INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/108

UKRAINE

TECHNICAL ASSISTANCE REPORT—SELF-FUNDING OF THE NATIONAL SECURITIES AND STOCK MARKET COMMISSION

April 2016

This Technical Assistance report on Ukraine was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in April 2016.

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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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INTERNATIONAL MONETARY FUND

Monetary and Capital Markets Department

UKRAINE

SELF-FUNDING OF THE NATIONAL SECURITIES AND STOCK MARKET COMMISSION

Eija Holttinen (Mission Chief) and Malcolm Rodgers (External Expert)

April 2016

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Glossary

AMF	Autorité des Marchés Financiers (France)
CCP	Central Counterparty
CMB	Capital Markets Board of Turkey
CNMV	Comisión Nacional del Mercado de Valores (Spain)
FSC	Financial Services Commission (Bulgaria)
IOSCO	International Organization of Securities Commissions
KNF	Komisji Nadzoru Finansowego (Poland)
MCM	Monetary and Capital Markets Department of the IMF
NAB	National Anti-Corruption Bureau of Ukraine
NBU	National Bank of Ukraine
NSSMC	National Securities and Stock Market Commission
OECD	Organization for Economic Co-operation and Development
OTC	Over-the-counter
SRO	Self-Regulatory Organization
SSC	The Republic of Serbia Securities Commission
TA	Technical Assistance
U.S. SEC	United States Securities and Exchange Commission

PREFACE

At the request of the National Securities and Stock Market Commission (NSSMC), a Monetary and Capital Markets Department (MCM) technical assistance (TA) mission visited Kyiv, Ukraine during the period January 13–22, 2016. The mission was executed within the framework of the Government of Canada-funded, IMF-administered Technical Assistance Project. The mission members included Ms. Eija Holttinen (mission chief) and Mr. Malcolm Rodgers (MCM expert).

The mission reviewed the proposals for a self-funding model developed by the NSSMC to assess their soundness and feasibility and advise on changes needed to enhance the likelihood of the preferred model to contribute to the adequacy, stability, and proportionality of the NSSMC's funding.

The mission met with Chairman Timur Khromaev and other senior officials of the NSSMC. Meetings were also held with the Deputy Minister of Finance Roman Kachur and senior officials of the National Bank of Ukraine (NBU) and National Anti-Corruption Bureau of Ukraine (NAB). The mission would like to express its appreciation to Ukrainian authorities for providing their senior officials' valuable time for in-depth discussions with the mission.

EXECUTIVE SUMMARY

There are a number of challenges with the adequacy of the NSSMC's funding and the constraints placed on it through the Ukrainian government budget process. These challenges were described in detail in a previous IMF TA report that encouraged the Ukrainian authorities to consider moving to self-funding of the NSSMC through administrative fees and annual supervisory fees paid by regulated entities.

The analysis conducted by the NSSMC and reviewed by the mission confirms the general benefits of moving to a self-funding model for the NSSMC. The preferred model, based on administrative fees for services and supervision fees for all categories of regulated entities, is expected to ensure more stable funding than the original turnover based model developed by the NSSMC. Adoption of this model would mean that the NSSMC would be fully funded from industry contributions and not dependent on the general state budget. At the same time, the fee income produced by any self-funding model is heavily dependent on the future number of fee paying entities and market developments. To ensure a smooth transition, transition to a self-funding model could therefore take place in stages. Legislation should also permit the NSSMC to accumulate and use reserves (subject to a maximum limit) as a means of dealing with unanticipated fluctuations in fee revenue. When the maximum limit on reserves is reached, excess fee revenue should be returned promptly to market participants as fee rebates. Alternatively, legislation could establish maximum fee levels that can be adjusted when fee income exceeds the resource needs of the NSSMC. Finally, the remuneration of NSSMC staff should be increased by removing the restrictions imposed by the civil service rules on staff classification and remuneration.

The legislative measures should be complemented by improvements in the NSSMC systems and processes. To make clear the relationship between the increased revenue from the proposed fee models and increases in the NSSMC's expenditure, the NSSMC should prepare expenditure budgets for the three years following the adoption of the proposed fee models. The NSSMC should develop appropriate benchmarks for setting staff remuneration in the future. In parallel, the NSSMC should review the efficiency and effectiveness of its staffing and job classification structure to ensure that increased remuneration for staff results in enhanced professionalism and organizational efficiencies. The NSSMC also needs to develop more sophisticated systems for tracking the actual costs of providing administrative services and supervising each category of market participants.

Table 1. Summary of Main Recommendations

<table>
<tr><th>Recommendation</th><th>Timeframe</th></tr>
<tr><td colspan="2">Legislative amendments</td></tr>
<tr><td>Approve legislative changes enabling self-funding of the NSSMC. The legislative changes should:
Use the NSSMC Model 2 (based on administrative fees for services and supervision fees for all categories of regulated entity) approach to self-funding.
Permit accumulating and using reserves (subject to a maximum limit) as a means of dealing with unanticipated fluctuations in fee revenue.
Provide that the NSSMC’s budget is to be prepared on a three-year rolling basis.
Provide either that fees in excess of funding needs be returned promptly to market participants as fee rebates or set maximum fee levels to enable fee reductions.
Introduce self-funding in stages, starting with the use of administrative fees complemented with government appropriation during the implementation phase.
Make the NSSMC responsible for calculating and collecting fees.</td><td>End-June 2016</td></tr>
<tr><td>Approve legislative changes removing the restrictions imposed by the civil service rules on the NSSMC staff classification and remuneration.</td><td>End-June 2016</td></tr>
<tr><td>Review the NSSMC self-funding model regularly to ensure it meets its objectives.</td><td>First time: 3–5 years after implementation and regularly thereafter</td></tr>
<tr><td colspan="2">Amendments to the NSSMC processes and systems</td></tr>
<tr><td>The NSSMC to prepare expenditure budgets for the three years following the adoption of the self-funding model.</td><td>End-September 2016</td></tr>
<tr><td>The NSSMC to develop appropriate benchmarks for setting staff remuneration and to review the efficiency and effectiveness of the NSSMC staffing and job classification structure.</td><td>End-2017</td></tr>
<tr><td>The NSSMC to develop systems for tracking the actual costs of providing administrative services and supervising each category of market participants.</td><td>When technology permits</td></tr>
</table>

I. INTRODUCTION

1. **In its October 2015 TA report, MCM identified a number of challenges with the adequacy of the NSSMC's funding and the constraints placed on it because the NSSMC is funded through the Ukrainian government budget process.** In particular, the report noted that:

- The civil service remuneration rules which apply to the NSSMC are highly likely to be having an adverse effect on its ability to attract and retain suitably experienced and skilled staff, especially those with the market knowledge and understanding needed to make the NSSMC an effective regulator.
- There is a high probability that the lack of funding for investment in technology currently impedes the NSSMC's ability to receive, analyze, and act on information efficiently and effectively.
- Lack of funds that can be allocated for non-staff costs related to the NSSMC's enforcement activities, such as costs of enforcing Commission decisions, is likely to be lessening the deterrent effect of monetary sanctions imposed by the NSSMC.

2. **The report recommended that, if these challenges could not be adequately dealt with under the current funding and structural arrangements, consideration should be given to alternative funding methods and in particular to self-funding.** Self-funding in this context means that the regulator's funding needs are met by contributions from industry, and not from the general government budget.

3. **The challenges noted above give rise to a need for an increase in the funding available to the NSSMC.** An increase over current levels is required to enable the NSSMC to increase the remuneration of staff, to make adequate investment in technology, and to be able to effectively enforce the laws it administers.

4. **At the request of the NSSMC, MCM conducted additional work to analyze whether and how such increase could be achieved through self-funding.** The findings and recommendations of the mission are presented in this report that is comprised of two main sections. Section II describes the funding models used by some other securities regulators, discusses the general benefits of NSSMC self-funding, and describes two alternative self-funding models developed by the NSSMC. Section III describes certain key principles that a self-funding model would need to take into account, and analyzes whether and how the models developed by the NSSMC would comply with such criteria.

5. **The mission also discussed with the NSSMC the planned implementation of changes to address one of the recommendations of the October report regarding investigations.** Appendix I highlights the potential inconsistency between the previous mission's recommendation and the way changes in this area are planned to be implemented. The planned implementation also appears to be inconsistent with the International

Organization of Securities Commissions Objectives (IOSCO) and Principles of Securities Regulation (IOSCO Principles).

II. Self-Funding of the NSSMC

A. Models Used in Other Countries

6. **Self-funding of securities and other financial services regulators is increasingly becoming the international norm.** The Organization for Economic Co-operation and Development (OECD) Corporate Governance Factbook 2015 includes an analysis of the funding of 46 securities regulators in 41 jurisdictions. Jurisdictions examined are a cross section of those with large capital markets and those with much smaller markets. Of the 46 regulators reviewed, 23 (50 percent) are self-funded, mainly by levies paid by regulated entities. Thirteen regulators (28 percent) are fully funded through the government budget process, and 6 regulators (13 percent) are partly funded by the government budget and partly by fees from the regulated entities. In some jurisdictions, even if the regulator is self-funded, the regulator's budget must be approved by the government and/or the parliament.

7. **The OECD survey understates the extent to which funding for regulators is provided by levies paid by market participants.** For example, the United States Securities and Exchange Commission (U.S. SEC), and the New Zealand Financial Market Authority are treated as publicly funded, but in practice costs to government are offset by fees paid by regulated entities. In addition, some regulators that are classified as funded by a mix of government budget and fees from regulated entities are in practice fully funded by fee income and do not receive government funding. Italy's Commissione Nazionale per le Società e la Borsa and Spain's Comisión Nacional del Mercado de Valores (CNMV) are in this category. Further, no data is recorded against some regulators that are in fact self-funded, such as France's Autorité de Marchés Financiers (AMF).

8. **The trend to self-funding is even more pronounced within Europe.** Of the 24 European securities regulators in the OECD survey, only Austria and Norway are shown as publicly funded; 15 regulators are self-funded; 3 are shown as funded by a mix of public and self-funding (although in practice the number is lower—see above); and no data is shown for 4 regulators (at least one of which, France's AMF is self-funded). In addition, several European securities regulators not covered in the OECD survey are also fully or partially self-funded. These include Bulgaria, Romania, and Serbia. Appendix II contains a more detailed analysis of the funding models used by some securities regulators.

9. **The policy rationale underlying the self-funding of financial services regulators is generally that the costs of providing regulation should be met by those who create the need for it.** In some jurisdictions, such as Australia and the United Kingdom, this rationale is part of a broader policy that aims at establishing pricing mechanisms for the provision of many government services in the form of cost recovery (the "user pays" principle). By requiring securities market participants to contribute to the costs of regulating their activities,

a self-funding policy also creates a mechanism by which those who benefit from regulation contribute to its costs. This will occur where, for example, market participants pass on some of the costs they pay for regulation to end customers, such as investors or clients of financial services activities.

B. Benefits of NSSMC Self-Funding

10. **Introducing an appropriately designed self-funding model for the NSSMC would have a number of potential benefits.** In particular it could help to:

- Provide a source of funding for the NSSMC that would be both adequate and stable.
- Ensure that the NSSMC's costs would be met by those creating the need for regulation.
- Create efficiencies in the way resources are allocated in the NSSMC. Self-funding could drive economic efficiencies in the way that the NSSMC's resources are allocated. It could enable the NSSMC to ensure that it has resources to deal with areas of the market that pose the largest risks to its mission; and to monitor internally the efficiency of the regulatory processes it performs.
- Improve transparency and accountability. Self-funding could improve the transparency of the NSSMC's funding and operations. By exposing the NSSMC to greater scrutiny of its regulatory costs, industry, and government could be in a better position to hold the NSSMC more accountable for the efficiency in how it undertakes its regulatory activities.
- Allocate a greater share of the Ukrainian government's revenue to government activities that benefit Ukrainian society more generally.There are considerable pressures on the Ukrainian budget. Removing the costs of securities regulation from the state budget would enable those resources to be devoted to other priority areas, while at the same time providing for better funding for the NSSMC.

C. Self-Funding Models Proposed by the NSSMC

11. **The NSSMC has developed two models for the self-funding of its operations.** Both proposals have the same broad structure envisaging revenue from two sources: (i) administrative fees charged for requests by individual participants for decisions on, among others, licenses, registration, and approvals (administrative services); and (ii) supervision fees. Differences between the models relate to the way supervision fees are to be imposed, and the amounts of fees to be charged.

Administrative fees

12. **Administrative fees are currently charged for a small number of the approximately 160 administrative actions the NSSMC performs.** This fee regime is administered by the NSSMC, but revenue from it goes to the general revenue of the

Ukrainian government. Table 2 presents the fee revenue for 2013–2015 and that planned for 2016:

Table 2. Current Fee Collections for the NSSMC Administrative Actions

Revenue Type	2013		2014		2015		2016
	Planned	Actual	Planned	Actual	Planned	Actual (Preliminary)	Planned
	UAH million						
Revenue to the budget from licensing actions	1.08	0.93	0.75	1.06	0.66	0.58	0.44
Revenue to the budget from issue of certificates	0.94	1.13	0.81	0.83	0.81	0.61	0.68
State duty paid for registration of securities issues	6.30	18.68	8.70	14.82	9.80	10.35	9.70
Total revenue/duty	8.32	20.74	10.26	16.71	11.27	11.54	10.82

Source: NSSMC

13. **The NSSMC's proposal for administrative fees involves increasing the fees, and increasing the number of administrative actions for which fees are charged.** Appendix III compares current fees with proposed new fees, and the differences in revenue that would result if proposed new fees were in force for fiscal year 2016. For that year, based on the NSSMC's estimates about the level of fee generating activity, the proposed fee regime would result in fee revenue of UAH 94.57 million. The most significant sources of this increase would be:

- An increase in the maximum rate payable for registration of securities issues from 50 minimum wages to 400 minimum wages.[1] The change would result in additional fee revenue of UAH 27 million over currently planned revenue under the existing fee regime.
- Additional fee revenue of UAH 29 million from administrative actions not currently subject to a fee.
- Additional fee revenue of UAH 15 million from administrative actions relating to licensees.
- Additional fee revenue of UAH 13 million from administrative actions other than those relating to licensees.

[1] The Ukrainian minimum wage is set each year. For 2016, the minimum wage is UAH 1,378 per month.

Supervision fees

14. **In developing proposals for supervision fees, the NSSMC has explored two possible approaches:**

- Model 1: In this model, fees are based on a small percentage of the value of market turnover in financial instruments on markets and trading mechanisms subject to the NSSMC's regulation, and, for asset managers, a fee based on the value of the assets they manage.
- Model 2: In this model, fees are payable by all categories of regulated entities. The amount of the fee varies for each category and, within each category, the fee payable by an entity varies by reference to a factor intended to reflect differences between various entities' level of participation in capital market or asset management activity.

15. **To illustrate the effect of the fees proposed by both models, the NSSMC has prepared estimates of the fee revenue that would apply if the fees were in force for the year 2016.** For these estimates, conservative assumptions have been used to take into account the impact of the imposition of supervisory fees on markets and market participants. For example, it is assumed that fees on market transactions will result in a fall in trading volumes for both the exchanges and OTC markets. It is also assumed that current regulatory initiatives being taken by the NSSMC will result in a reduction of the number of market participants (for example, as a result of the imposition of minimum capital requirements on market participants), and the number of listed companies (as a result of the changes in exchange listing requirements).

Model 1

16. **In this model, annual fees are charged on all trading in financial instruments, whether on-exchange or over-the-counter (OTC).** Financial instruments include state bonds, corporate bonds, bills, shares, investment certificates, and derivatives. Fees are paid by brokers, stock exchanges, and providers of depository services (including the National Depository). The other source of revenue is a charge of 0.01 percent of the net value of assets under management by pension funds and investment funds. This is the model reflected in the October 2, 2015 version of the draft law on NSSMC independence, which was discussed at the National Reform Council meeting in December 2015.

17. **For fees based on market turnover, the NSSMC has explored two possible scenarios:**

- Scenario A: In this scenario fees vary according to the nature of the instrument traded and the venue on which it is traded (exchange or OTC). Rates proposed are:
    - 0.031 percent of the value of on-exchange transactions in state bonds.
    - 0.04 percent of the value of on-exchange transactions in corporate bonds, shares, and investment certificates.

    - 0.030 percent of the value of on-exchange transactions in derivatives.
    - 0.031 percent of the value of OTC transactions in state bonds.
    - 0.06 percent of the value of OTC transactions in corporate bonds, shares, and investment certificates.
    - 0.031 percent of the value of OTC transactions in derivatives and bills.
- Scenario B: In this scenario, fees are uniform across all market venues and all instruments. The rate proposed is 0.031 percent of the value of transactions.

18. **If Model 1 were in operation for fiscal year 2016, the NSSMC estimates that total revenue from fees based on this model would be UAH 85.3 million (Scenario A) and UAH 84.5 million (Scenario B) (Table 3).**

Table 3. Estimated NSSMC Income from Model 1 in 2016

Fee Revenue from	Scenario A	Scenario B
	UAH million	
State bonds turnover	30.6	30.6
Corporate bonds turnover	10.2	9.6
Shares turnover	15.0	14.9
Investment certificates turnover	15.3	15.2
Bills turnover	0.6	0.6
Derivatives turnover	0.9	1.0
Asset management	12.7	12.7
Total	85.3	84.5

Source: NSSMC

Model 2

19. **In this model, eight categories of regulated entities are envisaged as paying annual fees, and four methods of determining fees are used:**

- For fees that are based on the net income of the regulated entity, the basis of calculating the fee is presented below:[2]

Fee Payer	Basis of Calculating Fee
National Depository	5.5 percent of net income, but not less than 200 times the Ukrainian minimum wage
Central Counterparty (CCP)	5.5 percent of net income, but not less than 200 times the Ukrainian minimum wage
Stock exchanges	3.5 percent of net income, but not less than 200 times the Ukrainian minimum wage
Brokers	0.3 percent of net income, but not less than 20 times the Ukrainian minimum wage

[2] Net income is the sum of (a) net revenue from sales of products, goods and materials (revenue less direct cost of sales); (b) other operating income; (c) financial income, as shown in the entity's financial statements; and (d) other income.

- For fees based on the value of securities held, the basis of calculating the fee is presented below:

Fee Payer	Basis of Calculating Fee
Custodians	0.0035 percent of the nominal value of securities in the custody account, but not less than 20 times the Ukrainian minimum wage
Asset managers	0.01 percent of the net asset value of public investment funds and pension funds, and 0.02 percent of the net asset value of venture funds, but in either case not less than 20 times the Ukrainian minimum wage

- Fees paid by issuers of "in listing" shares based on the nominal value of those shares. Issuers of equity securities that are "in listing" (i.e., those that meet the exchange's listing requirements) are charged a fee of 0.01 percent of the nominal value of the equity securities to a maximum of 400 times the Ukrainian minimum wage, with a minimum of 20 times the minimum wage.
- Flat fees paid by issuers of securities that are not "in listing." Issuers of these types of securities (other than state securities) are charged a flat fee of 20 times the Ukrainian minimum wage.

20. **If Model 2 were in operation for fiscal year 2016, the NSSMC estimates that total revenue for the year from fees based on this model would be UAH 192.7 million (Table 4).**

Table 4. Estimated NSSMC Income from Model 2 in 2016

Payer	Forecast of Payments to the NSSMC in 2016 (UAH Million)
National Depository	3.30
Custodians	33.26
Stock Exchanges	0.95
CCP	2.76
Brokers—Non-Banks	19.97
Brokers—Banks	63.12
Asset Managers	25.68
Issuers of Equity Securities in Listing	2.32
Issuers of Securities not in Listing	41.34
Total	**192.70**

Source: NSSMC

21. **The overall design of the self-funding models developed by the NSSMC appears sound and is broadly in line with practice in other jurisdictions.** Having two revenue streams, one based on administrative fees and one on supervision fees, is almost universal in jurisdictions with self-funded securities regulators. The basis for calculating supervision fees varies from jurisdiction to jurisdiction, and inevitably reflects the characteristics of each jurisdiction's capital markets and regulatory structure. Nonetheless, most jurisdictions have scaled supervision fees designed to capture differences between the regulatory intensity and therefore regulatory cost required for different sectors of the market, and differences between

entities within the same market sector. Comparisons between jurisdictions are useful at a general level, but an effective model for the NSSMC needs to reflect the specific characteristics of the Ukrainian capital market and the NSSMC's role and functions within that market. The Ukrainian capital market is undergoing significant change and it is difficult, if not impossible, to identify another jurisdiction as a true peer jurisdiction.

D. Recommendations

22. **A self-funding model should be introduced for the NSSMC.** It seems clear that, in light of the continuing pressures on the Ukrainian budget, there is little prospect of the NSSMC receiving additional funding through the government budget process that will be sufficient to meet its future needs. Increasing staff remuneration and investment in technology and systems are the priority areas requiring a significant increase in resources.

23. **The NSSMC's Model 2 should be adopted in preference to Model 1.** Model 2 would arguably result in more stable funding for the NSSMC. It is also fairer in the sense that all regulated entities contribute proportionally to the cost of regulation. Additional discussion on the advantages of Model 2 is included in Section III. Model 1 would also pose additional challenges in implementation, for example in determining the value of transactions such as OTC derivatives.

24. **A move to a self-funding model for the NSSMC could be introduced in stages**. In the implementation phase, the NSSMC could be funded by a mix of fee revenue and government appropriation. For example, new administrative fees could be introduced at the first stage, with revenue from these fees going into a special fund for the NSSMC, and not being treated as government revenue. Supervision fees could then be introduced during the second stage. The intention would be that, at the end of this second stage, the NSSMC would be fully funded from fee revenue and no longer reliant on the government budget.

III. Designing a Self-Funding Model

25. **In the design of a self-funding model, a number of key principles needs to be taken into account.** An effective self-funding model should result in (i) adequate funding; (ii) stable funding; (iii) proportionality; (iv) transparency and accountability; (v) efficiency; and (vi) minimal market distortions.[3] The NSSMC's proposed models broadly conform to these key principles.

[3] See Appendix IV for further discussion of these principles.

A. Adequacy of Funding

26. **The funding models proposed by the NSSMC can deliver an adequate level of funding, but the actual outcome is heavily dependent on the models' variable elements.** Appendix V describes the assumptions the NSSMC has used to arrive at its projections of fee income for 2016 under Models 1 and 2. The NSSMC's estimates of revenues under both Model 1 and Model 2 depend on a number of variables, many of which are difficult to predict reliably. There are variable elements in both the proposed administrative fee and supervision fee components of the models. Factors that will have an impact on these variables include:

- Changes in the level of capital market activity. For example, a decline in the number of new securities issues would affect both administrative and supervision fee revenue for the NSSMC's Model 2 (and potentially for Model 1, if it affected the level of turnover in securities markets). A decline in market activity by brokers that affects their net income would result in a sharp decline in fee income. Fee income from brokers is almost 44 percent of total projected supervision fee revenue.
- Changes in the market as a result of current regulatory reforms, such as those relating to issuers and the asset management sector. For example, a significant reduction in the number of issuers who are not "in listing" would have an impact on supervision fee revenue under Model 2. The NSSMC estimates that revenue from this sector would, if the model were in operation in 2016, be more than 21 percent of total supervision fee revenue. Similarly, supervision fee revenue payable by asset managers would account for over 13 percent of supervision fee revenue.
- Changes in market behavior and activity resulting from the proposed new fee regime. Both fee models propose new costs for industry participants (supervisory fees and new administrative fees) and increases in existing administrative fees. The effect of these changes on the decision making of current and future industry participants, and on market activity generally, is extremely difficult to predict.
- More generally, fees will also be dependent on overall market levels. For example, a general decline in market prices would reduce fees from asset management and investment fund activity based on the value of assets under management.

27. **This suggests the need for caution in estimating revenue from the models proposed by the NSSMC.** Care will also need to be taken in the detailed design of a self-funding model to minimize the risk that fee payers can avoid or reduce their fee obligations by manipulating their accounts. For example, for fees that are based on net income, expenses incurred in producing revenue will need to be closely monitored.

28. **Using the assumptions used by the NSSMC to estimate revenue from proposed fee models there would be a very substantial increase in the funding potentially available to it.** If the proposed funding models were in place for fiscal year 2016, the NSSMC estimates that total fee income would be approximately UAH 180 million (for Model 1) and approximately UAH 290 million (Model 2). This would be an increase of between 3 and 4 times the current 2016 budget. The appropriation to the NSSMC from the

state budget for the 2016 fiscal year was a little more than 23 percent more than for the 2015 fiscal year (Table 5).

Table 5. NSSMC Budgets 2013–2016

NSSMC Budget	2013	2014	2015	2016
	UAH million			
Salaries	29.3	27.5	27.8	32.5
Salary on-costs[1]	10.8	10.1	9.9	7.2
Total salary related costs	40.1	37.6	37.7	39.7
Other costs	4.6	4.9	4.9	12.0[2]
Capital expenditure	3.8[3]			0.8
Total	48.5	42.5	42.6	52.5

Source: NSSMC

[1] Salary on-costs are a social contribution tax. This tax was reduced in 2016 from 41 percent of salaries to 22 percent.

[2] This allocation includes an exceptional allocation of UAH 7 million for payments relating to the NSSMC's obligations to software providers.

[3] In 2013 capital expenditure component related to building renovation and the purchase of equipment.

29. **Whether funding is adequate depends on the level of resources the NSSMC requires to carry outs its mission effectively.** Although the NSSMC has prepared estimates of the revenue from fees under its proposed fee models, it has not prepared detailed budgets showing how proposed increases in funding would be expended. It has indicated, however, that increased funding would be used for two main purposes: (i) increasing staff remuneration to levels sufficient to attract and retain suitably experienced and skilled staff, especially those with market knowledge and experience; and (ii) investing in technology and systems.

30. **To increase staff remuneration, the NSSMC would need to move away from the staff classifications and remuneration levels that are currently determined by the rules applying to the Ukrainian civil service generally.** There appears to be no provision within the civil service framework for increase in remuneration levels necessary to attract staff with the qualifications and market expertise required for the NSSMC to become a fully professional securities regulator. This is a challenge faced by many securities regulators. In some jurisdictions, the challenge is met by removing the regulator's staff remuneration arrangements entirely from the civil service framework, and allowing the regulator to determine remuneration by reference to, for example, industry benchmarks for the skills it requires. In others, reference is made to a benchmark that, although within the public sector, is not subject to the general civil service rules (for example, in the U.S., the SEC is permitted to benchmark its staff remuneration against the remuneration level of banking supervisors such as the Federal Reserve). Article 21 of the draft Law on Independence proposes that the remuneration of NSSMC staff be determined by the Chairman. This would permit either of these approaches to be used.

31. **Any proposal for the NSSMC to move away from the civil service remuneration structure should be based on clear principles, and provide for full accountability.** This could be achieved, for example, by using staff classifications and remuneration levels based on appropriate reference points within the public or the private sector. It is highly desirable that the reference points used are capable of independent verification, for example by being publicly available. Possible public sector reference points are other financial sector supervisors (such as the NBU); or another agency within government that is subject to special rules about the remuneration of its staff (such as the NAB). Appendix VI contains an outline of the remuneration policies of the NBU and NAB. For the private sector, widely circulating reports on industry remuneration levels, such as those prepared by remuneration consultants, could provide an appropriate reference point if they are available for the Ukrainian market.

32. **Simply increasing staff remuneration will not achieve the changes that are needed to enable the NSSMC to fulfill its mission in the future.** Changes to the remuneration arrangements should be seen as an opportunity to enhance the organization's professionalism and its overall efficiency. This would be best achieved by carrying out a thorough review of the NSSMC's organization structure, methodology for position classification, incentive system, and individual job design.

Recommendations

33. **The NSSMC should prepare indicative expenditure budgets for the three years that would follow the adoption of the proposed fee models.** This is essential to make clear the relationship between the increased revenue from the proposed fee models and increases in NSSMCs expenditure. These budgets should contain at least estimates for the costs of (i) increased remuneration of NSSMC staff; (ii) investment in additional resources, such as technology and systems, including both capital costs and the costs of any additional recurrent expenses, such as additional staff; and (iii) non-staff related expenditures.

34. **The legislation should establish that the NSSMC calculates its budget needs on a three-year basis, to be revised each year.** Rolling three-year budgets of this kind will enable proper forward planning, such as for technology investments, and identification at an early stage any need to make changes to the self-funding regime.

35. **The remuneration of NSSMC staff should be increased to more appropriate levels.** This means removing the restrictions imposed by the civil service rules on staff classification and remuneration. The proposals in the draft Law on Independence are an appropriate way to achieve this.

36. **The NSSMC should develop appropriate benchmarks to be used for setting staff remuneration in the future.** Benchmarks should be sufficiently transparent to ensure proper accountability for decisions about remuneration policies and practice.

37. **Reform of the NSSMC's remuneration arrangements should be done in conjunction with a review of the efficiency and effectiveness of the NSSMC's staffing and job classification structure.** This should be designed to ensure that increased remuneration for staff results in enhanced professionalism and organizational efficiencies.

B. Stability of Funding

38. **The factors that may affect the stability of the NSSMC's funding over time under a self-funding model are similar to those that may affect the adequacy of funding.** As noted above, there is potential for significant variations from year to year in the variable components of the NSSMC's funding models, both for administrative fees and for supervision fees. Both NSSMC models rely on fees that vary, either directly or indirectly, according to the overall level of market activity, and changes in activity will affect the stability of funding. This is a characteristic of most industry funding models internationally.

39. **In the current context of the Ukrainian market, the NSSMC's Model 2 (fees levied on all regulated entities) appears more likely to deliver stable funding than Model 1 (based on fees levied on transactions).** In particular, it creates a broader fee-paying base than Model 1, and decreases reliance on a single measure, the value of market turnover, as the basis of fees for market participants other than asset managers. The value of market transactions has been trending downward in recent years, and there appears to be little reason to believe this trend will not continue for some time.

40. **Given the difficulty in predicting revenue from fees, it is common practice in jurisdictions with a self-funding model to permit the regulator to build up reserves.** Contributions to reserves are made when, in a given year, fee revenue is larger than anticipated in the regulator's budget, for example because of sudden increases in market activity or other factors on which fee revenue depends. The regulator is permitted to draw on these reserves to meet shortfalls resulting from a decline in fee revenue. Alternatively, provision is made in some jurisdictions (e.g., Bulgaria) that, if fees do not meet the regulator's resource needs, its funding can be supplemented by an appropriation from the state budget. In Turkey, the legislation envisages that shortfalls in fee revenue are to be met by state budget appropriations, although in practice there does not appear to have been a need for this in recent years. In principle, however, a self-funding model should aim at meeting fully the resource needs of the regulator through contributions from industry, and not be dependent on the government budgetary process. In the transition period to a full self-funding regime, some support from the government budget may be necessary.

41. **Building some flexibility in the fee regime would also enhance the stability of funding.** There are two possible options:

- The legislation could provide that, once the NSSMC has accumulated the maximum level of reserves, any fee revenue that exceeds the NSSMC's funding requirements is to be returned to fee paying entities pro rata with their contributions; or

- The legislation could set the maximum amount or ratio for fees that can be charged, rather than a fixed amount or ratio. This would enable fees to be varied within the permitted maximum to respond to changes in market circumstances, the costs of providing administrative services or supervision, or the funding needs of the NSSMC. If this option was adopted, it should be subject to appropriate control and accountability mechanisms. The draft Law on Independence provides these mechanisms by making the proposed Budget Council responsible for approval of the NSSMC's budget (which includes planned fee revenue), and requiring the Council to provide recommendations to the NSSMC about proposed fee levels.

Recommendations

42. **The legislation should permit reserves to be accumulated and used as a means of dealing with unanticipated fluctuations in fee revenue.** A maximum limit should be set on the total amount of reserves that can be accumulated. The NSSMC should be permitted to include provisions for reserves in its annual budget process. The legislation should either (a) ensure that, when the maximum limit on reserves is reached, excess fee revenue should be returned promptly to industry participants in the form of fee rebates; or (b) establish maximum fee levels that can be adjusted when fee income exceeds the resource needs of the NSSMC.

C. Proportionality

43. **The self-funding models proposed by the NSSMC appear to broadly comply with the proportionality principle, although only limited data is available to verify this.** Proportionality has two dimensions: between categories of fee payers; and between fee payers within the same category. Between categories of fee payers, the objective should be to minimize the potential for cross subsidization between categories; within a fee-paying category, the aim should be to ensure that differences in fees reflect differences in the cost of supervision. Precise calibration of supervision fees on a true cost recovery basis requires the regulator to have systems and processes that enable it to accurately forecast the total costs of supervision for each category of fee-paying market participant. The same applies to setting fees for administrative services on a cost recovery basis. Some regulators in larger jurisdictions have sophisticated accounting systems and stable and accurate historical information about costs that enable them to accurately forecast supervision costs by sector. The NSSMC does not currently have the systems to enable this to be done routinely, and does not have detailed historical information on the cost of providing administrative services or on sectoral supervision costs.

44. **The NSSMC originally proposed largely uniform flat fees for all administrative services, except for registration of securities issues, but has revised that proposal.** As a result of the revision, the fees now generally reflect differences in the costs of providing each administrative service. The NSSMC's revised fee schedule is based on estimates of staff time and costs involved in processing each type of administrative service. It also expands the

number of administrative services for which its proposed fees will be charged. This revised approach should ensure that there is there is less risk of cross subsidization in the way fees are charged for administrative services.

45. **For supervision costs in the NSSMC's Model 2, there appears to be appropriate proportionality between regulated entities within each category, but the degree of proportionality between categories of regulated entity is more challenging to assess.** Within categories, the NSSMC, like many other regulators, relies on proxies intended to reflect the likely relative costs of supervision of firms within each category. For example, a large firm is generally likely to require more intensive supervision than a small firm, and fees that vary according to the size of a regulated entity relative to others in the same category, measured by objective criteria such as net income, or the value of assets under management, is an appropriate way for fees to be allocated for that category of firms. In the absence of reliable information about the relative costs of supervising different categories of participants, it is more difficult to determine whether the total fee revenue from each category of regulated entity, relative to other categories, reflects differences in the cost of supervision. Therefore, there is potential for one category of regulated entities to subsidize the costs of supervision of another. This may be difficult to avoid at the outset, but it emphasizes the need for the NSSMC to develop more sophisticated accounting systems to enable it to measure supervision costs in a detailed way, and for the fee system to be reviewed and revised at regular intervals.

46. **The NSSMC's Model 1 avoids some of these difficulties, but in another respect is less attractive than Model 2.** Model 1 allocates supervision costs across all participants in financial markets other than asset managers by imposing a levy on all market transactions. It assumes that, at whatever point it is collected, the costs will be passed on to all markets participants and users. This is the approach used in a number of jurisdictions, for example for funding of the U.S. SEC, the Hong Kong Securities and Futures Commission, and in Romania. However, under Model 1 not all regulated entities contribute to the costs of ongoing supervision. In particular, issuers pay administrative fees but do not contribute to the costs of ongoing supervision, although the NSSMC seems to incur considerable costs in the ongoing supervision of issuers. Also under Model 1, the National Depository would not contribute to the cost of its supervision, although it would be a collection point for some transaction fees.

47. **Revenue from securities market activity is a more reliable measure of the level of participation in capital market activity than profit.** The NSSMC has given some consideration to whether under Model 2 the variable element in supervision fees for stock exchanges, the National Depository, the CCP and brokers should be net profit or revenue (income) from securities market activity. If supervision fees are to be proportional to the relative costs of supervision, regulated entities' net income is a better proxy for their relative level of capital market activity, and therefore likely relative share of supervision costs, than net profit. It is also arguably less amenable to manipulation.

48. **A technical issue that will need to be addressed is how to measure the market revenue from the securities market activity of banks that are securities brokers.** Of the anticipated number of approximately 300 fee-paying brokers, about 90 will be banks. The assessment of fees will be based on revenues reported in the audited financial statements of regulated entities, but the financial statements of banks do not clearly indicate revenue from securities market activity. It may be necessary to require banks that are also brokers to include in their financial reports a specific item relating to their capital market activities and revenue. Alternatively banks could be required to provide the NSSMC with a statement of the bank's securities market revenue that has been reviewed and signed off on by the bank's auditor.

Recommendation

49. **The NSSMC should, as soon as possible, develop more sophisticated systems to enable it to track the actual costs of providing administrative services, and the costs of supervising different categories of regulated entities.** This will enable fees to be more precisely calibrated to reflect actual costs, and will enhance the proportionality of the fee regime.

D. Transparency and Accountability

50. **Both NSSMC models are fully transparent and provide a sound basis for accountability for the use of resources.** The proposed fee regime would be set out in legislation, and regulated persons and entities would be able to ascertain their obligations, and to calculate their fee obligations from information available to them. Fees would be determined on an objective basis that would not contain any discretion for the regulator to distinguish between members of the same category of market participants. The draft Law on Independence requires the NSSMC's draft budget to be published on its website, and for the budget to be approved by the NSSMC's Budget Council. The NSSMC's accounts must be audited, and audit reports and an annual report must be provided to the Budget Council, the President of Ukraine and the Verkhovna Rada. The annual report, including financial statements, must also be made public (Articles 19 and 20 of the draft Law on Independence).

51. **If a self-funding regime is introduced, it will be important to communicate its benefits to both market participants and consumers.** The impact on market participants will be significant, and a communication strategy will be needed that identifies the benefits that will result from improved regulation and enhancements to the NSSMC's efficiency. Similarly, consumers should be informed about the benefits of the new regime.

Recommendation

52. **The NSSMC's accountability under Model 2 would likely be enhanced, if detailed statements of the costs incurred in supervision of each category of market**

participant were included in its end of year financial statements. However, it may take some time to develop the systems to enable this to be done.

E. Efficiency

53. **It is common practice for self-funded securities regulators to be responsible for calculating and collecting fees.** All the information on the fee basis is currently available to the NSSMC through the reports that regulated entities are required to provide to it, with the exception of information about the securities market revenue of banks referred to above. The NSSMC currently collects administrative fees on behalf of the government and has the systems and processes to enable it to undertake this function.

Recommendation

54. **The NSSMC should be responsible for calculating and collecting fees.**

F. Minimal Market Distortions

55. **There do not appear to be any elements in the proposed NSSMC models that would have an adverse effect on competition in the securities markets, or that would create incentives for conduct that could disrupt the effective functioning of securities markets.** Both models treat similarly situated fee payers in the same way, and the differences in fees that individual participants would pay are designed to reflect differences in the costs of providing administrative services and of supervision. In this respect, it is important to see fees as more in the nature of a way of recovering the cost of regulatory services than as a form of taxation.

Recommendation

56. **Aspects of the selected fee regime should be kept under review to ensure that it does not result in undesirable competition consequences.** In particular, the effect of the fee regime on small firms should be monitored to ensure it does not result in undue barriers to entry. Refining the regime over time in the light of information about actual costs will assist in this regard. In addition, the impact of the proposed fee regime on the competitiveness of the Ukrainian securities market should also be monitored.

APPENDIX I. SCOPE OF THE NSSMC INVESTIGATION POWER IN THE DRAFT INDEPENDENCE LAW

1. **The enhancement of the NSSMC investigation powers was recommended by MCM July 2015 TA mission.**[1] The TA report included a recommendation that the NSSMC should be empowered to conduct investigations to require any legal or natural person, whether regulated or unregulated, to provide information and documents to (i) determine compliance with Ukrainian securities laws; and (ii) assist foreign regulators under cooperation arrangements.[2]

2. **IOSCO Principles require a securities regulator to have broad investigation powers.** Key Question 1 of Principle 11 requires the regulator or other competent authority to have the investigative and enforcement power to enforce compliance with the laws and regulations relating to securities activities.

3. **The draft Independence Law does not appear to follow the previous MCM TA mission's advice and the above mentioned IOSCO Principle.** This is because the law defines an investigation in a very narrow manner, except when an investigation is conducted to assist a foreign securities regulator within the framework of international cooperation.[3]

4. **According to the NSSMC, the intention is to extend the NSSMC's ability to "investigate" other types of securities law violations by providing the NSSMC with an exceptionally wide inspection power.** Such power is to be granted through a new article 9-1 of the Law on State Regulation. However, the proposed new article is very complex and, together with other legislation and NSSMC regulations relating to inspections, runs a significant risk of unduly limiting the NSSMC's ability to identify misconduct in securities markets. It is therefore recommended that the draft law will be aligned with the July mission's recommendations.

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[1] The report Enhancing the Powers and Independence of the NSSMC was submitted to the NSSMC on September 11, 2015 and published on October 15, 2015 at http://www.imf.org/external/pubs/cat/longres.aspx?sk=43340.0.

[2] Paragraph 11 and Appendix II, p. 26.

[3] Art. 5(1) of the draft Law defines the conduct of an investigation activity of NSSMC with the aim to determine the reasons and to document the facts of market manipulation / insider dealing, or to assist a foreign securities regulator within the framework of international cooperation to address the abovementioned or other market abuses.

APPENDIX II. FEE MODELS IN SELECTED COUNTRIES

1. **The mission reviewed the funding regimes of securities regulators in a number of other jurisdictions.** These jurisdictions are Bulgaria, Poland, Romania, Serbia, Spain, and Turkey (Table 1). The jurisdictions vary considerably in the size and stage of development of their capital markets; in the responsibilities of the regulator; and in the relative complexity of the mechanisms used to fund securities regulation.[1] Only a limited amount of material on the funding of regulators in these jurisdictions has been available to the mission, so the following comments are confined to the basic elements of the mechanisms for funding securities regulation.

2. **All regulators in these jurisdictions have in common that they are funded wholly or in part by fees and levies paid by industry.** Most regulators appear to be de facto independent of the state budget process and only Bulgaria's Financial Services Commission (FSC) relies on funds from the central budget as well as fees and levies raised from industry.[2] The legislation governing some regulators, for example Poland's Komisji Nadzoru Finansowego (KNF),[3] explicitly states that the funding of the regulator is to be provided by contributions from regulated entities; in other cases, such as Turkey's Capital Markets Board (CMB), the legislation provides that if revenues from industry do not meet the regulator's expenditure, the deficit is to be made up by grants from the central budget.[4]

3. **All jurisdictions other than Turkey have a basic distinction between administrative fees and supervision fees.** Administrative fees are payable for regulatory actions taken at the request of an individual participant such as licensing and authorization of industry participants, for example of market operators, market infrastructure providers, investments firms (such as brokers) or investment managers; and approvals of transactions such as the issue of securities or takeovers. Supervision fees are periodic fees designed to cover or contribute to the costs of other regulatory functions such as supervision and enforcement.

4. **All jurisdictions other than Turkey use a mix of fixed amount fees (flat fees) and fees that vary by reference to some factor (variable fees).** Administrative fees tend to be flat fees, with the significant exception of fees for some capital market transactions. Fees

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[1] Three are specialist securities market regulators (Serbia, Spain and Turkey); one is a universal regulator responsible for banking supervision, and supervision of the insurance, pension, and capital markets (Poland); and two regulators have responsibilities for insurance and pension funds as well as the securities market (Bulgaria and Romania). (Source: regulators' websites).

[2] For Bulgaria, see the FSC's budget for 2015 at http://www.fsc.bg/bg/za-komisiyata/byudzhet-i-otcheti/. For other regulators, see revenue and expenditure statements contained in their annual or financial reports on their websites.

[3] Poland Law on Financial Market Supervision Article 19.1.

[4] Turkey Capital Markets Law Article 130(2). A similar provision applies in Serbia (see Article 259 of the Serbian Capital Markets Law).

related to the approval of an issue of securities (typically involving approval or registration of a prospectus) are commonly set as a percentage of the value of the securities to be issued, for example in Bulgaria, Romania, Serbia, Spain,[5] and Turkey. Fees relating to takeover transactions are in some jurisdictions subject to a variable fee expressed as a percentage of the value of the transaction, for example in Serbia and Spain.

5. **Supervision fees are flat annual fees in Bulgaria and Serbia, but in other jurisdictions contain variable elements.** For variable fees related to supervision of market activity and market participants, there are two basic approaches (i) fees based on the value of transactions in markets that are subject to the regulator's supervision. This is the approach taken, for example, in Romania and was the approach taken in Poland before 2016; and (ii) fees for each category of market participant with a variable element that reflects the size of each participant relative to the other participants in the same category. This is the approach used in Poland and Spain.

6. **A variety of methods are used to determine relative size for these purposes, and methods vary between categories of market participants.** For example, for market operators, Spain uses a sliding scale where fees payable are a factor of the value of instruments traded on the market, while in Turkey the fee payable is a percentage of the gross non-interest revenue of the market operator. For regulated entities that are asset managers, the measure of relative size is commonly the value of assets under management (Poland, Romania, and Spain). In Turkey, the investment funds and pension funds managed by portfolio managers are directly subject to the fees, not the managers. The fee payable is a percentage of the net asset values of those funds, calculated at the end of each quarter, and collected quarterly. In Spain, fees for monitoring compliance by investment firms with conduct of business rules are based on a combination of a percentage of each firm's total gross revenue and an amount based on the number of clients the firm has. Not all jurisdictions impose ongoing supervision fees on issuers of securities, but this is done in Poland and Spain. In Spain, the fee is calculated by reference to the issuer's market capitalization, while in Poland it is calculated by reference to the balance sheet equity of the issuer.

[5] In Spain, registration of a prospectus attracts a flat fee, but approvals relating to the admission of securities to trading on a regulated market attract a variable fee.

Table 1. Fee Bases of Selected Regulators

Country	Regulator	Funding Sources	Budget	Basis of Fees
Bulgaria	Bulgarian FSC is the regulator responsible for securities markets, investment management, insurance and social insurance, and financial conglomerates.	Fees and state budget	Fiscal year 2015 BGN 10.172 million (approximately US$ 5.7 million) (whole of agency)	(Fees for securities market and investment management activity).[1] Fees charged for: • issuing of licenses, permits, and authorizations • issuing of permits for mergers, takeovers, splitting, or spin-off of supervised persons • approval of prospectuses for public offerings of securities • review of documents • general financial supervision, including processing of mandatory current and periodical information and for conducting inspections Basis for calculating fees: Almost all fees charged for securities market and investment management activity are flat fees. The only exception is the fee payable for confirmation of prospectuses for public offering of securities where the fee is scaled according to the size of the issue: BGN 600 for issues of up to BGN 200,000; over BGN 200,000 the rate is BGN 600 plus 0.1 percent of the balance over BGN 200,000 with a maximum of BGN 5,000. Fees for general financial supervision are fixed in a Rate Schedule adopted by the Council of Ministers following a proposal by the Commission.
Poland	The Polish Financial Supervision Authority (KNF) is responsible for supervision of the financial market, including banking supervision, supervision of the capital, insurance and pension markets, supplementary	Fully funded by fee revenue	Budget for fiscal year 2014 Whole of agency: PLN 218.5 million (approximately US$ 53.4 million) Securities	Fees for securities market and investment management activity.[3] Basis of fees: A. Up to 2016 Fees charged for: • Granting licenses, authorizations, and approvals • Fee for transactions on regulated markets and MTFs paid by market operator • Fees for transactions entered into by investment firms paid by investment firms

Country	Regulator	Funding Sources	Budget	Basis of Fees
	supervision of financial conglomerates, supervision of electronic money institutions, payment institutions and payment service bureaus, as well as supervision of cooperative savings and credit unions.[2]		market component: PLN 43.7 million (approximately US$ 10.7 million)	Basis for calculating fees: • Granting licenses etc: flat fee (up to PLN equivalent of EUR 4,500) • Transactions on regulated markets and MTFs: percentage (up to 0.03 percent) of the value of rights transfer agreements • Transactions by investment firms: percentage (up to 0.15 percent) of the value of rights transfer agreements B. From 2016 Fees charged for: • Granting licenses, authorizations, and approvals • Variable annual fees paid by regulated entities (stock exchange; exchange clearing house; OTC market operator; depository; clearing facility operator; settlement system operator; broker; commodity broker; branch of foreign broker) • Variable annual fees paid by investment fund companies • Variable annual fees paid by listed issuers • Flat annual fees paid by some designated entities (e.g., foreign investment firms conducting transactions on a regulated market; non-listed issuers) • Contributions to the costs of capital market supervision paid by banks (16.5 percent of the total cost of supervision) and insurance entities (1.5 percent). Basis for calculating fees: • Granting licenses etc: flat fee (up to PLN equivalent of EUR 4,500) • To establish the level of variable fees that will apply, a “net supervision cost” is calculated, by deducting from total KNF supervision costs[4] fee revenue from other sources (such as other fee revenue, and the contributions to the costs of supervision paid by banks and insurance firms) • This net supervision cost is then allocated across 5 groups of regulated entities in proportions determined by the MoF Ordinance (for example, the investment fund companies group

Country	Regulator	Funding Sources	Budget	Basis of Fees

				bears 18.5 percent of the net supervision costs; the public companies group 26 percent)
				• Within in each group, costs are allocated across individual participants proportionately by reference to:
				  ◦ For regulated entities (stock exchanges, etc.): a percentage of the average income of the regulated entity
				  ◦ For investment fund companies: a percentage (0.008 percent of assets under management)
				  ◦ For listed issuers: a percentage of issuers' equity
				Note: This fixed/variable arrangement is possible because the fees referred to in the legislation are expressed as maximum fees

Romania	The Romanian Financial Supervisory Authority (Autoritatea de Supraveghere Financiară, ASF[5]) is responsible for supervising the securities markets, the insurance and re-insurance markets and the private pension system.	Fully funded by fee revenue[6]	Budget for fiscal year 2014 RON 165.9 million (approximately US$ 39.8 million)	Fees for securities market and investment management[7]
				
				Fees charged for:
				• Fees related to transactions in financial instruments including public offers of securities and public takeovers
				• Fees related to the operation/management/supervision of undertakings for collective investment, private pension funds, insurers/reinsurers, and insurance/reinsurance brokers
				• Fees for authorizations, licenses, approvals, etc.
				
				• The regulator also receives funds from penalties imposed.
				Basis for calculating fees:
				• Transactions in financial instruments:
				  ◦ variable fees based on a percentage of the value of transactions, except for derivatives (where the charge is a flat rate per contract). The percentage varies between 0.02 and 0.06 percent
				  ◦ fees charged for monitoring transactions carried out outside the trading systems. The percentage varies between 0.02 and 0.06 percent.
				  ◦ percentage of the value of public offerings – varies between 0.05 and 0.1 percent
				  ◦ percentage of the value of public purchase offers/takeover

Country	Regulator	Funding Sources	Budget	Basis of Fees

				bids - varies between 1 and 1.5 percent
				
				• Collective investment funds, private pension funds, insurers/reinsurers, insurance/reinsurance brokers:
				  • percentage/charges of the net asset value/gross earned contributions, corresponding to private pension funds, investment funds/undertakings for collective investment (UCI) - varies between 0.0078-0.5 percent
				  • operation fee applicable to depositaries of privately managed pension funds – 10 percent
				  • operation fee applicable to insurers and insurance brokers – 0.3 percent
				  • contribution for the CEDAM database - percentage on gross premiums earned for RCA – 1 percent
				• Fees for authorizations, etc.: flat fees

Serbia	The Republic of Serbia Securities Commission (SSC) is a specialist securities market regulator[8]	In 2014, SSC was funded fully from its own revenues	Budget for fiscal year 2014: RSD 120 million (approximately US$ 1.21 million)	Basis of fees:[9] Fees charged for: There are 24 categories of actions for which fees are charged. These include: • Fees for approvals • Fees for licenses • Annual fees for ongoing supervision • On-site supervision fees • Fees for providing classes and exams for securities market professionals • Fees for entry into register (individual brokers and public companies) • Fees for seeking an SSC opinion • Fees for approvals for launching takeover bids • Fees for entry into the list of audit companies allowed to audit financial statements of public companies

Country	Regulator	Funding Sources	Budget	Basis of Fees

				Basis for calculating fees:
				• Most fees are flat fees, including annual fees for ongoing supervision and fees for on-site supervision
				• Variable fees are charged for a small number of approvals:
				    • Approval of a base prospectus or a securities note (0.20 percent of issue of securities with a minimum of RSD 250,000);
				    • Approval of a prospectus where the issuer is an autonomous province or local government unit, or an international public authority (0.15 percent of the value of the securities with a minimum of RSD 250,000);
				    • Approval for launching or amending a takeover bid (0.35 percent of funds earmarked for payment of shares that are the subject of the bid with a minimum of RSD 300,000)
				    • License for an operator of a regulated market or MTF (3 percent of minimum founders capital)
				    • License of an investment firm (3 percent of minimum founders capital)
				    • License for an investment fund management company (3 percent of minimum founders capital)

Spain	The CNMV is s specialist securities market regulator. It is responsible for supervising and inspecting the Spanish stock markets and the activities of all the participants in those markets[10]	The CNMV is fully funded through fee revenue.	Expenses for fiscal year 2014 EUR 42.0 million[11] (approximately US$ 45.9 million)	Fees charged for:[12] • Examining documentation related to admission of securities to trading, registering prospectuses, registering securitization, and bank asset funds • Examining documentation relating to takeovers and related waivers and exemptions • Examining documentation relating to the authorization and registration of regulated markets, MTFs, CSDs, settlement systems, and CCPs • Examining documentation relating to authorization of investment firms, collective investment scheme (CIS) management companies, etc. • Checking compliance with the requirements for marketing in Spain • Supervising and enforcement of regulated entities subject to

Country	Regulator	Funding Sources	Budget	Basis of Fees

				prudential requirements, investment firms, members of markets and market infrastructure entities, and market and financial market infrastructure operators
				• Issuing certificates
				
				Basis for calculating fees:
				• A mixture of flat fees and variable rate calculations
				• Flat fees include:
				  ◦ Fees for registering a prospectus
				  ◦ Fees for authorization and registration of market and market infrastructure entities
				  ◦ Fees for registration of investment firms and CIS management companies
				• Variable fees include:
				  ◦ Fees for admission to trading on regulated markets (0.01 percent of the value of securities to be admitted, with a minimum of EUR 4,000 and a maximum of EUR 70,000)
				  ◦ Fees for cash takeover bids (0.0225 percent of the consideration to be paid)
				  ◦ Fees for supervising compliance of investment firms subject to capital requirements (0.1 percent of capital requirement each semester, with a minimum of EUR 500)
				  ◦ Fees for supervising compliance by collective investment undertaking management companies subject to capital requirements (0.025 percent of capital requirement each semester, with a minimum of EUR 500)
				  ◦ Fees for supervising compliance by collective investment undertakings requirements (0.00175 percent of the assets in the fund each semester, with a minimum of EUR 500)
				  ◦ Fees for supervising compliance with conduct of business rules by persons or entities that provide investment services (0.047 percent of total gross revenues, with a minimum of EUR 350, plus an amount calculated by multiplying the number of clients to whom investment services have been provided in the previous year by EUR

Country	Regulator	Funding Sources	Budget	Basis of Fees
				0.47, with a minimum of EUR 850) • Fees payable by members of markets and market infrastructure entities calculated by reference to the number of transactions executed, with the rate (expressed in fractions of a EUR) varying according to the amount of the transaction (organized in tranches) and the type of transaction (equity, fixed interest, derivative) • Fees payable by market operators are calculated by reference to a sliding scale of fixed amounts that varies according to the sum of the effective value (for equities) and nominal value (for fixed income securities) traded on the market • Fees payable by issuers of securities listed for trading on regulated markets calculated by reference to market capitalization

Turkey	CMB is specialist securities market regulator	The CMB is fully funded through fee revenue.	Budget for fiscal year 2014:TRY 103.2 million (approximately US$ 33.9 million)	Fees charged for:[13]
				• Issues or public offers of securities
				• Operating investment funds and variable capital investment companies
				• Operating pension funds
				• Operating a market, central clearing institution, central securities depository, and credit rating agency
				
				Basis for calculating fees:
				• Securities issuers: the CMB has the right to determine the ratio up to 0.3 percent of the issue value (Turkey Capital Markets Law Article 130(3)). As determined by CMB decisions and regulations, applied ratios are regulated with different communiques differ and are as follows:
				  ◦ 0.2 percent for shares to-be-sold
				  ◦ 0.01 percent for shares to-be-sold for SMEs
				  ◦ 0.05 to 0.2 percent for debt securities
				  ◦ 0.025 to 0.1 percent for lease certificates (Sukuk)
				• Investment funds and variable capital investment companies: 0.005 percent of the net asset value of the investment fund or

Country	Regulator	Funding Sources	Budget	Basis of Fees
				variable capital investment company, calculated at the end of each quarter • Pension funds: 0.003 percent of net asset values of the pension fund, calculated at the end of each quarter • Operators of a market, central clearing institution, central securities depository and credit rating agency: Maximum 10 percent of gross revenue (expect interest revenue)

[1] The fee regime for Bulgaria is contained in the Financial Supervision Commission Act, Article 27 (available at http://www.fsc.bg/en/legal-framework/laws/).

[2] https://www.knf.gov.pl/en/About_us/KNF_Polish_Financial_Supervision_Authority/task_and_objectives/index.html.

[3] See Poland's Act on Trading in Financial Instruments, Articles 162 and 163, and Article 236 of the Act on Investment Funds of May 27, 2004. Also, for the regime that commenced in January 2016, see the Ministry of Finance Ordinance on the Fees to Cover the Costs of Capital Market Supervision, December 29, 2015.

[4] Calculated by reference to the historical costs of supervision.

[5] http://www.asfromania.ro/en/about-asf/our-mission

[6] Article 18 of Emergency Ordinance No. 93/2012 on the Establishment, Organization and Operation of the Financial Supervisory Authority provides that the ASF is fully financed from its own extra-budgetary revenues.

[7] See the ASF's Regulation no. 16/2014 on the Financial Supervisory Authority's Revenues.

[8] http://www.secrs.gov.ba/en/OKomisiji/Informacije.aspx?id=1

[9] See the SSC's Rulebook on Fees (Official Gazette of RS, No 16/2012, 50/2012, 57/2012 – corr. 68/2012 and 14/2013).

[10] http://www.cnmv.es/portal/quees/Funciones/Funciones.aspx accessed January 9, 2016.

[11] This figure is ordinary expenses, not total expenses.

[12] See Law 16/2014, of September 30, 2014, regulating the fees of the CNMV.

[13] See Article 130 of the Capital Markets Law (Law Nr 6362).

Appendix III. Comparison of Current and Proposed Administrative Fees and Budgeted and Estimated Fee Revenue[1]

	Administrative Action	Basis of Fee	UAH Amount for 2016	2016 Budget Revenue (UAH million)	Basis of Fee	UAH Amount for 2016	Projected Fee Revenue (UAH million)
1	Registration of securities issue	0.10 percent of nominal value of shares to maximum of 50 minimum wages[2]	(Maximum payable: 68,900)	9.70	0.10 percent of nominal value of shares to maximum of 400 minimum wages	(Maximum payable: 551,200)	37.00
2	Registration of derivatives	50 minimum non-taxable incomes of citizens	Equivalent to UAH 850		10 minimum wages	13,780	0.03
3	Issue of certificate to perform professional activities with securities in Ukraine	Flat fee	450	0.68	3 minimum wages	4,134	5.61
4	Registration of self-regulatory organization (SRO) of professional participants of stock market or association of professional market participants, approval of documents of SRO	Flat fee	3,300		12 minimum wages	16,536	0.13
5	Registration of rules of stock exchange, Central Depository, entity performing clearing activities	Flat fee (currently only charged for stock exchanges)	3,280	Total for items 4, 5, 6 and 7: 0.44	20 minimum wages	27,560	0.58
6	Registration of by-laws of CIS	Flat fee	1,190		12 minimum wages	16,536	6.37
7	Issue of license to perform some types of professional activities on securities market or activity in funded pension system	Flat fee	3,000		40 minimum wages	55,120	15.38

	Administrative Action	Basis of Fee	UAH Amount for 2016	2016 Budget Revenue (UAH million)	Basis of Fee	UAH Amount for 2016	Projected Fee Revenue (UAH million)
8	Administrative actions for which no fee is currently charged	No current fees			Various fees		29.47
	Total			10.82			94.57

Source: NSSMC

[1] Fees for items 3, 6, and 7 show only the fee for the main action, not the issue of duplicates or copies (which attract smaller fees).

[2] For 2016, the minimum wage is UAH 1,378 per month. So 3 minimum wages is UAH 4,134 (in January 2016 about US$ 169) and 10 minimum wages is UAH 13,780 (US$ 564).

APPENDIX IV. KEY PRINCIPLES IN THE DESIGN OF A SELF-FUNDING MODEL

Adequacy of funding

1. **If industry funding is to be the only source of a regulator's funding, the funding mechanism must ensure that there is sufficient funding to cover all the regulator's activities and to enable it to function effectively.** Typically a securities regulator engages not only in direct regulatory activities (such as document approvals, authorizations, rulemaking, surveillance, and enforcement) but also in activities that, while not strictly regulatory in nature, help the regulator achieve its mission (such as investor education). The following are the typical activities for which adequate funding is required:

Type of Activity	Description
Licensing and professional registration	Typically, the regulator administers the licensing or authorization regimes for market operators, clearing and settlement facilities, depositories, custodians, financial services intermediaries such as brokers, and asset management entities. Some regulators also have responsibility for registering other entities, such as auditors or credit rating agencies.
Document compliance review	The regulator receives documents submitted by regulated entities for review and action. These include disclosure documents, prospectuses, takeover documents, and collective investment scheme documents.
Surveillance	The regulator conducts surveillance by gathering and analyzing information on a specific entity or range of entities, a transaction, a specific product or issue of concern in the market to test compliance with the laws it administers and to promote consumer and investor outcomes. Surveillance includes on-site inspections of regulated entities.
Enforcement	The regulator undertakes investigations of possible misconduct. This may lead to enforcement action such as criminal action, civil action, and administrative action.
Rulemaking	Many regulators have the power to make mandatory rules which supplement the legislative framework they administer.
Applications for relief	Many regulators have the power to exempt individuals or entities from the legislation they administer, or to modify the way the legislation works in particular cases. This is normally done on the application of an individual or entity.
Guidance	The regulator provides guidance to industry about how it will administer the law and their obligations under the law.
Policy advice	The regulator provides policy advice to government on legislative changes and on the securities market implications of government policy initiatives.
Stakeholder engagement	The regulator engages with industry and other stakeholders to set and maintain standards, to better inform its practices, to address stakeholder enquiries, to ensure issues in the market are identified, and to ensure that the regulator's messages are communicated to industry.
Education	The regulator undertakes a range of educational activities. This includes developing tools and resources for its regulated population and investors, and materials for its website.
Maintaining registers and databases	Many regulators maintain publicly available registers and databases, for use by both industry and members of the public.

2. **As well as adequate funding for its regulatory and other activities, the regulator needs to have funding to enable it to invest appropriately in systems that will enable it to do its job efficiently and effectively.** For modern securities regulators, this means especially the ability to invest in technology systems that enable them to receive, analyze, store, and retrieve the large amounts of information that are typically involved in administering securities legislation. A self-funding model should be designed to ensure that it results in funding for capital expenditures of this kind.

3. **In some jurisdictions with a well-established self-funding system, the funding process begins with the regulator preparing an expenses budget which covers all its activities for the budget year.** Variable elements in the funding model, such as the rate or amount of fees, are then adjusted to ensure that sufficient funding is available.

Stability of funding

4. **In designing a self-funding model, careful consideration needs to be given to ensuring that the model adopted will result in stable funding for the regulator.** The aim should be a funding base that delivers stable, predictable funding and that the base is not subject to potentially large variations from one budget year to another. Large changes in funding from year to year, especially negative changes, are disruptive for the regulator and may affect its ability to achieve its mission. For example, if market turnover in a jurisdiction varies significantly from year to year, funding that is heavily dependent on market turnover will itself be volatile.

5. **An effective self-funding model therefore should aim to base the regulator's funding on factors that are likely to be relatively stable over time.** These factors will vary from jurisdiction to jurisdiction. In a jurisdiction with a large, well-established capital market, the level of market activity (measured by reference to the number of transactions or total value of transactions) may be sufficiently predictable to be a main basis of fees paid to the regulator. In a smaller jurisdiction with a developing capital market, it may be more appropriate for fees to be based on factors that may be more stable, such as the number of regulated entities.

6. **In some jurisdictions, the self-funded regulator is able to accumulate reserves for use in future budget years.** Use of reserves in this way helps stabilize funding in periods when variable factors in the funding model (such as a fall in market turnover) result in a decline in income.

Proportionality

7. **It is desirable that there is an identifiable relationship between the fees that industry participants or industry sectors pay and the costs incurred by the regulator in providing regulatory services to and supervising those participants or sectors.** This encourages industry acceptance of the funding model and in particular avoids the perception that the model results in one sector of the regulated population subsidizing the regulation of another.

8. **At the most basic level, this can be expected to result in the funding model recognizing the two types of regulatory costs:**

- Those incurred as the result of a request by an individual industry participant for the regulator to take action. Costs in this category typically involve the regulator responding to requests for authorization (such as the issue of a license), requests for approval (such as prospectus approval, or approval of a collective investment scheme), or requests for relief.
- Those incurred for a broad range of regulatory activities that cannot easily by attributed to individual industry participants but apply to participants (or the market) as a whole or to industry sectors. Costs in this category include surveillance, enforcement, rulemaking, guidance, and stakeholder engagement.

9. **The result is a distinction in most self-funding models between fees for responding to individual requests for regulatory action (administrative fees) and fees that meet other regulatory costs (supervision fees).** Administrative fees are generally set for each type of action the regulator can be asked to take, often with the aim of ensuring that fees cover the costs the regulator will, on average, incur in responding to the request for regulatory action. Supervision fees can take a variety of forms, but the general aim in designing a mechanism for setting these fees is to ensure that all regulated persons and entities contribute to the cost of regulation. This can be achieved by (i) imposing fees directly on all categories of market participants, such as annual levies; or (ii) imposing fees on market activity, such as fees on market transactions, the cost of which will be met by market participants.

10. **Precise calibration of supervision fees on a true cost-recovery basis requires the regulator to be able to accurately forecast the costs of supervision for each category of market participant, as well as costs that cannot be attributed to categories of market participants such as investor education and enforcement.** This in turn requires sophisticated accounting systems and stable and accurate historical information about costs. In jurisdictions with less developed markets and regulatory systems, this will not be achievable at the outset, and models will inevitably rely on more general approximations of costs.

11. **Within fee categories, fees levied on market participants should generally be scaled to reflect the relative intensity of regulation required.** Most commonly, this is achieved by applying some measure of the impact on market integrity or investor protection of one market participant compared to other participants in the same category. For example, a brokerage firm that is large (determined by reference to, for example, income) can be expected to have a larger potential impact on the regulator's mission than a small brokerage firm; and an asset manager with substantial assets under management is likely to require more intensive supervision than a firm with relatively few assets under management. An appropriately designed self-funding system would result in differential fees being levied to reflect these differences in demands on a regulator's resources. This approach also ensures that fees are appropriately scaled so as to be affordable for smaller firms.

Transparency and accountability

12. **An effective and credible self-funding regime should be fully transparent.** The basis on which the regulated industry contributes to the cost of regulation should be clear and certain, and individual participants should be able to ascertain their payment obligations and the consequences of those obligations for business decisions. More generally, the way in which the regulator is funded and the regulator's use of that funding should be publicly disclosed, for example in annual reports.

13. **Self-funding does not alter the character of the regulator as a public institution, or the need for the regulator to be fully accountable to government and/or the legislature.** A well designed self-funding system should enhance the accountability of the regulator by making clearer the relationship between the costs of regulation and the actions of the regulator. In addition, in most jurisdictions where the regulator is self-funded, key elements of the self-funding regime are decisions of the government or the legislature, not the regulator. For example, fee levels are usually determined by legislation or regulations made by government; and in some jurisdictions the annual budget of the regulator is subject to the approval of the legislature or the relevant government agency (such as a finance ministry).

Efficiency

14. **Under a well-designed self-funding system, it should be easy for the collection authority to verify the payment obligations of industry participants, and the way payments are collected should be efficient.** In jurisdictions with self-funded regulators, the regulator is normally responsible for calculating the payment obligations of regulated entities, and for collection of amounts due. The information on which fee calculations are based is typically set out in documents or reports supplied to the regulator for regulatory purposes, such as applications by individual entities, or reports or financial statements that regulated entities must provide to the regulator periodically. This makes the verification of information on which fees are based a simple extension of interactions between the regulator and market participants. Similarly, the regulator is typically responsible for ensuring that regulated entities meet their payment obligations. The payment of fees is an additional obligation monitored and enforced by the regulator like other compliance obligations under the legislation it administers.

Minimal market distortions

15. **In designing a self-funding model, consideration should be given to potential impacts on industry competition and innovation, and care should be taken to ensure that the funding model does not create incentives for conduct that might distort the effective functioning of markets.** These factors may be difficult to assess ex ante, especially in less developed markets, but ensuring that similarly situated participants are treated in the same way is an essential starting point. Given the international nature of many securities markets, consideration may also need to be given to ensuring that the self-funding regime does not have an adverse impact on the attractiveness of a jurisdiction's market to international participants.

Regular review

16. **As well as meeting these design principles, a self-funding regime should be reviewed regularly to ensure it is meeting its objectives.** A jurisdiction establishing a self-funding regime for the first time will inevitably rely on a number of assumptions. Developments in the market and in changes in regulatory practices may result in the need to change those assumptions. Periodic reviews of the funding model will help ensure that the model remains fit for purpose, and continues to comply with the other principles set out above.

APPENDIX V. ASSUMPTIONS FOR NSSMC ESTIMATES OF FEE REVENUE

1. **The NSSMC has made estimates of the fee revenue that it would receive if its proposed models were in operation for fiscal year 2016.** Its estimates under Model 1 and Model 2 are based on a number of assumptions about the level of market activity, the size of the regulated population, and the variables that determine the fee obligations of individual participants.

Model 1

2. **There are two key variables for Model 1: estimated market turnover; and the net asset value of assets held by asset managers.** NSSMC estimates are based on an assumption of a significant reduction in market turnover (Table 1).

Table 1. Market turnover: NSSMC Estimates for 2016 Relative to Previous Years[1]

		Market Turnover						
Type of instrument	**Trading venue**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016 F1**	**2016 F2**
		UAH billion						
State Bonds	Exchange	756	179	346	546	310	72	136
	OTC	99	1038	376	142	38	27	27
	Total	**855**	**1217**	**722**	**688**	**348**	**99**	**163**
Corporate Bonds	Exchange	21	26	48	33	11	7	9
	OTC	82	99	51	37	51	24	32
	Total	**103**	**125**	**99**	**70**	**62**	**31**	**41**
Shares	Exchange	69	21	45	24	6	3	4
	OTC	568	568	126	391	466	47	70
	Total	**637**	**589**	**171**	**415**	**472**	**50**	**74**
Investment Certificates	Exchange					2	1	2
	OTC					136	48	72
	Total	**0**	**0**	**0**	**0**	**138**	**49**	**74**
Total all markets (except bills)		**1,595**	**1,931**	**992**	**1,173**	**1,020**	**229**	**352**

Source: NSSMC

[1] Figures for 2011-2014 are from the NSSMC's annual reports; for 2015, NSSMC estimates of actual turnover are used. For 2016, two forecast scenarios are used, a "pessimistic scenario" (F1) and a "realistic scenario"(F2).

3. **For asset managers, the model builds in a substantial reduction in the NAV of assets under management from the current figure of more than UAH 200 billion to approximately UAH 92 billion.** This is presumed to be a result of the introduction of the new fees and the

response of assets managers, especially managers of venture funds, to them. In the NSSMC's view, the current NAV is generally overstated to a significant degree, and the new fee would create an incentive for a move to a more realistic figure (Table 2).

Table 2. Public Funds and Venture Funds

Category of Fund	Assets under Management (Million UAH)				
As of end-December	**2010**	**2011**	**2012**	**2013**	**2014**
Public funds	9,002	10,555	11,692	10,100	10,881
Venture funds	100,304	121,570	148,725	173,287	202,870
Total	**109,306**	**132.125**	**160,417**	**183,387**	**213,751**

Source: NSSMC

Model 2

4. **In Model 2, there are a number of key variables.** These are the number of fee payers in each fee-paying category; the reference point for fee calculation for that category (for example, net income); the number of payers who will pay either the maximum amount (for issuers "in listing"), or the minimum amount (for licensees); and the value of assets managed by asset managers or held by custodians. The NSSMC has made estimates of these variables on the basis of market changes likely to result from current and proposed regulatory actions; conservative estimates of market trends; and, for calculations based on financial statements, the current financial statements of fee payers (Table 3).

Table 3. Issuers

Category of Issuer	Number of Issuers					
As of end-December	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
"In listing" issuers	267	335	424	500	483	391
Non-listed issuers	1079	1672	2271	2637	2590	2311
Total	**1346**	**2007**	**2695**	**3137**	**3073**	**2702**

Source: NSSMC

5. **The NSSMC estimates are based on a reduction in the number of "in listing" issuers to 10 payers; and the number of non-listed issuers to 1,500.** For "in listing" issuers, the NSSMC estimates only two issuers will pay the maximum fee; the remainder will pay 0.01 percent of nominal capital (a total of UAH 1.04 million) (Table 4).

Table 4. Licensees

Type of Professional Activity on Stock Market	Number of Professional Stock Market Participants					
As of end-December	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Securities traders (brokers)	763	733	647	554	462	369
Custodians	372	384	369	-	-	-
Securities registrars	297	188	134	-	-	-
Depository institutions/custodians	-	-	-	316	306	255
Asset management companies	361	360	358	349	345	320
Depositaries	2	2	2	1	1	1
Depositary clearing	2	2	2	-	-	-
Persons conducting clearing activities (CCP)	-	-	-	1	1	1
Stock exchanges	10	10	10	10	10	10
Total	**1,807**	**1,679**	**1,522**	**1,231**	**1,125**	**956**

Sources: NSSMC 2014 Annual Report and NSSMC for 2015

6. **The assumptions on which the NSSMC has based its estimates of supervisory fees are:**

- **Brokers:** A total of 300 fee payers is assumed. There will be 210 fee-paying brokers who are non-banks. Of these 39 will pay the variable rate, and the remainder will pay the flat rate. For brokers that are banks, there will be 90 fee-payers (out of a current 120 licensees), 13 of whom will pay the variable rate.
- **Depository Institutions/Custodians:** It is assumed that the number of custodians will fall to 240; 200 of these will pay the variable rate on a total of UAH 450 billion of securities in custody; and the remainder will pay the minimum amount.
- **Asset management companies:** For asset managers, the same assumptions are made as for Model 1. Within the category, there will be 45 fee-paying managers of pension funds, only 1 of whom will pay the variable amount; 200 managers of public funds, all of whom will pay the minimum fee; and 220 managers of venture funds, of whom 130 will pay the variable rate.
- **Stock exchanges:** It is assumed that the number of fee-paying stock exchanges will be 3, 2 of which will pay the variable rate. Assumptions about net income are based on 2014 financial statements, discounted by 50 percent.
- **National Depository and CCP:** There is only one payer in each category. Estimates of net income are based on 2014 and 2015 financial statements.

APPENDIX VI. STAFF REMUNERATION—NSSMC, NBU, AND NAB

1. **Base salary is not a reliable guide to total remuneration in the NSSMC and other parts of the civil service in Ukraine.** A distinction needs to be made between "salary" (base salary) and total remuneration which is base salary plus other added elements. These elements include (i) additional "mandatory payments" for a variety of factors such as extra amounts for academic degrees, complex work, and a long service bonus (these are in addition to payments for leave, medical leave, maternity leave, etc.); and (ii) incentive payments (these can be a significant proportion of total remuneration. For example, in 2015, incentive payments constituted 38 percent of the total remuneration of the NSSMC central office staff).

NSSMC

2. **Current rates of base salary and average monthly remuneration for NSSMC management and staff are (Table 1):**

Table 1. NSSMC Staff Remuneration

	Staff Position	Rate of Monthly Salary (UAH)	Number of Positions	Average Actual Monthly Remuneration (UAH)
1	Chairman	7,055	1	6,168
2	Commissioner	6,225	6	5,446
3	Head of staff	6,225	1	17,724
4	Head of department	4,109	10	11,632
5	Deputy head of department	3,986	10	11,285
6	Deputy head of department / Head of unit	3,821	10	10,785
7	Head of division	3,649	5	10,418
8	Deputy head of division / Head of unit	3,539	5	9,746
9	Head of unit	3,073	36	8,905
10	Deputy head of unit	2,980	12	8,841
11	Head of sector	2,593	1	5,959
12	Assistant to chairman	3,073	2	7,720
13	Advisor to chairman	3,073	1	-
14	Assistant to commissioner	2,688	5	7,047
15	Head specialist	2,210	194	6,816
16	Main specialist	1,729	20	4,055
	Total		319	

Source: NSSMC

NBU

3. **Currently, staff of the NBU are civil servants**. The Law on Civil Service applies to many aspects of staffing arrangements other than remuneration, which is determined by the NBU Board. From May 1, 2016, NBU staff will leave the civil service structure altogether.

4. **The NBU changed its compensation model in 2015 to move from a model where the fixed (base salary) component of total compensation was 20 percent, and the rest variable, to a model where the fixed component is 80 percent.** The variable component is a bonus based on achievement against key performance indicators, with managers receiving a bonus annually and professional staff quarterly.

5. **Remuneration for staff is organized in 10 bands.** The differential between the lowest point of the lowest salary band (Band 1) and that of Band 2 is 25 percent, and this differential increases in the higher bands. Within bands, there is a high level of differentiation (up to 80 percent). Salaries for non-managerial staff in core functions (which includes banking supervision) are in the range of UAH 15,000–16,000 per month. Indicative managerial salaries are:

- Team Manager: the range is UAH 23,000–27,000 per month
- Head of Department: the range is UAH 45,000–55,000 per month
- Head of Division: the range is UAH 65,000–80,000 per month.

NAB

6. **NAB is the recently formed anti-corruption bureau.** It currently has a staff of 294, but this number is scheduled to increase to 700 by the end of 2016. While it is a public sector agency, the Law on the National Anti-Corruption Bureau of Ukraine (NAB Law) gives it a special status, "state status," and unlike central executive agencies it is not subordinated to the Cabinet of Ministers.

7. **The Law on Civil Service applies to two of the three categories of NAB staff, while the third who perform police-like functions are subject to the same statute as the civil police force.** The application of the Law on Civil Service is varied in two key areas: the appointment process and staff remuneration.

8. **Remuneration is established for staff (other than those regarded as equivalent to the civil police) by the NAB Law.** Article 23 of the NAB Law sets out the remuneration arrangements for staff employed under it. Total remuneration consists of (i) base salary; (ii) bonuses for years of service; (iii) surcharge for academic degree; (iv) additional payments for work that involves access to state secrets; and (v) surcharge for special rank or civil service rank.

9. **Salary rates for senior executives and managerial staff are expressed as multiples of the Ukrainian minimum wage.** These range from 50 minimum wages (in 2016, UAH 68,900 per month) for the most senior staff member, to 19 minimum wages (UAH 26,182) for the lowest paid managerial function. Other employees of NAB covered by the NAB Law receive a salary of three times the salary received for an employee of an equivalent grade in the central executive agencies. These arrangements make the remuneration of NAB staff among the highest for public sector employees in Ukraine.