio formation are:

- security balance;
- stable income growth;
- high liquidity of the investment portfolio;
- the implementation of previous investment decisions should contribute to both the successful implementation of subsequent ones and the influx of new investment proposals.

Investment risk characterizes the probability of unexpected financial costs in a situation of uncertain investment conditions. Investment risks are classified according to the following characteristics:

by detection areas: economic; political (related to administrative restrictions); social (strikes, unplanned social costs); environmental (storms, flooding, etc.); other types (kidnapping, partner fraud);

by forms of investment : real investment (inconvenient location of the object, interruptions in the supply of equipment, increase in prices for investment goods, unqualified contractor); financial investment (improper selection of financial instruments, deception of investors, etc.);

by sources of occurrence : systematic (market) - occurs for all participants in investment activity and for all forms of investment. Such a risk can be caused by a change in the stage of the economic cycle, significant changes in tax legislation in the field of investments, and other factors that the investor cannot influence when choosing an object; unsystematic, which arises for individual forms and types of investment activity.

The following levels of investment risk assessment are distinguished:

- risk-free investments are usually government loan bonds;
- investments with a level of acceptable risk. There is a possibility of losing the entire amount of estimated net profit for the investment project under consideration;

- investments with a level of critical risk, when there is a possibility of losing not only profit, but also the entire amount of estimated gross income under the investment project;
- investments with a level of catastrophic risk, when there is a possibility that the investor will lose all assets as a result of bankruptcy.

8.3. Investment portfolio management

Passive investment portfolio management involves creating a diversified portfolio with a certain level of risk. Such a portfolio is designed to exist in an unchanged state for a long time. One of the methods of passive portfolio management is the index fund method. An index fund is a portfolio that reflects the movement of a selected stock index that characterizes the state of the entire securities market. An index portfolio will reflect the movement of the market if the shares of securities in the portfolio correspond to the weight of each security when calculating the index. It is obvious that the largest shares in the index fund will belong to "blue chips", which have the highest turnover on the stock exchange.

Active portfolio management involves tracking and immediate acquisition of instruments that meet the portfolio's investment goals, as well as rapid changes in the composition of stock instruments included in it.

Discretionary portfolio management means that the investment manager makes all investment decisions on behalf of the client. The client authorizes the manager to buy, sell and select securities at its discretion to achieve the objectives of the account. Unlike non-discretionary management, the client does not approve every deal, but instead gives full autonomy to the manager. Discretionary management is common for institutional investors and high net worth individuals seeking specialized expertise in portfolio construction.

Non-discretionary portfolio management means that the client retains control over investment decisions instead of the manager. The manager makes

recommendations on deals and asset allocation, but requires approval from the client before any transactions are executed. This allows the client to retain oversight and veto power over all buy and sell orders in the account. Non-discretionary management is common among individual investors who want advisory services while retaining full authority over portfolio decisions.

The complexity of the task of forming an investment portfolio lies in the desire to maximize the expected return on investment at a certain level of risk acceptable to the investor. Since an infinite number of portfolios can be created from available market instruments, the investor is interested only in efficient portfolios, each of which:

- Provides the maximum expected return for a certain level of risk;
- Provides minimum risk for some value of expected return.

With this variety, the investor will choose the optimal portfolio that corresponds to his investment strategy and attitude to risk.

Portfolio planning is the process of developing a strategy for building an investment portfolio. An investment portfolio should encompass the investor's risk tolerance , investment time horizon, and portfolio's expected return. Investment managers can develop an understanding of an investor's risk tolerance through a written investment policy statement. Many investors have restrictions on the types of securities they can hold in their portfolios – such as real estate investment trusts, corporations and qualified investment accounts.

Typical aspects addressed in an investment policy statement are:

1. *Description of the client* : a brief description of the client's investment goals and individual circumstances;
2. *Purpose*: statement with reference to the reason for the investment policy statement;
3. *Duties and responsibilities* : a statement on the division of duties and responsibilities between the investment manager, the asset custodian and the client;
4. *Procedures*: clearly documented procedures for updating investment policy statements and responding to special circumstances;

5. *Investment objectives*: the client's expected compensation for accepting market risk;
6. *Investment restrictions*: restrictions to which investments are subject;
7. *Investment Guidelines* : Documented guidelines that clearly indicate how the policy is executed, limited asset types and leverage used;
8. *Evaluation of performance* : reference portfolio for evaluation of investment performance and other information on evaluation of investment results;
9. *Appendices* : Appendices must contain information on the basic asset allocation and any permitted deviations from the portfolio allocation and on portfolio rebalancing.

Investment restrictions include the following:

1. *Liquidity* is the ability to quickly convert investment assets into cash without a price discount. Thus, liquidity is a trade-off between the speed at which an asset can be sold and the price at which that asset is sold.

2. *The time horizon* is the desired duration of the investment in terms of time. As a rule, the longer the investor's time horizon, the more illiquid investment assets the investor will choose. For example, if an investor chooses a short time horizon of one year, he will prefer investing in short-term liquid securities such as certificates of deposit .

3. *Tax situation*, since different investment accounts require a separate tax regime; therefore, it directly affects portfolio formation. Assuming an investor does not use a tax-sheltered account, his decision may be influenced by the tax treatment of his investments. Depending on the investment asset, the investor may be subject to capital gains tax or income tax. Some accounts may be tax-sheltered or exempt, and investors tend to invest in securities that generate fully taxable income in these accounts because there is a greater difference in tax benefits compared to more favorable capital gains tax rates.

4. *Regulatory restrictions* . Investors are subject to standard financial market rules, as well as additional regulation for certain types of investors. Some investors are restricted in their permitted investments. For example, a few restrictions investors face:

- Real Estate Investment Trusts (REITs)
- Corporations
- Qualified investment accounts

5. *Circumstances*. Individual and institutional investors may adopt their own set of preferences regarding the types of assets held. For example, religious or ethical preferences can influence investment choices. ESG factors are becoming increasingly important for investors. The circumstances of portfolio formation can vary from personal preferences to macroeconomic conditions.

6. *Strategic asset allocation* is the percentage of the investment portfolio allocated to a certain asset class. Successful strategic asset allocation is supported by two main factors: (1) high correlation between securities of the same asset class and (2) low correlation between asset classes. This allows the investor to reduce risk through portfolio diversification.

After the portfolio manager determines which potential asset classes are appropriate for the investor's risk profile and expected return, the portfolio must determine the correlation of each asset class. Armed with this information, the portfolio manager can construct an efficient frontier and then determine which portfolio best meets the investor's risk and return requirements.

Investment horizon is a term used to define the length of time an investor seeks to maintain their portfolio before selling their securities at a profit. An individual's investment horizon depends on several different factors. However, the main determining factor is often the investor's risk tolerance .

Investment horizons are a critical part of portfolio investing because they help determine the amount of time an investor will hold their investments to compensate for the risks they take on investing.

Investors in the early stages of investing are more likely to have a long-term investment perspective. This is simply because they have more time to make a profit on their investment or recover the losses incurred during the risk. For the same reason,

they are also more inclined to make riskier investments with the potential for higher returns in the future.

Experienced or older investors are more likely to use a shorter time horizon because they have less time to generate profits.

Types of investment horizons

1. Short-term investment horizon

Suitable for risk-averse investors or those who need access to a significant amount of cash in the near future. A short investment horizon usually does not exceed three years. For these risk-averse investors, it's best to hold secured assets or securities, such as high-interest savings accounts and certificates of deposit .

2. Medium-term investment horizon

Investors who are less risk-averse and not looking for cash for retirement or a large purchase are better suited for a medium-term investment horizon. This usually means a period of three to ten years. Investors with this type of investment horizon are somewhere in between low and high risk, meaning a conservative and diversified portfolio that combines investments in stocks and bonds is best . The ratio of stocks and bonds should be determined by the specific desires and needs of a person.

3. Long-term investment horizon

For investors who are willing to take a high level of risk for a high reward and have time to wait for a payoff or recoup losses after a risky effort, long-term investment horizons are often the way to go. In most cases, a long-term investor's portfolio includes a significant amount of risky investments with potentially high returns. Then the rest of the portfolio should be a mix of stocks and bonds, with the ratio leaning more towards stocks. Each investor must determine the level of risk they are willing and able to accept and how much time they can devote to maintaining their portfolio before accessing their profits. These key elements affect an investor's investment horizon, which ultimately affects what he fills his investment portfolio with.

Classification of investment portfolios

Types of investment portfolios	
<p>By investment purpose:</p> <ul style="list-style-type: none"> - Earning income - Conservation of capital - Capital gain - Provision of reserves - Ensuring liquidity - Expansion of the sphere of influence - Privatization - Speculation 	<p>By type:</p> <ul style="list-style-type: none"> - Portfolio of profitability - Growth portfolio - Venture portfolio - Balanced portfolio - Guarantee portfolio - Unbalanced portfolio - A portfolio that requires diversification
<p>By type:</p> <ul style="list-style-type: none"> - Portfolio of securities - Portfolio of real investments - Deposit portfolio - Mortgage portfolio - Credit portfolio - Combined portfolio 	<p>By risk level:</p> <ul style="list-style-type: none"> - Conservative - Moderately aggressive - Aggressive - Irrational
<p>By term:</p> <ul style="list-style-type: none"> - Short-term - Medium term - Long-term 	<p>By specialization:</p> <ul style="list-style-type: none"> - Sectoral - Regional - Foreign investments

Types of investment portfolio depending on the nature of the investor

Conservative: reliable, but brings little income	
Type of investor	Conservative investor (values investment reliability above profitability)
Investment goals	Achieving profitability higher than on bank deposits, protection against inflation
Degree of risk	low
Type of securities	government securities, shares and bonds of large and stable companies

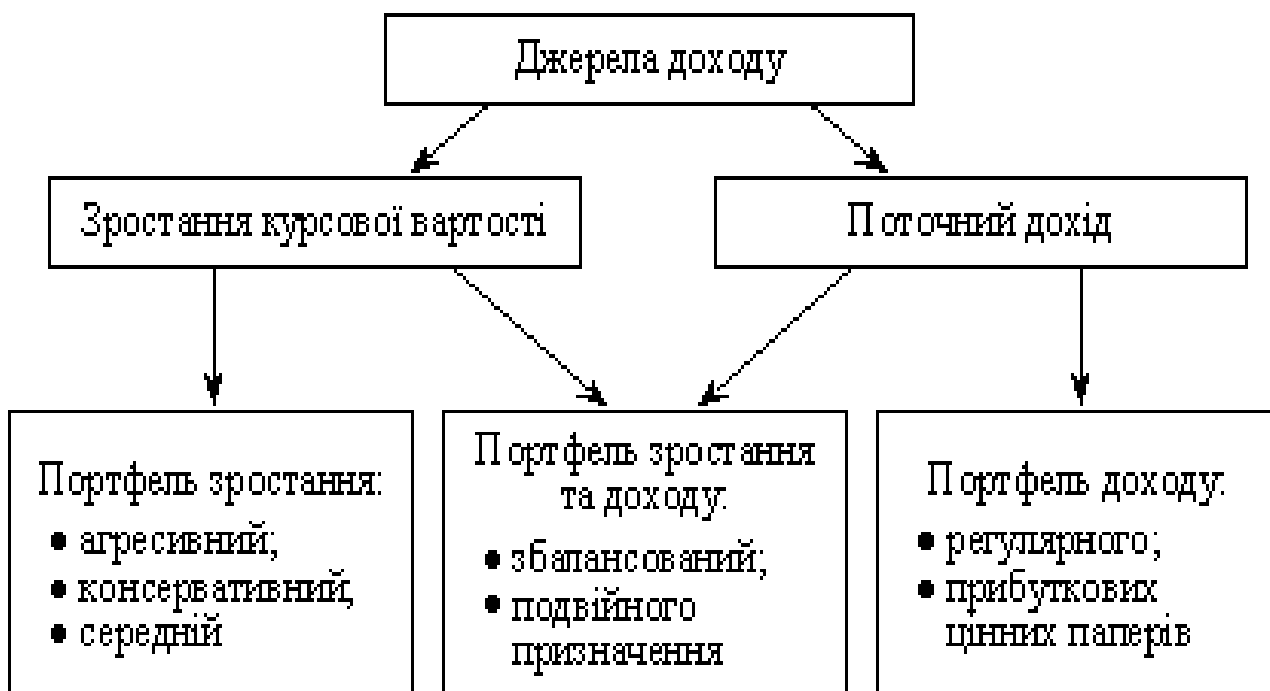
Conservative: reliable, but brings little income	
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Degree of risk	low
Type of securities	government securities, shares and bonds of large and stable companies

Aggressive (risky, but able to bring large profits)	
Type of investor	Aggressive investor (classic speculator, ready to take risks for high returns, quick to make decisions)
Investment goals	Rapid growth of invested funds
Degree of risk	High
Type of securities	Highly profitable, "undervalued" shares of small but promising companies, venture capital companies, etc.

A sign of the classification of the types of securities portfolios can also be the source of the received income: an increase in the exchange rate or current income — interest or dividend payments (Fig. 8.1.)

—The growth portfolio is focused on the growth of own capital value together with the receipt of dividends. It is formed from securities whose exchange value is increasing.

—The portfolio of aggressive growth (aggressive portfolio) is aimed at maximum capital growth. This portfolio is quite risky but highly profitable. It consists exclusively of those securities whose exchange value is expected to increase.



Rice. 8.1. Classification of investment portfolios by sources of income

—A conservative growth portfolio aims to preserve capital. It is the least risky and consists of securities of well-known companies, which are characterized by low, but stable growth rates of the exchange rate value. The composition of such a portfolio remains unchanged for a considerable period of time.

—A mid-growth portfolio aims for capital growth with a moderate degree of investment risk. It represents a combination of investment qualities of aggressive and conservative portfolios. At the same time, reliability is determined by securities of conservative growth, and profitability by securities of aggressive growth.

—The income portfolio is focused on obtaining a high level of current income — interest and dividend payments. It is formed from securities characterized by a moderate increase in the exchange rate and a high level of current payments.

—The portfolio of regular income is formed from high-quality securities and brings an average income under the conditions of a minimum level of risk.

—A portfolio of income securities consists of securities that bring high income under the conditions of an average level of risk.

—The growth and income portfolio is formed in order to avoid possible losses in the stock market, both from falling exchange rates and from low current payments.

- A balanced portfolio contains a certain proportion of securities whose exchange value is increasing and high-yielding securities. Here, a balance of both income and risks is assumed.
- A dual-purpose portfolio consists of securities that bring its owner a high level of income with the growth of invested capital. There are two types of shares issued by dual purpose investment funds: the first type of shares brings high income, the second - capital gains.

8.4. Investment strategies

An investment strategy is an investor's drawn-up plan for managing his investment projects, that is, allocating money for buying and selling assets in order to generate income. Such actions are based on personal goals, risk tolerance and future need for money. Lack of a clear plan can lead to mediocre results and disappointment in the stock market. The advantage of strategic investing is its flexibility. If the strategy is not acceptable, then it should be adjusted or changed.

Types of investment strategies

An aggressive investment plan provides for income only at the level of 45-50% per annum and more. Sometimes with such a strategy it can reach 100 and even 300%. An example of such an investment tool is undervalued shares of small-cap companies. But it is worth understanding that the risk of losing money in this case often reaches 90–100%.

moderate investment strategy is chosen by investors who expect a more reasonable profit (at the level of 20-40% per annum). The risk with such an investment of money is, of course, not so high, but still the probability is high. Proponents of a moderate strategy choose securities of reliable companies and investment funds.

Investors who choose conservative investment strategies in the stock market receive *the lowest profit (10–20% per annum)*. They involve investing in reliable assets, which include government bonds, precious metals, and dividend trading.

Investment strategies differ depending on the instrument chosen. By investing in shares, you can wait for dividend payments or earn from an increase in their value, that is, make financial speculations.

Following the strategy of investing in bonds, for example, in government bonds, the investor simply waits for the coupon payments. When buying risky corporate securities, there is a high probability of losing money. By investing in currency, you can get a small income for many years. But in case of economic or political crises, earnings will be significant. Cryptocurrency is characterized by high volatility. It can grow strongly and fall sharply, so it is not worth investing more than 10-20% of your capital in it.

Depending on the term of implementation, the following investment strategies are distinguished:

1. *Short-term*. Funds are invested for a period of up to a year, choosing various investment instruments (shares, bonds, precious metals, investment certificates). During this time, you can not only save your funds from inflation, but also earn a profit (3-20% per annum). The selected instruments should have good liquidity.
2. *Long-term* Money in this case is invested for a period of one year to 20-30 years. Here it is important to choose a reliable issuing company. Long-term investment strategies in stocks or bonds promise great returns of 20-30% per annum.

When investing money, you can choose one of two positions:

passive The investor forms and holds a diversified portfolio of securities. He tries to increase their profitability by acquiring the most profitable assets separately. By buying

the securities of the largest and most reliable companies, you can get an income that is comparable to the return of the index.

Active If an investor wants to make a big profit, he is interested in the trends of the stock market, looks for undervalued securities and buys them, trying to calculate the optimal time to buy assets. The investment portfolio in this case is formed very carefully. It includes only those securities whose prices, according to the investor, should increase.

It is necessary to choose a strategy taking into account the set goal. Provided that the investor has enough knowledge, experience and time, he can work in the stock market independently. Otherwise, it is better to enlist the support of a management company. Each strategy has its pros and cons. Thus, self-management involves the minimization of costs associated with capital investments. The investor makes his own decisions, but he will need more time to analyze the securities.

Using the services of a management company, you can get professional analytics and qualified operations with assets. There is a possibility of wide diversification with small investments. But the broker charges a commission for such services.

Parameters of investment strategies on the stock market:

1. Riskiness — the probability of losing part or all of the capital. Diversification of financial risks will help here. Its elements should be present in any investment strategy.
1. The time horizon is the term for which assets are purchased. So, for long-term investment, the strategy is more often passive, and for short-term — active.

International investment strategies for real and financial investments

Real investments		Financial investments	
Support	Support at a given level of technical production level aimed at simple reproduction	Conservative	Focused on investment security
Extensive	Expansion of production, but without significant updating of the technical level of production and improvement of product innovation	Moderately aggressive	Ensuring defined and specified security of investments
Intense	Comprehensive support for innovative activities, fundamental renewal of products and improvement of their quality and design	Aggressive	Ensuring the profitability of investments is not below a certain level

TASKS FOR INDEPENDENT WORK

Questions for self-control:

1. What is the essence of fundamental and technical analysis of securities? What is the difference between them?
2. What indicators are used in technical analysis? How can they be interpreted?
3. Who started the technical analysis of securities? What else is this person known for?
4. What theories of portfolio investment do you know? What common and different postulates do they have?
5. Justify the principles of investment portfolio formation.
6. What is the value of the concept of a diversified investment portfolio?
7. How are investment risks classified?

8. Justify the main approaches to managing an investment portfolio.
9. What elements does the investment policy cover?
10. How investment portfolios differ depending on the nature of the investor.

Task. 8.1.

The National Strategy for Increasing Foreign Direct Investment in Ukraine was developed at the request of the Government of Ukraine with the support of the USAID Program "Competitive Economy of Ukraine" by EY in Ukraine in cooperation with the Office of the National Investment Council, the Ministry of Economy of Ukraine and the Office for Attracting and Supporting Investments Ukraine Invest.

The strategy provides recommendations on the development of promising industries for attracting investments and ways to increase the inflow of foreign direct investment to Ukraine. The document was created primarily for the international investment community and Ukrainian institutions whose activities are focused on attracting investments.

The strategy is built around cross-sectoral (privatization, export promotion, education, digital transformation, etc.) and sectoral incentives to increase foreign investment. The strategy contains specific recommendations on how to make the country more attractive to potential foreign investors - both from the point of view of relocation of production facilities and from the point of view of starting operations in Ukraine.

The strategy is divided into 3 sections: a macro view of the state of affairs regarding FDI, sectoral analytical documents and the directly proposed Action Plan and Vision until 2030.

Get acquainted with the main provisions of the strategy <https://ukraineinvest.gov.ua/fdi-strategy/> and prepare for the discussion:

Will this strategy work during the post-war reconstruction of Ukraine?

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