

Reform of Stock Market Activity in Ukraine

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Received: June 08, 2024

Published: June 25, 2024

Abstract. The article examines in detail measures to improve stock market activity in Ukraine, their prerequisites, and consequences. Currently, exchange trading takes place exclusively in the electronic system. The activities of the exchanges are aimed at administering the electronic trading system to ensure its functioning. The mechanisms for carrying out exchange trades have been unified, and the procedure for conducting trades, accreditation, monitoring the execution of contracts, and sanctioning violators has been improved, making it impossible to engage in shadow deals or hide sums to avoid taxes. The exchange acts as a guarantor of the execution of transactions. These measures should contribute to the transparency and formalization of economic transactions, increasing their reliability. Additionally, these improvements are

expected to enhance investor confidence, attracting both domestic and international investments. By reducing the opportunities for fraudulent activities and tax evasion, the Ukrainian stock market can achieve greater stability and credibility. Furthermore, the standardization and modernization of trading procedures can streamline operations, making the market more efficient and accessible. This, in turn, could lead to increased market participation and liquidity, fostering a more vibrant and dynamic financial environment. Overall, these reforms are crucial for the sustainable development of Ukraine's stock market and its integration into the global financial system.

Keywords: commodity exchange, accreditation, exchange trading mechanism, exchange agreement, monitoring.

Introduction. The key to the development and effective functioning of a market economy is a developed infrastructure. One of the main components and an integral element of the infrastructure is the exchange, as the most perfect form of trade organization. In their activity, commodity exchanges contribute to speeding up the turnover of goods in the country, effective pricing, risk hedging, which reduces transaction costs and has a positive effect on business activity, contributes to the transparency of operations and formalization of the economy. Commodity exchanges and their activities are a reflection of the macroeconomic state of the country, the development of market mechanisms, the state of each individual country and the problems present in it. The level of business activity on the stock exchange reflects the economic situation in the country and entrepreneurial mood.

In the context of the integration of the economy of Ukraine into the world and European economic space, it is necessary to take into account the modern global trends in commodity exchange trading, which are characterized by a stable growth of the types of goods and the volume of concluded deals, the emergence of new types of exchange instruments, the improvement of mechanisms of exchange trading, the introduction and spread of electronic exchange trading.

The purpose of the study was to research the impact of the capital market reform on the development and functioning of stock exchange trading in Ukraine.

Materials and methods. The methodological basis of the research is the theoretical work of domestic and foreign scientists, laws and normative legal acts of Ukraine. The methodological toolkit consisted of general scientific and special research methods, in particular, systemic, historical, and comparative legal methods.

Results and discussion. A paradoxical situation was formed in Ukraine: the number of stock exchanges was too large for our country, and the efficiency of their activity was too low. As Padalko O. (director of the "Exchange and Electronic Platforms" association) points out, the exchanges really worked, and some offered clients quite modern systems and high-quality service, but these were rather exceptions. There was no single approach to the regulation and standards of activity of commodity exchanges, the work of two exchanges could differ significantly. In practice, there were no single, clear, transparent trading rules that exchange participants must follow. Accordingly, exchange clients could not be sure of the reliability of various platforms. Ukrainian legislation differed significantly from European legislation, which complicated the work of foreign companies.

Most scientists agree that stock trading in Ukraine was at a low level. The main reasons identified in scientific works include: the imperfection of the regulatory and legal basis of exchange trading, which was reflected in frequent changes, the narrowness of the legal field, the lack of regulation of the nomenclature of exchange goods, the uncertainty of clear rules of the game, the absence of a single trading mechanism, general requirements for commodity exchanges, which made it possible to conclude illegal deals with undue benefit and contributed to the shadowing of the economy. Characterizing the work of commodity exchanges, they single out both the lack of competition and interaction, the market was scattered and not efficient.

At the beginning of 2021, 620 commodity exchanges were registered in Ukraine [2]. But most of them did not show themselves in any way, it is logical to assume that they either did not carry out the activity or it was in the shadows. A relatively small number of exchanges administered websites, conducted electronic trading, and were members of exchange associations. Thus, the "Exchange and Electronic Platforms" association included 16 members in 2018, and 21 members in 2021. The All-Ukrainian Association of Commodity Exchanges had 18 members.

Thus, we see that the number of stock exchanges does not guarantee the efficiency of their work and does not reflect the actual state of development of the stock market in Ukraine. In addition, such a number of exchange institutions was too large for Ukraine.

The above-mentioned problems actualized the need to improve the institution of exchange activity, the legal framework and state regulation of the activity of commodity exchanges. In August 2020, the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Simplifying Investment Attraction and Introducing New Financial Instruments" was adopted, which led to the improvement of the Law "On Commodity Exchanges".

The changes affected the terminology, the mechanism of exchange trading, rules, conditions of exchange activity, requirements for market participants, requirements for exchange goods, requirements for the exchange, a single regulator of exchange activity and his powers were clearly defined. The regulator is defined as the National Commission for Securities and the Stock Market (NCSCFR). Its functions include improvement of the regulatory framework, approval of requirements for exchange activity; issuance of licenses and their verification, state regulation of stock exchanges.

The law changed the very mechanism of exchange trading in Ukraine, exchange trading takes place exclusively in the electronic system, the activity of the exchanges is aimed at the administration of the electronic trading system and ensuring its functioning, which makes it impossible to shadow deals, hide the amounts of tax evasion contracts. The electronic trading system becomes a mandatory component of the organization of stock trading, the requirements of which are stipulated in the law and which are mandatory to fulfill. Electronic stock trading is conducted in the Software Product "Exchange Electronic Trading System" (SP EETS), in accordance with the Rules of stock trading on the stock exchange and the Regulations for conducting electronic stock trading on the stock exchange.

Article 2 of the Law of Ukraine "On Commodity Exchanges" provides that the organization of trade in products on commodity exchanges (the organization of exchange trading) is the activity of a commodity exchange in the creation and operation of an electronic trading system, which, in accordance with the procedure established by the National Securities and Stock Market Commission, ensures

centralized execution (conclusion) and/or centralized execution of transactions (exchange agreements, exchange contracts) regarding exchange goods in accordance with non-discretionary rules established by the commodity exchange and Ukrainian legislation [3].

The second most important innovation, after the introduction of only electronic trading, is the fact that only those exchanges that have received a license from the NCSCFR can operate on the territory of Ukraine, and in addition, certain types of activities are also licensed. In order to obtain a license, a commodity exchange must meet strict requirements for activity: it must be a legal entity that acts exclusively as a representative of the infrastructure, has a capital of at least 20 million hryvnias, and professional specialists on staff. To obtain a license, the commodity exchange must develop and approve the rules of the commodity exchange, which reflect the procedure for organizing and conducting trades on the exchange, the procedure for admitting participants to trades taking into account financial monitoring, and the mechanism for its implementation. For violations, the exchange may be deprived of its license, or the license may be suspended. These requirements made it possible to concentrate exchange trading only on licensed exchanges, which simplified both the control over exchange activity and the search for reliable and professional platforms for conducting civilized trade for market participants. To date, 4 exchanges have received a license.

The limited liability company "Ukrainian Energy Exchange" was created with the aim of conducting trade in energy and electricity markets in Ukraine. The exchange creates organizational, legal, technological conditions for the functioning and development of markets for exchange trading of electricity and energy carriers. On June 30, 2021, the company received a license to carry out professional activities on organized commodity markets - activities related to the organization of trade in products on commodity exchanges.

The limited liability company "Ukrainian Universal Exchange" began its work on November 18, 1997 and is one of the first professional organizations in Ukraine that provided a full range of exchange services (received a license on September 30, 2021).

The limited liability company "Ukrainian Trading Platform" (LLC "UTP") was founded in November 2022, received a license on August 10, 2023.

The limited liability company "Ukrainian Resource Exchange" was established on August 23, 2021 (received a license on September 16, 2021).

The improvement received licensing, as well as a clearly defined exchange trading mechanism, which includes a number of defined, fixed sequential processes that cover the period from the establishment of business relations and the admission of the client (trader/exchange member) to the commodity exchange (hereinafter, accreditation) to the execution of the exchange contract (payment and delivery):

- ✓ accreditation;
- ✓ preparation of bids;
- ✓ conducting auctions;
- ✓ recording the results of the auctions and signing the exchange contract;
- ✓ delivery of goods;
- ✓ payment for goods;
- ✓ reporting to the regulator (NCSCFR).

Accreditation at the commodity exchange is a defined procedure for measures aimed at acquiring the status of a member of the exchange or the status of a participant in stock trading. Its main tasks are the identification, verification and inspection of the participant with the aim of preventing individuals or legal entities involved in the legalization of proceeds of crime, the financing of terrorism, and arms distribution from trading. The main stages of accreditation include the following.

1. Filling out the application and submitting documents in paper and electronic form.

A potential client or applicant fills out an application form. The forms are available on the websites of commodity exchanges and have mandatory fields for filling in the following data:

information about the applicant and his manager; Bank details; electronic signature (download the broker's public key certificate), information about the person who will have the authority of the broker. After filling out the application form, clients download copies of documents, the main ones are: extract or extract from the unified state register of legal entities, individual entrepreneurs and public organizations; an extract from the register of VAT payers or a single tax payer's certificate; the charter of the enterprise; order appointing the head of the applicant; balance sheet and report on financial results for the last year; passport and certificate of identification number assignment of the person who will perform the broker's powers. Non-residents submit documents written in a foreign language and a translated version in Ukrainian with a certified translator's signature.

The completed application form and submitted documents are processed by the manager of the commodity exchange, after which the client's email address receives a link to the account and information for accessing the personal accreditation account, which contains information about the status of the company, the status of uploaded documents, and bank details. In the future, all changes in documents arising in the course of the client's activity are uploaded to this office.

2. Procedure Compliance and Due Diligence.

After submitting the documents and gaining access to the personal accreditation office by the client, the responsible employees carry out a proper check or financial monitoring and the compliance of the procedure is carried out. Commodity exchanges are the subjects of primary financial monitoring in accordance with the Law of Ukraine "On Prevention and Counteraction of Legalization (Laundering) of Criminal Proceeds, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction."

Financial monitoring or due diligence includes: obtaining the client's ownership structure; establishment of the final beneficial owner of the client and verification of the identity of the owner; establishing the purpose and nature of business relations in the future; constant monitoring of the client's business relations and financial transactions regarding their compliance with the provided information; determining the relevance of received documents and information about the client; identification and verification of the applicant and his representatives. During compliance and due diligence, the following are checked: financial condition; ownership structure; court cases related to the applicant; reputation; belonging of the applicant or his management to rehabilitation lists.

3. Customer identification and verification, which occurs during customer due diligence.

Identification is the identification of an individual by obtaining identification data. During which the responsible person of the exchange establishes: surname, first name and patronymic, date of birth, number, series of the passport of a citizen of Ukraine (or other identity document), date of issue and the body that issued it, information about the place of residence (stay), registration number of the taxpayer's registration card. For individual entrepreneurs, legal entities, and non-residents, a separate list of data to be established has been defined.

Verification is a confirmation or verification of the identity data received to the relevant person, in order to establish the ultimate beneficiaries or their absence. Verification takes place by means of an online video conference, with the help of DIIA, or through personal presence.

4. Acquisition of membership in the commodity exchange and access to the electronic trading system.

After the checks are completed, the stock exchange commission makes a decision on admitting or not admitting the client to trading. A letter is sent to the client's e-mail address with the decision of the authorized body of the exchange on granting (or refusing) the lease of the exchange space. It includes tabs – a contractual package (sign and issue) and a list of documents that must be sent within five working days of receiving the letter. After that, the client receives personal parameters for accessing the electronic trading system and becomes a member of the commodity exchange.

The next stage in the activities of the commodity exchange is the preparation of auctions, which involve representatives of the exchange and agents, based on the existing regulatory and legal framework,

the terms of delivery of the exchange goods, the technology of conducting the auction, the bidders, which include the initiator of the auction (the seller – in sales auctions) are determined or the buyer - in purchase auctions); auction participants (buyers – in sales auctions or sellers – in purchase auctions).

The main stages of stock exchange preparation follow:

1. Formation of the desired volume of lots taking into account the generic features of the stock exchange product in accordance with current standards.

2. Coordination with the exchange of time, technology and trading schedule. The Commodity Exchange creates an auction in the electronic system, indicating the name of the seller, the type of auction, the date, time and the main conditions of holding.

3. Checking and uploading the generated lots to the electronic trading system. The lots formed by the initiator of the auction are checked by the exchange for compliance with the requirements established by the internal documents of the exchange and regulatory requirements for this type of goods. If all checks are successfully passed, the lots are displayed in the electronic trading system, and the administrator transfers the auctions to the period "Acceptance of applications".

4. Announcements on stock exchange trading are published on the website of the exchange, sites of agents involved in the organization and holding of stock trading, Telegram and Viber channels of the exchange, the information is sent to mailboxes of accredited participants.

5. Acceptance by the exchange and submission of applications from participants to participate in the auction, payment of mandatory payments,

6. Reception and verification of applications.

To participate in auctions, buyers log in to the trading system with their own login and password, select auctions (stock market auctions), submit an application for participation, which must be signed with an electronic digital signature. After the application is accepted, the electronic trading system creates invoices for the payment of mandatory payments (warranty, commodity exchange fee, etc.) for a specific auction. Acceptance of applications for stock market trading lasts until 12:00 on the working day preceding the day of stock market trading. After this time, applications are checked by the exchange and admitted to exchange trading.

The stock trading scheme includes the following stages.

1. Launch of the "Trading" block.
2. The main trading time is 15 minutes.
3. Continuation of bidding on open lots.
4. Formation of results and final documents.
5. Formation of purchase and sale contracts.
6. Conclusion of contracts.
7. Invoicing customers.

During bidding, the "Trading" block is launched in the electronic trading system. After the start of bidding, buyers in the auction for sale have the opportunity to bid for a price increase within 15 minutes. The bidding step is 1% of the initial price. The number of participants' steps is unlimited. If in the last 3 minutes before the end of the time allotted for bidding (15 minutes), no buyer places bids on a specific lot, then bidding on this lot ends and the system determines the winner of this lot to the participant who placed the last bid before that. After the end of 15 minutes, the bidding continues for those lots where participants actively placed bids during the last 3 minutes. After each bid, the electronic trading system provides an additional 3 minutes, displaying a countdown timer for each lot. At the end of the countdown, bidding on the lot ends and the electronic trading system fixes the winner. Processing of data, formation of results and final documents is taking place. Exchange (auction) certificates are formed, which confirm the fact that the participants of the auction concluded the exchange agreement. Bidders are given 5 working days to conclude a contract, invoices for payment of mandatory payments are created for bidders in accordance with the provisions of the exchange's internal documents.

After the conclusion of the exchange agreement, the process of monitoring the fulfillment of the obligations of the parties begins. The task of which is to work with market participants to increase the level of execution of exchange agreements and contracts, to resolve issues related to execution, to create effective and transparent mechanisms for the fulfillment of obligations by the participants of the trade.

Monitoring consists of two main parts: 1) preventive measures aimed at encouraging bidders to fulfill their obligations; and 2) measures to control and record violations of the fulfillment of obligations, which is the basis for imposing sanctions.

The monitoring department independently or at the request of bidders detects a violation and begins the procedure to find out the circumstances that led to the violation. Information about the detected violation is transferred for processing to the exchange agent, who formulates and sends appropriate requests to the participants of the exchange agreement to clarify the reasons and circumstances that led to the violation. The agent analyzes the received explanations of the bidders and forms an agent report, which is sent to the stock exchange monitoring department. The monitoring department analyzes and checks the agency report for completeness of information and availability of all necessary supporting documents. And based on it, an extended report is formed, to which the following information is added in particular: an analysis of the violator's activity on stock exchanges, the overall percentage of execution of stock contracts to which the violator is a party, the presence of already applied sanctions. In addition, proposals for the application of sanctions for the committed violation are formed for the Exchange Committee for its adoption of the appropriate decision. The Exchange Committee decides on the application or non-application of sanctions to the violator. Sanctions are divided into financial (retention of part of the guarantee fee, fine) and administrative (disqualification of bidders from participation in stock exchange trading for a certain period, suspension of admission to stock exchange trading, suspension of stock exchange membership, termination of stock exchange membership).

The process of preparing bids and conducting them is accompanied by analytical support from the commodity exchange. The task of analysts is to study the market situation in order to improve the efficiency of decisions of market participants and the exchange itself. The main product of the analytics department is price indexes, the indexes are calculated on a monthly, weekly and daily basis, taking into account the generic features of the trade object.

Regulatory and legal changes to improve supervision and requirements for the activity of commodity exchanges led to a number of positive changes both in the activity of commodity exchanges and in the market, contributed to the reduction of transaction costs, increased reliability, when the above-described trading mechanism is introduced, the exchange acts as a guarantor of the conclusion of agreements.

The introduced mandatory accreditation process creates prerequisites for preventing companies with an opaque ownership structure and a dubious reputation from being admitted to the stock exchange, which reduces the risk of the participation of unreliable counterparties and shadow operations.

Analysis and identification of customer relationships among themselves, and analysis of the level of control over them by other persons, identification of final beneficiaries minimizes the possibility of influence of interested parties on trading and market pricing on the stock exchange. A transparent procedure for attracting non-residents contributes to the expansion of the market, increases its liquidity, provides new opportunities for customers, contributes to the expansion and growth of opportunities for the sale of goods, access to new markets. The introduced trading mechanism involving various sellers and buyers on a competitive basis, on the commodity exchange, contributes to the formation of the "market" price for the product and the establishment of price indicators.

Preparation for trades has been improved, which is important. It is during the preparation of trades that information on the exchange product offered for sale begins to be displayed and traced in the electronic accounting system, which creates an opportunity to track it at the next stages of sale. Early and widespread information about exchange trades and goods makes it possible to attract the largest possible

number of potential customers and increase the liquidity of the market due to the concentration of a larger number of bidders simultaneously in one place.

Introduction, widespread use and distribution of clearing systems. Exchange clearing is carried out by a special company that guarantees that payments will be made and acts as an intermediary in all transactions. For this reason, traders do not need to assess the risks of all participants and worry about the disruption of the deal. After the agent records the fulfillment of the terms of the agreement, the buyer receives the goods - and the seller receives money, in case of non-fulfillment of the agreement, the guilty party is subject to sanctions, and the injured party does not risk losing his goods or funds, the clearing house is the guarantor. In this way, the level of safety and reliability of exchange transactions increases, which definitely increases their attractiveness

Control over the fulfillment of obligations under exchange agreements and monitoring of violations encourages the reduction of the number of violations of obligations under such agreements/contracts and contributes to increasing the level of trust. Monitoring reduces the likelihood of systemic credit risks in the market, due to a decrease in the number of non-payments under exchange contracts, the number of participants receiving losses due to the counterparty's failure to fulfill obligations under the exchange contract decreases. Thanks to the monitoring of the fulfillment of obligations under contracts concluded on the exchange, the planning of activities is more efficient by all participants of the exchange.

Since July 2020, the conduct of trades and preparation for trades are constantly accompanied by analytical support from the commodity exchange thanks to the calculation of price indices. In the future, this serves as a guideline for concluding long-term contracts and determining the price in them, becomes the basis for the development of the market of derivative contracts, which are used to hedge price risks, increase the understanding of the market price and the efficiency of trading decisions, allow you to choose the trading technology that is optimal for the current market situation. The Commodity Exchange in the person of an agent as a third party to the concluded agreement and a clear regulation of deliveries guarantees their fulfillment and contributes to the quick and fair resolution of disputes between the buyer and the seller regarding the quantity and quality of products, terms of delivery and payment.

The payment mechanisms for goods have also undergone improvements. To date, payment for goods is made directly between the participants of the contract. At the same time, commodity exchanges are developing and preparing for the implementation of the settlement mechanism based on the principle of "delivery against payment". According to the specified mechanism, the buyer must reserve a guarantee deposit on the exchange in the amount corresponding to the value of the purchased batch of goods under the contract, and the seller must ship the goods within the limits of the amount transferred to the exchange. After receiving confirmation of the delivery of the goods, the exchange transfers funds to the seller's account. This system also provides the possibility of advance payments. The settlement process under the contract is provided by the exchange and will be automated thanks to the integration between the electronic trading system and the IT systems of the exchange's payment bank.

Commodity exchanges are introducing additional payment services, a single account and a system of integration with banks to optimize the customer settlement system. In the electronic trading system of the exchange, a single accounting account is created for the trader/member of the exchange, which can be used when buying and selling lots. Thus, customers do not have to recalculate the warranty for each separate application or contract. Instead, trading is carried out within the available free (not blocked for trading) balance in the single account. After the auction, only those funds that correspond to the amount of the guarantee fee required for the purchase of the respective lots are blocked. Funds not used by the participant in trading activities can be returned to him upon request.

Close cooperation between the exchange and the settlement bank regarding the automation of interaction involves the automatic formation of payment documents for the transfer of funds by the exchange to meet the payment obligations of the bidders and the regular automatic receipt from the bank

of information on the movement of funds in the bank account of the exchange, to which the bidders transfer guarantee contributions.

The introduction of settlement services for stock exchange agreements based on the principle of "delivery against payment" and "single account" allow systematizing and streamlining customer cash flows and making them more cost-effective and predictable. The integration of the exchange's electronic trading system with banks replaces the manual work of accounting staff and financiers with only supervision and control procedures, significantly reducing the occurrence of technical errors caused by the human factor.

The Law of Ukraine "On Capital Markets and Organized Commodity Markets" clearly regulates what constitutes manipulation and emphasizes the non-discretionary principles of the stock exchange. At the same time, exchanges carry out constant monitoring and disclose information about suspicious transactions, and the national regulator takes appropriate measures. Manipulating stock prices in general is difficult, as they are formed at open auctions depending on supply and demand. However, they may be affected by the spread of known false information, insider trading, deliberate and unjustified over- or under-quoting, all of which are currently sanctioned by the regulator.

The innovations described above introduce international standards of exchange trading of goods that work well all over the world, and form the prerequisites for creating reliable and transparent trading platforms where supply and demand interact fairly.

On the website of the National Securities and Stock Market Commission, it is noted that quality, guarantee of settlements, hedging of risks, high standards and requirements for trading on commodity exchanges are important now. Healthy competition has the right to exist not between trading exchanges, but on their platforms [28].

The European Bank for Reconstruction and Development also took part in the development of bills, and the implementation of the reform is provided for in the terms of cooperation with the International Monetary Fund. The laws take into account the recommendations of the International Swaps and Derivatives Association (ISDA), Directives and Regulations of the European Parliament and the Council (MiFIR, MIFIR II, EMIR).

In fact, the reform brings Ukraine closer to more developed markets. Licensed exchange platforms, price indicators, various financial instruments – all this works in developed economies.

In addition, it is necessary to pay attention to the fact that the National Commission for Securities and the Stock Market has made changes to the list of types of products that are traded exclusively on organized commodity markets. Trading operations in crude oil, wood (timber), gas condensate and liquefied gas must be carried out on commodity exchanges.

The structure of goods sold on commodity exchanges in Ukraine at the moment does not coincide with global trends, it is rather subordinated to legislative requirements, on the exchange those goods are sold to the greatest extent, which according to the law must be sold only through the commodity exchange. At this time, the following goods are present on the exchange: electrical energy; oil and distillates; liquefied petroleum gas; raw wood; hard coal; lumber; natural gas, agricultural products, food products, non-food products. Today, it is clearly necessary to expand the volume of goods sold on the stock exchange, to promote the growth of the number of concluded agreements, to promote the promotion of Ukrainian products on the world market.

Conclusions. As for the prospects for the development of commodity exchange trade, at this time in Ukraine, the regulator faces a difficult question: on the one hand, it is necessary to take into account global trends and to integrate decently into the global exchange system, and on the other hand, it is necessary to solve a number of problems of an internal nature, such as the opacity of procurement, formalization of the economy, corruption, it is necessary to work not only on improving the exchange trading mechanism, but also on improving the markets of certain goods. The National Securities Commission has done a lot of work to improve commodity exchange trading in Ukraine. This concerns the capitalization of exchanges, trade licensing, the introduction of an electronic trading system and the

desire to conclude transactions in the electronic system, the improvement of the exchange trading mechanism and exchange control over the execution of transactions - all this will contribute to the further development of commodity exchange trading, the attraction of an increasing number of customers, and strengthening of sanctioning mechanisms will prevent violations.

Summarizing the research, we can say that it is necessary to create such conditions when trading through the exchange will be more profitable and require less transaction costs than outside it. And then the number of transactions concluded on the exchange will increase.

Conflict of interest. The author has approved the article for publication and declare that the research was conducted in the absence of any conflict or potential conflict of interest.

Funding. The author state, that this research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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