STATE REGULATION OF PENSION ASSETS INTERNATIONAL INVESTING

Annotation. The goal of this article is to clarify the role of government regulation in international investment asset of accumulating pension funds. The main purpose of state regulation of pension assets international investment is to protect the interests of accumulating pension funds to preserve the value of pension savings. The subject of state regulation of pension assets international investment is the National Commission for the State Regulation of Financial Services Markets. There are the legal, administrative and economic forms of state regulation of international investment of pension assets. Government regulation of pension assets international investment require the additional risks of investing pension assets in international financial markets, which can provide effective balance between benefits and costs for pension funds participants and for state.

In the article it is studied the experience of state regulation of assets mandatory funded pension funds international investment in EU countries of Central and Eastern Europe. Positive and negative effects of quantitative restrictions on pension assets international investment are shown. Practical recommendations for state regulation of Ukrainian accumulating of pension funds asset international investment are offered.

Keywords: funded pension funds, pension assets, international investment, the mechanism of state regulation, investment restrictions.

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ГОСУДАРСТВЕННОЕ РЕГУЛИРОВАНИЕ МЕЖДУНАРОДНОГО ИНВЕСТИРОВАНИЯ ПЕНСИОННЫХ АКТИВОВ

Аннотация. Проанализированы теоретические основы и опыт регулирования международного инвестирования пенсионных активов в отдельных странах Центрально-Восточной Европы – членах ЕС. Выявлены особенности и тенденции регулирования международного инвестирования пенсионных активов в этих странах. Предложен механизм государственного регулирования международного инвестирования пенсионных активов. Спрогнозированы положительные и отрицательные последствия количественных ограничений международных инвестиций пенсионных активов. Разработаны практические рекомендации по применению механизма государственного регулирования международного инвестирования активов накопительных пенсионных фондов в Украине.

Ключевые слова: накопительные пенсионные фонды, пенсионные активы, международное инвестирование, механизм государственного регулирования, инвестиционные ограничения.

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Introduction. Globalization of the world market economy leads to macroeconomic interdependence of nations and international transfers of capital. Trends in globalization manifested in the formation of the global financial system: barriers between national financial markets are leveling, international financial markets developing, growing the role of international investment and so on. Ukraine's accession to the WTO provides for the gradual liberalization of foreign economic and investment regimes in the country. Because of the national economy openness, integration of Ukrainian financial markets into the global financial system is one of the important tasks of the state.

The international investment opens up new opportunities for accumulating pension funds, in particular, provides additional diversification of investment and portfolio investment efficiency by achieving optimal risk and return in international financial markets. Simultaneously to globalization process the risk of financial destabilization increases because of the global financial market instability, changes in the direction of capital flows and so on. The formation of pension assets international investment state regulation effective policy will benefit from international investment against a background of the risk of losses minimization. Given these arguments, study of state regulation of international investment of pension assets now is relevant direction of research.

Analysis of recent and problem definition. Important contribution to the study of the cumulative pension funds investment has been made by domestic and foreign scientists: I.Y. Goryunov [1], V.V. Korneev [2], A.Y. Kuznetsova [3], S.V. Naumenkova [4], G.M. Tereshchenko [5], D.Y. Fedotov [6] and others, whose scientific achievements have significant scientific and practical value. As conditions of pension assets investment in Ukraine are constantly changing, the question of improvement and regulation of accumulating pension funds is the actual scientific challenge.

Therefore the goal of this article is to clarify the role of government regulation in international investment asset of accumulating pension funds. To achieve this goal we have
formulated the following objectives: reviewing the experience of state regulation of pension assets international investment in certain countries of Central and Eastern Europe; selecting components of state regulation of pension assets international investment; identifying possible positive and negative consequences of pension assets state regulation, developing practical recommendations for improving state regulation of international investment of Ukrainian accumulating pension funds assets.

The result of the study. Theoretical foundation of the international assets diversification is the modern theory of portfolio investment, which is grounded in the works of G. Markovic, J. Tobin, W. Sharpe [7] and others scientists. According to this theory, the main purpose of investing is to achieve optimal portfolio risk and income distribution through a combination of assets diversification, and compliance of the portfolio limits and effectiveness.

The main purpose of state regulation of pension assets international investment is to protect the interests of accumulating pension funds to preserve the value of pension savings.

Government regulation necessity is determined by presence of risks arising while investing in international financial markets, including such risks as: political risk, exchange rate changes, capital movement limitations across national borders, possible changes in tax regime and other specific to individual countries risks. Thus, long-term changes in real exchange rates provoked risk of imbalance between accumulating pension fund currency assets and liabilities. Unavailability of full information about effectiveness of foreign financial instruments for domestic investors complicates the assessment of market value and forecasting asset returns, increases transaction costs. As a result, investment return of cumulating pension funds is declining.

Other purposes of state regulation of international investment of pension assets are:
– maintaining domestic tax base to ensure the income of state;
– using of accumulating pension funds as potential investors in the bonds of domestic government borrowing to cover budget deficits or identify additional sources of financing government programs;
– reducing demand for foreign assets in order to correct state payments deficit deficits, maintaining exchange rate stability and supporting independent monetary policy of the central bank;
– limiting outflow of capital abroad in order to protect domestic market from rising interest rates under high inflation and fixed exchange rate;
– developing of domestic capital market and so on.

We have analyzed the experiences of state regulation of pension assets international investment in some countries of Central and Eastern Europe. Ukraine can compared with this countries, as one of former socialist countries, that’s why their experience could be useful for Ukraine.

We pay particular attention to state regulation of international investment asset accumulating pension funds, participation in which is mandatory, because such funds form a powerful source of investment capital, which, because of its considerable amount, can not be fully placed at domestic financial markets of these countries.

Among the 10 EU countries of Central and Eastern Europe mandatory funded pension insurance is introduced only in Slovenia and Czech Republic.

The study of foreign experience allowed us systematized quantitative restrictions to pension assets international investment in these countries (Table 1) [8-14].
On the basis of the data abovementioned table data the following features of the international investment of pension assets are identified:

- international investment asset accumulation pension funds are established in all the reviewed countries;
- level of international diversification of assets in these countries differs significantly, for example in Poland the international investment share is 1%, while in Estonia - 72%;
- share of international investments in the portfolios of accumulating pension funds is lower than the maximum allowed. Thus, the share of international investment is 16% in Hungary, in Latvia 30%, 35% in Bulgaria than the permitted maximum 100%;
- the most severe restrictions on the implementation of international investments are in Poland (allowed to invest abroad up to 5% of pension assets), while in Lithuania any restrictions are absent;
- foreign currency denomination restrictions are established in Bulgaria and Latvia, the requirement currency matching is introduced in Hungary;
- investments limits to countries outside the European Economic Area and which are not members of the Organization for Economic Cooperation and Development are established in Estonia, Hungary and Latvia;
assets type restrictions are introduced in Hungary and Latvia. So, considering the above mentioned, we may notice that the cumulating pension funds have benefits from international investment, but do not make diversification into international assets as modern portfolio theory recommended.

Considering the analysis of international experience we can provide separate components of state regulation of pension assets international investment. These components are presented in Figure 1.
According to Figure 1, the subject of state regulation of pension assets international investment is the National Commission for the State Regulation of Financial Services Markets, and goal of state regulation is the process of accumulation pension funds assets placing on international financial markets.

Considering the form of state regulation of international investment of pension assets, you can not leave aside the legal, administrative and economic forms. Legal form of regulation is leading, as administrative and economic forms of regulation based on legal grounds.

The administrative form of regulation is implemented using such tools as establishing a direct prohibition, restrictions on pension assets international investment amounts, establishing the procedures for obtaining official permission for international investment and so on.

Economic form of regulation includes currency and tax regulations. Instruments of monetary control are: prohibition or restriction of investments into assets denominated in particular currencies, and currency matching requirement, i.e. setting the share of pension assets and liabilities that they meet in the same currency. This requiring pension funds to create additional reserves if the currency composition of assets and liabilities do not match. Tax regulation provides for taxation on investment income, the introduction of tax incentives and penalties. Instrument of economic regulation based on indirect influence is regulation of transaction costs, i.e., the broker's commission, fees for processing transactions and managing a portfolio of international investments.

Let’s analyze investment opportunities in international asset accumulating pension funds in case of implementation of mandatory funded pension insurance in Ukraine. According to the Concept of further pension reform [15], this type of insurance can be implemented in Ukraine during the 2016-2017. According to expert estimates, the amount of insurance premiums at the end of the first year after implementation will be exceeded $ 200 millions, and over the next decade will reach over $ 200 million [16].

While placing this investment resources in the domestic financial market of Ukraine may have the following problems:

– lack of options for diversification of assets of domestic pension funds and investment portfolio due to poor structuring of the economy;
– unwillingness of domestic capital market to provide the growth of accumulating pension funds assets by total supply, quality, liquidity and availability of assets;
– considerable political risk, macroeconomic shocks, high inflation, which reduces the cost of domestic financial assets;
– revenue volatility and therefore high risk assets, etc.

Consequently, international investment is a choice when placing retirement assets in certain limits will improve the diversification of investment portfolios, increase liquidity and reduce systemic risk investments.

According to the Law of Ukraine “On Compulsory State Pension Insurance” [17], pension assets of mandatory funded pension fund may consist of:

– securities which redemption and income guaranteed by governments of foreign countries which debt rating is not less than Class A at scales established by the rating companies Standard and Poor's, Moody's or Fitch;
– foreign bonds with investment grade rating of A or higher on a scales established by the abovementioned rating companies;
– shares of foreign issuers that are in circulation on organized stock markets and were listed on stock exchanges like New York, London, Tokyo, Frankfurt or trade-informational system NASDAQ.
Thus, the current legislation of Ukraine nowadays does not provide quantitative restrictions of international investment to mandatory funded pension funds, although all the EU countries of Central and Eastern Europe, except Lithuania, have such restrictions.

**Findings.** Taking to the consideration this international experience, we believe that quantitative restrictions to international investment of pension assets necessary because these can lead to positive outcomes:

1. Limitation of capital outflows from the country, the development of domestic financial markets, creating conditions for investment growth.
2. Providing non-inflation monetization of the economy that would benefit monetary policy of the state.
3. Reducing the dependence of situation at the domestic financial market from global financial markets situation.

Along with the positive can be formulated adverse effects of quantitative restrictions on pension assets international investment:

1. Limitation of opportunities to achieve optimal balance of cumulating pension funds portfolio risk and income.
2. The similarity of the investment strategies of asset managers, reduction initiative for the implementation of financial innovation.
3. Decrease of response to changing financial market conditions, which complicates the application of such methods of management of assets and liabilities as mature matching, investment income targeting and others that require rapid changes in modifying of particles of domestic and international stocks, bonds, investment portfolios, using the derivatives and so on.

Some recommendations for reducing of the negative impact of quantitative restrictions on pension assets international investment will help on their practical application in Ukraine:

Firstly, the positioning of the pension assets in foreign currency, thus increasing their real yield and inflation will allow for the additional hedging cost of pension assets.

Secondly, permission to invest pension assets into domestic mutual funds that specialize in international investments and assets.

Thirdly, the application of international pension swaps, which provide equivalent in terms foreign cumulating funds investment into Ukrainian pension funds securities.

Fourthly, the use of derivatives with underlying asset with a fixed yield, denominated in foreign currency that will allow hedge short-term currency fluctuations.

Fifthly, creation of favorable conditions for developing the domestic capital market by introducing financial instruments attractive for accumulating pension funds, including long-term government bonds with a sufficient level of real yields, continuation of the privatization process to enhance stock market capitalization.

In conclusion, it can be argued that the additional risks of investing pension assets in international financial markets require government regulation of pension assets international investment, which can provide effective balance between benefits and costs for pension funds participants and for state.

Since the problems of state regulation of pension assets international investment is relevant in view of the future introduction of mandatory funded pension insurance in Ukraine should continue conduction of research in this direction.

**Література**


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References

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