The stock market of Ukraine is at the stage of institutional formation, which is typical for transition economies. The level of training and ethical principles of professionals working in this area are important components in ensuring the stable development of the stock market. A system of training of professionals to work in the stock market was created to address these challenges. Yet, the existing model of training needs to be improved in order to stimulate continuous professional development, to ensure transparent and independent assessment of candidates, and to meet the best international practices and needs of the global market.

NGO "Association of Investment Professionals" (working under the CFA Institute license as "CFA Society Ukraine") expresses its sincere gratitude to all survey participants for their valuable contributions to this study. This is an independent publication and the opinions expressed in it are the opinions of the authors.
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<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>NSSMC</td>
<td>National Securities and Stock Market Commission</td>
</tr>
<tr>
<td>PARD</td>
<td>Professional Capital Market Participants and Derivatives Market Association</td>
</tr>
<tr>
<td>SRO</td>
<td>Self-regulatory organization</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>ACIIA</td>
<td>Association of Certified International Investment Analysts</td>
</tr>
<tr>
<td>AMF</td>
<td>Financial Markets Regulator (Autorité des Marchés Financiers)</td>
</tr>
<tr>
<td>BaFin</td>
<td>Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)</td>
</tr>
<tr>
<td>CMB</td>
<td>Capital Markets Board of Turkey</td>
</tr>
<tr>
<td>CFA</td>
<td>Chartered Financial Analyst</td>
</tr>
<tr>
<td>CIIA</td>
<td>Certified International Investment Analyst</td>
</tr>
<tr>
<td>CISI</td>
<td>Chartered Institute for Securities &amp; Investment</td>
</tr>
<tr>
<td>ESMA</td>
<td>European Securities and Markets Authority</td>
</tr>
<tr>
<td>FINRA</td>
<td>Financial Industry Regulatory Authority</td>
</tr>
<tr>
<td>FFI</td>
<td>Finnish Financial Services</td>
</tr>
<tr>
<td>KNF</td>
<td>Polish Financial Supervision Authority</td>
</tr>
<tr>
<td>SFDR</td>
<td>Securities and Financial Derivatives Representative Certificate</td>
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<tr>
<td>SSDA</td>
<td>Swedish Securities Dealers Association</td>
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INTRODUCTION

There is a growing emphasis on providing a higher level of investor protection and market confidence on the stock market. This creates the need to increase the requirements for qualifications and education of professionals working on the market, as well as standards of professional activity of the market itself. Supervisory bodies, self-regulatory organizations and professional associations from different countries are increasingly focusing on the training and assessment of knowledge and skills of professionals working with securities or providing investment consulting. In many European countries, during 2017-2018 higher standards of knowledge and competencies of stock market professionals are to be set, which should provide a higher level of investor protection, as well as the integrity and efficiency of markets in general.¹

Functioning of the stock market implies that through the mechanism of circulation of financial instruments, securities issuers accumulate significant financial resources, including funds of private individuals. This aspect of the stock market entails the need for its regulation both by the state and self-regulatory organizations, in order to ensure stability and efficiency. A prerequisite for the successful functioning of the stock market, especially in countries with transition economies, is the introduction of a sound regulatory and supervisory system. Along with the regulatory framework, the rules and principles of professional conduct and ethical standards developed and implemented by self-regulatory organizations and professional associations are especially important. The activities of such institutions are aimed at ensuring a higher level of investor protection, transparency of operations, prevention of market abuse and observance of integrity rules in trading of securities, as well as reducing the level of systematic risk. Thus, in many developed countries, the principles and standards of professional conduct and ethical standards are developed and implemented by professional organizations and associations and recognized by the regulatory authorities as mandatory for compliance at the state level.²

The characteristics of the functioning of the stock market and its importance in the economic system justifies the need for high-level professionals who can work in good faith with the clients. After all, the attraction of funds in the stock market is being done through financial intermediaries, and they must have high professional


² FINRA Registration and Qualification. – Available at: http://www.finra.org/industry/series99.
qualities. Therefore, there is a need to regulate the selection of individuals to work with securities and asset management via an effective system of training and a transparent procedure for certification of stock market professionals. This requires legislative and regulatory changes as well as rethinking of their responsibilities by market participants themselves. The goal of such changes is to provide stock market participants with highly skilled personnel who have the requisite knowledge and competences. Particular attention in today’s situation should be paid to the moral and ethical issues of securities transactions and asset management.

Taking into account the need to increase the professional level of stock market professionals, the National Commission on Securities and Stock Market of Ukraine and the NGO "Association of Investment Professionals" (operating under the CFA Institute license as "CFA Society Ukraine") signed a Memorandum of Understanding on Cooperation in February 2017 with the goal to build a transparent system of certification of stock market professionals and asset managers in Ukraine, based on independent assessment of candidates according to the best international practices. The document envisons the establishment of cooperation between the governmental, public and private sectors in order to improve the existing system of training and certification of stock market professionals.

The purpose of this study is to analyze the Ukrainian practice of training and certification of stock market professionals and asset managers, identify the main aspects of this system and the main directions for its reform. Recommendations were developed based on the survey of key stock market participants during which they were asked to evaluate the current system in professionals training and identify the main gaps in it, as well as the study of international experience in training and certification of professionals working with securities and providing investment services. Particular attention is paid to the procedure of examinations, the composition of test items, the consideration of ethical aspects and standards of activity in the stock market, as well as approaches to continuous professional development.

Recommendations are aimed at reforming the existing system of training and certification and the establishment of new higher standards of professional and ethical behavior of stock market participants. A thorough training and a transparent certification system for professionals will contribute not only to raising the professional level of stock market participants but also to improving the consumer

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protection system and the reliability of the market, promote its efficiency, and thus will be an additional factor in the socio-economic development of the country.
1. TRAINING AND ASSESSMENT OF PROFESSIONALS IN STOCK MARKET AND ASSET MANAGEMENT: CURRENT SITUATION AND REGULATIONS

1.1. Legislative basis and regulatory approaches

Providing market participants with highly skilled personnel is crucially important for ensuring the effective development and stable functioning of the stock market. The first step towards regulating the stock market in Ukraine was taken in 1991 with the adoption of the Law of Ukraine "On Securities and Stock Exchanges". However, the system of training of stock market professionals was only created after the adoption of the Law of Ukraine "On State Regulation of the Securities Market in Ukraine" in 1996. According to this Law, the National Commission on Securities and Stock Market (NSSMC) was tasked with co-ordinating the training of stock market professionals, setting of qualification requirements and the certification process.4

In 1996, the Commission developed the first basic regulatory document on the training of stock market professionals, the ‘Regulations on the Procedure for Training and Certification of Stock Market Professionals’, which was approved by the State Commission on Securities and Stock Market of Ukraine on September 24, 1996. This regulatory act regulated the following issues:

- the relationships between the Commission and educational institutions on training and assessment of professionals (in particular, the requirements for curricula, teaching staff, library fund and the responsibilities of educational institutions);
- requirements on the educational qualifications of the candidates;
- the procedure for training of the candidates;
- rules for the organization of assessment of future professionals (in particular, the procedure for taking the qualification exam and the format of the qualification certificate).

The NCSSM approved approved curricula for training of stock market professionals, which consist of a basic and specialized training program. Thus, the NCSSM has approved:

- basic training program for stock market professionals;
- specialized training program for professionals in securities trading;
- specialized training program for professionals in depositary activities;

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4 Before 07.06.2011 – State Commission on Securities and Stock Market
● specialized training program for professionals in asset management;
● specialized training program for professionals in the organization of trade in the stock market;
● specialized training program for professionals in mortgage management;
● specialized training program for professionals in clearing activities.

Today the content of the basic and specialized training programs for professionals for the stock market is being developed, updated and approved by the NSSMC and published in the mass media. However, there are no procedures for involving stock market representatives in the development of training curricula.

With the development of the Ukrainian legislation and the changes in the market environment, the NCSSM reviews these curricula and makes appropriate changes. Simultaneously, the Commission asks the Training Center of the NSSMC (Ukrainian Institute for the Stock Market Development of the Kyiv National Economic University) to review the examinations test items taking into account the changes to the curricula.

The certification procedure is regulated by a separate Regulations on the Certification of Professionals on Stock Market, which was approved by the decision of the NSSMC No. 1464 from 13.08.2013. It regulates the following issues:

● the procedure of submission and consideration of documents for obtaining a certificate and duplicate certificate;
● the procedure for making a decision on issuing a certificate;
● grounds for denial;
● grounds for annulment.

The NSSMC makes regular changes to the certification provisions to improve the effectiveness of this process and compliance with current situation. Thus, in 2016, there were some changes that introduced a mechanism for the possible cancellation of the certificate in case of loss of impeccable business reputation, in particular, in the following cases:5:

● confirmed manipulation on the stock market by a certified person and / or misuse of insider information;
● working as manager of the company that was declared bankrupt (if such a bankruptcy has happened within the period of his/her management as confirmed according to the established legal procedures).

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5 Decision of NSSMC #135 from 04.02.2016
Thus, changes concerning ethical standards have been introduced. This is in line with the best international practices and is clearly a step towards ensuring transparency and fairness in the stock market. Such decisions by the NSSMC should contribute to raising the professional level and accountability of stock market participants and asset managers, and are intended to increase confidence and trust in the market. At the same time, these regulations have not yet been used.

Despite certain flaws and gaps in the processes of training and certification of stock market professionals, the legal basis for certification fully meets the most important requirements and international standards in this area. The procedures of certification of professionals in the stock market identified in regulatory documents of the NSSMC are already an important step in ensuring the professionalism on the market.

1.2. Process of training, assessment and certification of stock market professionals in Ukraine

Only persons who have relevant certificate issues by the NSSMC have the right to work on the stock market of Ukraine. Certificate is a document of a standardized form, which confirms the fact that the person is included into the Register of Certified Persons and has the right to carry out professional activities in the stock market. This certificate is issued by the market regulator - the National Commission on Securities and Stock Market. The list of persons who are subject to compulsory certification is provided in Appendix A.

In order to obtain a certificate, the candidate has to meet the following requirements:

I. to have relevant education;
II. to complete obligatory training;
III. to pass qualification exam;
IV. to obtain qualification document;
V. to submit the documents to the NSSMC.

I. Meeting the educational requirements. Candidates who apply for a qualification certificate must have an education not lower than a "specialist" (5 years, old programs, which have been canceled since 2014) or “master” (6 year of study) in one of the fields of studies defined by the NSSMC (Appendix B).

At the same time, these educational requirements do not apply to persons who have a general work experience in the stock market of more than nine years.

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6 Decision of НКЦПФР #1464 from 13.08.2013
7 Order of NSSMC #215 from 24.09.1996
It should be noted that the existing list of eligible fields of study does not correspond to the updated general list of fields of study for higher education, and therefore at least needs to be updated to align with the current legislation.

II. Mandatory training of candidates. In order to provide training and assessment of professionals in the stock market, the NSSMC selects educational institutions that have the right to conduct these trainings. The commission has agreements on cooperation with a number of educational institutions that have expressed a desire to train professionals in the stock market. Such an agreement is signed for a maximum period of two years with possible prolongation. The list of institutions includes:

1. Ukrainian Institute for Stock Market Development of Kyiv National Economic University;
2. ADS "Ukrainian International Cultural Center";
3. Kharkiv Center for Scientific, Technical and Economic Information;
4. Alfred Nobel University;
5. Odessa National Economic University.

The training of future stock market professionals is carried out on the basis of standard curricula that include two components:

- basic curriculum that is common to all participants;
- specialized curriculum for specific activities. Depending on what kind of activity the future specialist intends to work in on the stock market, he / she chooses the appropriate standard curriculum. The NSSMC issues certificates for the right to carry out activities in such areas (Appendix B):
  - securities trading;
  - depository activity;
  - asset management of institutional investors;
  - organization of trade in the stock market;
  - clearing activity;
  - mortgage management activities;

If the candidate is to take the exam for the first time, he / she has to take full training program, otherwise he / she can join the shortened course. In order to sign up for a shortened course the candidate has to have at least three years of experience of working on the stock market, have a certificate for a specific type of activity and to re-apply for the same certificate (within the same specialization), or if the candidate
intends to apply for the certificate covering other types of activities, yet he passed his last exam less than one year before.

If the candidate has been working on the stock market more than 3 years and is employed as the company manager or head of the self-regulating organization, he/she can take qualification exam without taking the training course.

III. Taking the qualification exam. After the completion of the training course, the candidate can apply to take qualification exam. This can be done within one-year period after the end of the training course.

The qualification exam takes the form of a multiple-choice test and an interview. Test has 100 questions with a simple multiple choice. The candidate has to complete the test within 90 minutes. The test is structured in such a way as to cover all the topics of the curriculum. The results are evaluated on 100-point scale.

Only candidates who received more than 75 point during the test are invited to the interview. A person who has received less than 75 points is considered to have failed the exam. Applicants who have successfully passed the test and scored 85 points or more may be exempted from the interview by the decision of the examination commission.

The candidate can take the exam in the institution where he/she was taking the training course or in another institution. Examination commissions are created for the certification of professionals who conduct qualifying exams for each specialization (for different types of activities). Representative of the NSSMC have to be included into every examination commission. The composition of the examination commission is approved by the order of the head of the educational institution where examination is taking place after the consent of the NSSMC. Information about the location of examination commissions and the work procedures is publicly available.

Qualification requirements for each specialization are the same for all examination commissions and are approved by the NSSMC. Test items for qualification exams have being developed by the Ukrainian Stock Market Development Institute, which since 2000 has been a training center for the NSSMC. The Institute reviews the test items for the qualification examinations, updates them in accordance with changes in the legislation of Ukraine. In addition to the preparation of test items, the Institute is engaged in the development and implementation of modern computer programs that allow to conduct testing more transparently and can be used by all educational institutions involved in this process.

IV. Obtaining qualification document. If the candidate passes the exam, he/she obtains qualification document in specific specialization. This is the specialization
the candidate can work in after completing the certification procedure. The qualification document is valid for three years since the date it has been issued.

After the three-year period, the certificate holder must go through the described process again, including compulsory training (potentially, its shortened version) and taking exams. The only exception are company managers and heads of self-regulatory organizations as discussed above.

V. Submission of the documents for certification to the NSSMC. The candidate who has the qualification document and meets other criteria (including those of impeccable business reputation, not being convicted or deprived of the right to occupy certain positions and engage in certain activities) can submit the documents for certification to the NSSMC.

The specialized unit of the NSSMC examines the submitted documents and verifies if the candidate meets the set requirements. The NCSSM may contact organizations, institutions and other persons, including the applicant, to obtain additional information. After the necessary check, a decision is made to issue or refuse to issue a certificate. In case of positive decision, the candidate receives the certificate that will be valid till the same date as the qualification document, issued earlier. The expiration date of the certificate is the last day of the qualification document validity.

Business Model of the Certification Process

The certification process is paid for by the persons who apply for the certificate. Partly, the process is also covered by the NSSMC (in terms of the time employees to carry out their certification functions).

The exam fees and training fees are set by individual educational institutions that conduct the exams. (Table 1).

During the interviews conducted for this study, experts have pointed out that there is no correlation between the size of the fee and the quality of the training provided by the educational institution.
**Table 1.** Training fee and exam fee in different educational institutions that have the contracts with the NSSMC

<table>
<thead>
<tr>
<th>№</th>
<th>Institution</th>
<th>Training fee - full course (UAH)</th>
<th>Training fee - shortened course (UAH)</th>
<th>Examination fee (UAH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ukrainian Institute for Stock Market Development of Kyiv National Economic University</td>
<td>5580</td>
<td>2940</td>
<td>1245</td>
</tr>
<tr>
<td>2</td>
<td>ADS &quot;Ukrainian International Cultural Center&quot;</td>
<td>5580</td>
<td>2940</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Kharkiv Center for Scientific, Technical and Economic Information; U,D</td>
<td>5340</td>
<td>2460</td>
<td>1350</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5475</td>
<td>2835</td>
<td>1350</td>
</tr>
<tr>
<td>4</td>
<td>Alfred Nobel University</td>
<td>6500</td>
<td>3800</td>
<td>1200</td>
</tr>
<tr>
<td>5</td>
<td>Odessa National Economic University</td>
<td>6500</td>
<td>4100</td>
<td>1200</td>
</tr>
</tbody>
</table>

**Examination System Efficiency**

Every year, more than a thousand people undergo training and pass qualification examinations in order to obtain a certificate.

**Table 2.** The number of people who took the qualification exams during 2015-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of people who took the exam</th>
<th>Passed</th>
<th>Failed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number of people</td>
<td>%</td>
</tr>
<tr>
<td>2015</td>
<td>1380</td>
<td>1358</td>
<td>98.4</td>
</tr>
<tr>
<td>2016</td>
<td>1453</td>
<td>1434</td>
<td>98.7</td>
</tr>
<tr>
<td>2017 (as of September, 2017)</td>
<td>725</td>
<td>704</td>
<td>97.1</td>
</tr>
</tbody>
</table>
As can be seen from the data presented in Table 1, the pass rate at examinations for Ukrainian stock market professionals is very high. Thus, the share of those who did not pass the exam is less than 3% in 2015-2017. At the same time, the success of the exam in three educational institutions is 100 percent (Appendix D).

In Finland about 70% of candidates successfully pass the exam\textsuperscript{8}. In France, during 2010-2015, only 66% of candidates successfully passed the exam\textsuperscript{9}. Accordingly, the share of those who failed the exam is more than 30%, which is ten times higher than in Ukraine. According to a study conducted in the United States, only 86% of brokers successfully passed the license examination from the first try. This means that 14% (approximately 51,500 candidates) failed their first exam\textsuperscript{10}.

At the same time, professional associations and organizations set even higher requirement to the candidates who wish to obtain the professional certificates. Thus, in 2017, at the CFA and ACIIA only 42\%\textsuperscript{11} and 46.30\%\textsuperscript{12} of the candidates have successfully passed the first level exam. High requirements to the level of education and independent assessment of candidates are typical for the international associations, which makes these certificate valuable to the employers all over the world.

Such high pass rates at qualification exams in Ukraine show that the exam does not differentiate between strong and weak candidates, which damages the credibility of the whole certification process and indicates its low efficiency. Therefore, there is a need for more in-depth understanding of the problems within the system. This was done for the purpose of this study via interviews with main actors involved in the process.

1.3. Evaluation of current situation concerning training of professionals by key stock market participants

There is no doubt that stable and efficient stock market needs highly skilled professionals. However, both the stock market regulator and its main participants note that the level of training is still insufficient, and the level of competence of the


\textsuperscript{9} Five-year review: a success for the marketplace and an adaptable mechanism for knowledge, AMF, 2016. – Available at: http://www.amf-france.org/en_US/Actualites/Communiques-de-presse/AMF/annee-2016?docId=workspace%3A%2F%2FSpacesStore%2F4e5ac3bf-de83-4100-9d48-b65a3d5e0869.

\textsuperscript{10} Stockbrokers Who Fail Test Have Checkered Records / The Wall Street Journal, April 14, 2014. – Available at: www.wsj.com/articles/stockbrokers-who-fail-test-have-checkered-records-1397521289.


\textsuperscript{12} Results CIIA Examination Sessions 2017. – Available at: https://www.aciia.org/the-ciia-diploma/course-content-exams.html.
professionals does not meet the current needs of the market. This situation can be explained by low level of initial higher education, which often does not provide a thorough understanding of market and fundamental knowledge of economics, and low level of official certification requirements for stock market professionals. We have identified the main problems in training and certification of stock market professionals by conducting interviews with stock market participants, representatives of the regulator and educational institutions.

**Differentiation of functions between the SROs and the regulator**

The question of who should be responsible for the training and certification of stock market professionals is fundamental and is being raised by all stakeholders. In the course of the interviews we have heard radically different positions on this issue. Representatives of the Commission and some market participants consider that primary responsibility for the process should stay with the Commission. At the same time, part of the market participants suggest that it should be done by the self-regulatory organizations.

Thus, the Professional Association of Capital Markets and Derivatives Markets (PARD) has repeatedly voiced its position that the training of stock market professionals is not typically the responsibility of the governmental bodies (the NSSMC in the case of Ukraine), but is a natural function of self-regulatory organizations and associations. The representative of PARD during the interview said that the SROs should be involved in the process together with the NSSMC. Specifically, he proposed joint development of the curricula and teaching materials, as well as the organization of the training process.

Maxim Libanov from the NSSMC agrees that Ukraine today is rather an exception as the government is very much involved in the process of training and assessment of the stock market professionals. He notes that it is very likely that this will be done by the SROs in the future. However, he believes this is a very distant prospect, because today at this stage of development of the stock market in Ukraine there is a need for comprehensive external control by the state in order to support the creation of the effective stock market rules and adjustment in line with changing requirements, and to ensure compliance with these rules by all market participants. According to Maxim Libanov, the delegation of the function of training and certification of stock market participants will also mean the delegation of responsibility and the market is not ready yet for that. According to Oleksandr Valchyshen, the results of the turmoil in financial markets are traditionally felt by the society, not by market participants. Therefore, today one of the tasks of the state is to ensure the stability of the stock market, in particular, through qualification requirements for professionals in this market. Accordingly, the priority is to rethink
these requirements and improve the current practice of training of stock market professionals.

Dmitry Leonov from the NSSMC official methodological and training centre believes that there might be room for a combination of the two approaches: the state will provide basic training and certification, and the SROs will create additional professional development programs and testing services for specific purposes if they are interested in it. The representative of the PARD adds that at least such activities as participation in the working groups of the NSSMC, presentations at academic conferences, publications in specialized journals should be taken into account during the certification process. It can incentivize professionals to involve in different types of activities and promote the development of the stock market of the country in general.

Undoubtedly, the process of training and certification of professionals is organized differently in different countries, and very much depends on the local context and specific managerial decisions. At the same time, all respondents agree that the present model creates a conflict of interest situation, when in fact all the powers for training lie with the NSSMC. The situation is even more complicated due to the fact that market participants are very little involved in the process of developing the curricula, test items etc. At the same time, during the interview, representatives of the market participants expressed their willingness to participate more actively in the process of professional training and education.

*Mandatory training before the qualification exam*

The main concern of the market participants is the fact that people who want to obtain the certificate have to undergo training in specifically designated institutions. Most interviewees representing the market indicate that the requirement of compulsory training is outdated, and the system of training itself as it exists today does not meet the real needs and interests of the market. A representative of the PARD notes that the current training system does not equip the professionals with the knowledge and practical skills needed at the market. At the same time, the obligation to study in specific educational institutions contributes to the formation of a non-competitive educational environment. Educational institutions which are selected and approved by the Commission do not have incentives to improve their teaching materials and update the training syllabi.

Interviewed experts note that the training market should be competitive, and those who plan to take the exam should be able to choose institution and program which best meets their needs. However, there should be general training standards. Such a system, according to the PARD representative, will facilitate the involvement
of leading lecturers and professionals in the training process and will ensure the formation of the new knowledge and skills of market professionals.

Consequently, the interviewed experts believe instead of formal adherence to the rules concerning training, there should be a new system that will be directed towards the real provision of professional development of stock market professionals. At the same time, some experts suggest that if the person has a valid certificate and at least six years of professional experience of working on the stock market, he/she should be allowed to take the qualification exam without additional training (Dmitry Leonov, Rector of the Ukrainian Stock Market Development Institute).

Curriculum and test item

Stock market participants pay particular attention to adding practical cases to the curricula, as well as their incorporation into the exams. Maxim Libanov (Director of the Department of Capital Markets Strategy, NSSMC) also emphasizes that there should be a well-considered and thorough approach to the development of practical cases and their use in the training process. Peculiarities of each specialization must be taken into account and appropriate tasks developed corresponding to specific types of activities at the stock market.

The representative of the ICU adds that it is important to involve the participants in the market at the preparation of the test items. According to him, adding practical knowledge and skills both to the training curriculum and to the examination is what the market needs most of all today.

Today, the ‘case-studies’ approach is gaining popularity in education and training of the financial market professionals. The result of this approach is not only the knowledge gained by the trainee, but also professional skills, which is especially important for stock market participants. Yet, as was mentioned by Oleksandr Valchyshyn (member of the investment committee, head of the analytical department, ICU) such methods as case-studies should be integrated with other teaching methods, including traditional ones, which provide basic knowledge to the trainees. Case-studies teach how to apply obtained theoretical knowledge in a dynamic situation and also build up practical skills. However, concentration on case-studies only may lead to a situation when the trainee will not understand the basic economic laws and principles of analysis of investment instruments. Therefore, all the training components are important in order to provide a thorough knowledge and understanding of economic processes, knowledge of the current legislation, as well as practical professional skills.

As has already been mentioned, the training contents and curricula are being developed, updated and approved by the NSSMC. According to many experts, more people representing different specializations and organizations should be involved in
this process. The practice of recent years has shown that suggestions from the SROs and the training centers on the contents of the training and exams have not been given proper consideration during the curricula update. Thus the curricula can be very much improved if they were officially approved only after the public discussion with the market representatives, thus it should be one of the important areas of reforming the existing system.

Professional ethics

The representative of the ICU notes that trust in the stock market is an extremely important factor. Accordingly, one of the priorities today should be the creation of necessary conditions to form trust and loyalty of the customers. Thus, according to Alexander Valchyshen, business reputation and integrity play a huge role in the markets of the developed countries. After all, stock market participants and asset managers work with the same clients for many years. Therefore, not only the high level of professionalism, but also compliance with the ethics of doing business are mandatory requirements.

Unfortunately, in Ukraine not enough attention is being paid to the ethical aspects of operations in the stock market and asset management. Therefore, the real need is to supplement the training and certification of future stock market professionals with tasks related to the ethical principles of securities transactions. Maxim Libanov, a representative of the stock market regulator, agrees with this statement, adding that ethical cases should be included into the training and certification of professionals who directly work with securities transactions, asset management, or occupy managerial positions.

Examination Procedure

Not only the curriculum and exam test items are being questioned but also the examination procedure itself. As noted earlier, the exam has two components, the multiple-choice test and the interview. Testing is usually done in paper form. According to Dmitry Leonov, the transition to computer testing is one of the necessary steps to improve the certification system. The computer testing system offered at the Ukrainian Stock Market Development Institute is supposed to guarantee the transparency and integrity of the examination process. This system includes more than a thousand questions, of which a hundred is randomly selected, covering all curricula components. This means that each candidate receives his/her individual test variant. Market participants and representatives of the SROs also support that test should be computer-based. Additionally, most of them suggest that the second part of the examination, the interview, should be cancelled at all in order to ensure the transparency and anonymity of the examination process. At the same
time, the new system must ensure clear rules for identity check and independent test assessment.

**Differentiation of qualification requirements**

Different requirements for professionals performing different functions in the stock market companies is a well-established international practice. According to Maxim Libanov, today in Ukraine there are general standardized requirements for all stock market professionals, and this system needs to be changed. In his opinion, not only there should be separate requirements for the managers, but also for those working in the front-office\(^{13}\) and back-office\(^ {14}\). The primary risk operations with securities are performed by the front office, which, accordingly, increases the level of responsibility of the professionals who work there, and, consequently, should mean higher qualification requirements. This idea is supported by market participants and SROs.

Despite some differences concerning the reform of the training and certification of the stock market professionals, both market participants and state regulator agree that the system needs to improve and are ready to join this process to ensure the market has the highly-qualified professionals whose knowledge, skills and ethical principles meet international standards.

\(^{13}\) Front office is a unit or a person that deals directly with the clients (attracting new clients, working with the existing client base, executing client orders, consulting, etc.) and is engaged in securities transactions.

\(^{14}\) Back office is a unit or a person of a company that provides execution and accounting of securities transactions in dealing with the clients.
2. INTERNATIONAL EXPERIENCE IN TRAINING AND CERTIFICATION OF STOCK MARKET PROFESSIONALS

General Information

Worldwide, financial markets are among the most integrated, civilized and highly regulated. Functioning of stock markets is a crucial component of financial markets and economic systems of each country. The proper functioning of stock markets is ensured by legislative restrictions, basic principles of operation and compliance with professional standards. The general goal of state regulation and self-regulation is to ensure trust and stability in the market, protect consumers' rights, ensure compliance with general rules and prevent abuse in the market. One of the key tasks in the context is to make sure that professionals who work with securities and provide investment services have sufficient knowledge, competence and adhere to generally accepted professional principles and norms.

The work of stock market participants is legally regulated and, in most cases, is subject to mandatory certification or registration. Although there are many differences among the countries, traditionally those professionals who deal directly with securities and provide investment advice in stock markets have to go through certification or licensing procedure.

Differentiation of functions among the state and the market

The main difference lies in differentiating the functions concerning training and certification of stock market professionals between the state bodies on the one side and self-regulatory organizations and associations operating in different countries on the other side. This depends on the level of development of the securities market and its infrastructure, as well as the cultural and historical traditions of different countries. In some countries, the role of a SRO in the stock market is minimal, or they may be absent at all, which implies an increased role for state regulation of the market (Germany, Poland, Turkey, France). In others, they are actively involved in the regulation of the securities market (the Baltic States, the Scandinavian countries, the USA). In addition, in the context of the development and strengthening of integration processes between the countries as a whole, and their stock markets in particular, the role of supranational organizations and institutions, as well as international professional associations, is increasing. Their activities contribute to standardization of requirements concerning the competences of the professionals working in this sphere, development and implementation of high standards of professional and ethical activity in the markets.

USA

In the United States, in order to be registered and able to conduct transactions in the stock market, a person needs to pass the qualification exams. The exams are developed and conducted by the Financial Industry Regulatory Authority (FINRA), a self-regulatory organization with mandatory membership of all firms and brokers selling securities in the United States. These exams cover a wide range of issues related to the functioning of the securities market, state regulation, as well as issues regarding the rules of FINRA and other stock markets SROs. The purpose of these examination is to ensure the minimal level of knowledge and skills of future stock market professionals.

An important feature of the registration system in the US stock market is obligatory continuing education, which consists of two mandatory programs: Regulatory Element and Firm Element\(^{16}\):

- The Regulatory Element program focuses on compliance, regulatory, ethical and sales practice standards. Its content is derived from industry rules and regulations, and accepted standards and practices in the industry. Participants must demonstrate proficiency in order to satisfy the CE requirements. The Regulatory Element requires all registered individuals to complete a computer-based training session within 120 days of the second anniversary of their initial registration date, and every three years thereafter.

- The Firm Element requires broker-dealers to establish a formal training program to keep covered registered persons up to date on job- and product-related subjects. In planning, developing and implementing the Firm Element, each broker-dealer must consider its size, structure, scope of business and regulatory concerns.

According to the FINRA regulations, “any registered persons who have not completed the Regulatory Element within the prescribed time frames will have their registrations deemed inactive until such time as the requirements of the program have been satisfied. Any person whose registration has been deemed inactive under this Rule shall cease all activities as a registered person and is prohibited from performing any duties and functioning in any capacity requiring registration. A registration that is inactive for a period of two years will be administratively terminated”\(^{17}\). Such system of continuous education is built to ensure that professionals working on the stock

\(^{16}\) Continuing Education: https://www.finra.org/industry/continuing-education.

\(^{17}\) Registered Representatives Brochure / Financial Industry Regulatory Authority, 2014, 28 p.
market have the knowledge and skills needed at the market, yet it is not overly complicated and bureaucratic process and requires moderate time expenditures.

Scandinavian countries

Scandinavian countries have relatively high level of self-regulation on the stock market, which plays an important role in its functioning, thus they present an interesting example to look at.

In Finland, the certification of the professionals is done by the Federation of Finnish Financial Services (FFI), which represents the interests of virtually all financial companies, including banks, insurance companies, asset management companies, securities traders and investment companies. In 2010, in order to support and further develop the FFI qualification system, APV Investment Examinations Ltd, was founded with the responsibility of operating the qualification system. One of the tasks of the company is to update the qualification requirements and publish them annually. The updated requirements are approved by the qualification work group, which also includes representatives from university (Aalto University, University of Turku), banks, asset management companies, and other major financial institutions. Thus, attracting market participants and the academic community to the development of qualification requirements ensures their compliance with the best international standards and relevant market needs. The process of education and training remains outside the scope of the FFI regulation. The choice of training program lies with individual candidates.

Similar to that is the Swedish model. In Sweden licensing of the stock market professionals is run by the SwedSec Licensiering AB, which is owned by the Swedish Securities Dealers Association, SSDA.

Poland

In Poland, the stock market is regulated by the Polish Financial Supervision Authority (KNF), which is preparing and conducting exams for investment advisers, brokers and all professionals working with securities and investment companies.

Special attention is paid to the composition of the examination commission. It is required that at least 6 representatives of the relevant areas of professional activity are included.

The Polish system of qualifications is currently undergoing substantial reform aimed at promoting labor mobility and ensuring a harmonized level of competence of professionals in all types of activities in the stock market. One of the steps in this direction was the decision of the Ministry of Finance of Poland "On qualifications that give the right to apply for registration as securities brokers or investment advisers" from May 4, 2016. This decision grants the right to engage in professional
activities on the securities market without passing examinations in case the candidate has one of the two certificates: 18:

- Certified International Investment Analyst (CIIA), issued by the Association of Certified International Investment Analysts (ACIIA);
- Certified Financial Analyst (CFA) issued by the CFA Institute.

At the same time, holders of certificates must pass an additional qualification test containing 30 issues related to Polish legislation on financial markets and economics 19.

**Turkey**

Turkey has rather new approaches and constantly improves the assessment and certification system for the stock market and asset management. Financial Regulator, the Capital Markets Board of Turkey (CMB) has introduced a certification system that is in line with international best practices and can serve as an example for other countries. In a simplified and generalized way, the system of examinations for the stock market and asset managers is presented in Table 3.

A person can receive the license for operating on the stock market if he/she has passed the exam and meets all the requirements. Professionals who have a license and work in respective positions in companies in the stock market, must undergo an "Educational program for license renewal" every four years. Professionals who do not work in the respective positions should pass this program every 2 years. The Association of Capital Market Intermediary Institutions of Turkey is engaged in the provision of educational programs for the renewal of licenses. This organization is developing educational programs for updating licenses and training programs for the preparation of exams. It also prepares annual reports with information on the number of professionals who obtained licenses or upgraded them, conducts statistical analysis of these data in terms of professional activities and qualifications levels. Maintaining such accounting and publication of information contributes to a higher level of transparency and efficiency of training and certification of stock market professionals.

**Estonia, Latvia, Lithuania**

The Baltic Financial Advisors Association (BFAA) was established in 2015 to develop and implement a system of qualification examinations to meet the

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18 Rozporządzenie Ministra Finansów z dnia 4 maja 2016 r. “W sprawie wykazu tytułów uprawniających do ubiegania się o wpis na listę maklerów papierów wartościowych lub doradców inwestycyjnych”. – Available at: dziennikustaw.gov.pl.

19 Polish Ministry of Finance accepts CFA designation. – Available at: http://cfapoland.org/en/2016/05/polish-ministry-of-finance-accepts-cfa-designation/
requirements set by the ESMA. The purpose of the organization is to provide market participants with employees who have adequate knowledge and skills to perform their duties.\textsuperscript{20} As a result of it in 2017 the first description of the qualifications system was prepared. It describes how professionals who provide investment advice to customers will be evaluated.

To ensure a high level of training and a rigorous examination, the BFAA has signed an agreement with the Chartered Institute for Securities and Investments (CISI) on the use “the material from the relevant CISI qualification syllabi and workbooks in developing its own learning material.”

\textit{France}

In France, the procedures for ensuring the level of competence of the professionals that provide investment advice and deals with securities is governed by the Financial Market Authority (\textit{Autorité des Marchés Financiers, AMF}). An important activity of the regulator in this context is the monitoring of the system of training and certification of professionals, as well as conducting research aimed at determining the effectiveness of examinations and the preparation of relevant analytics. Thus, during July 1, 2010 - December 31, 2015, 37,400 professionals have passed the AMF certification exams. According to the regulator, the professional certification of stock market participants has confirmed its value and serves as the basis for the formation of a coherent culture of the financial market, as well as contributes to the international positioning of Paris among the global financial markets.

\textit{Structure of qualification requirements for stock market professionals}

While governance and organizational models of certification differ among the countries to a certain extent, the contents itself is much more standardized. Despite certain differences in the wording, general approaches are rather similar.

\textit{Finland, Sweden, Norway}

In Sweden qualification requirements have three levels\textsuperscript{21}:

1. \textit{Recall}: A candidate is required to recognize and remember concepts, definitions, and facts.;

2. \textit{Comprehend}: A candidate is required to understand and be able to explain various connections and contexts;

\begin{footnotesize}
\textsuperscript{20} The Preliminary Baltic Syllabus of BFAA Licenses. Available at: http://bfaa.ee/wp-content/uploads/sites/1/2016/08/Preliminary_Syllabus_17.01.17_Public.pdf

\textsuperscript{21} Proficiency Requirements Licensing Examination / SwedSec Licensiering AB, 2017, 23 p.
\end{footnotesize}
3. Apply: A candidate is required to be able to apply, for instance, formulae, rules, statutes, and methods. Such a practical component is an crucial component of a thorough examination of candidates' knowledge.

Ability to apply theoretical knowledge is also emphasized by the Finance Industry Authorization Schemes (FinAut), whose mission is to ensure high standards and professionalism in the stock market. Each candidate has to pass three different tests, which consist of solving an ethical dilemma in an online test, a written knowledge test, and an extensive practical assessment test. The practical component of the exam is aimed at assessing the candidate's ability to provide quality investment advice in practice.

**Poland**

According to the international experts, Polish qualification exams are quite complex\(^\text{22}\) and require solid theoretical knowledge in the following areas\(^\text{23}\):

- current legislation: civil and commercial law; tax and currency legislation; legislation in the field of securities, financial instruments and securities trading;
- functioning of the financial markets: operation of securities traders and asset managers; depository and clearing system; creation and activity of investment funds, investment strategies;
- accounting standards;
- financial mathematics and financial analysis;
- professional ethics.

According to Polish experts, the traditional KNF exams are very theoretical. In contrast, test assignments developed by the ACIIA and CFA Institute experts, which are currently equated with the national exams, are more practical, especially in the field of financial analysis. Therefore, they better meet the current requirements for knowledge and skills of stock market professionals. Ukrainian experts have repeatedly stressed the lack of a practical component in the test tasks used in the certification of stock market professionals. Accordingly, Poland’s experience of using the certificates of established professional organizations can be interesting and useful for Ukraine.

**Baltic States**


The structure of qualifications requirements is similar to the Swedish ones and also includes three blocks - knowledge, understanding and application, which have already been discussed above. Thus, the BFAA is using best international practices and approaches, ensures the development of up-to-date, objective and yet practical exam questions which are expected to meet the current needs of stock market participants.

**Turkey**

In Turkey, there are different exams for different types of professionals working on the stock market. It also recognizes established international professional certificates as equivalent to the national qualification exams of stock market professionals and asset managers.

**Table 3. Basic qualification exams of Turkish stock market professionals**

<table>
<thead>
<tr>
<th>Exam</th>
<th>Exam components</th>
<th>Who has to take this exam</th>
<th>Equivalent certificate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Market Activities Basic Level Examination</strong></td>
<td>1) Economics; 2) Legislation on the capital markets, related legislation and ethical rules; 3) Securities and other capital market instruments; 4) Relevant tax legislation; 5) Stock market; 6) Market of bonds and checks; 7) Other organized markets and exchanges; 8) Fundamentals of financial mathematics, methods of evaluation, accounting and financial analysis; 9) Clearing and operational activities.</td>
<td>- managers of securities traders’ branches; - the responsible persons of the securities trade dealers' departments; - Customers working with clients (modules 1-6).</td>
<td>- CFA Level 1 (CFA Institute); - General Securities Representative Certificate / Series 7 (National Association of Securities Traders in the USA)</td>
</tr>
</tbody>
</table>

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| Capital Market Activities Advanced Level Examination | 1) Economics and financial system; 2) Legislation on the capital markets and related legislation; 3) Securities and other capital market instruments; 4) Relevant tax legislation; 5) Domestic and international markets; 6) Financial management; 7) Methods of analysis; 8) Accounting, auditing and ethical rules | - managers of asset management companies; - investment portfolios managers; - members of the board of directors of asset management companies; - researchers, investment advisers, corporate finance professionals; - inspectors, internal audit personnel, the head and management of the audit unit; - members of the management board of asset management funds. | - CFA Level 2 (CFA Institute); - Securities and Financial Derivatives Representative Certificate, SFDR (UK Financial Regulation and Supervision Authority). |
| Derivatives Examination | Training modules of the basic exam (1-6) or in-depth examination (1-5) for work in the capital market + 1) Derivatives; 2) Operations in futures and options markets. | - managers of branches dealing with derivatives; - staff working on a level between a client representative and a branch manager; - managers of asset management companies; - members of the management board of asset management funds. | - CFA Level 3 (CFA Institute); - Derivatives Markets Specialist Certificate (Canadian Institute of Securities); - National Commodity Futures Certificate / Series 3 (National Futures Association in the USA). |

**Examinations rules and procedures**

Most of the countries examined for the purpose of this study offer only computer testing during the qualification exams. For instance, in Italy each candidate passes the exam on the specially issues tablet. This practice is being applied today by the Ukrainian Stock Market Development Institute. However, in Ukraine, as in other countries, whose stock markets are still in the transformation phase, candidates are offered a paper version of the exam. Typically, the exam is a multiple choice test. Tasks of this type are used when checking the ability to correctly reproduce knowledge and select the correct answer out of 4-5 options. The number of questions is typically from 60 to 120 with less than 1 minute allocated for each question. In most cases, 70-75% of the correct answers are considered sufficient to qualify.

Typically, the tests database is not available for public, yet the candidates can have access to typical or sample questions. For instance, such approach is used in Turkey.25

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25 Sample questions of licensing examinations of capital market professionals. – Available at: http://www.cmb.gov.tr/displayfile.aspx?action=displayfile&pageid=52&fn=52.pdf&submenuheader=null
Stock market certification models for different countries are not set once and for all. Approaches and requirements may be modified depending on the development of legislation and the improvement of the infrastructure of stock markets. Therefore, qualifications and certification systems of stock market professionals are in the process of constant development and improvement.

**Unification of approaches to the certification of stock market professionals in the European Union**

The ongoing process of merging of the national stock markets of the European Union (EU) member states leads to a convergence of their legal and regulatory framework and the unification of the rules of regulation in the financial sector and investment sector. In 2017, the Guidelines for the assessment of knowledge and competence developed by the European Securities and Markets Authority (ESMA) were published\(^\text{26}\).

The ESMA guidelines are an integral part of the modern concept of enhancing investor protection and promoting competition in the stock market, as defined by the European Parliament and Council Directive on the Financial Instrument Markets. The leadership of the organization expects that these guidelines will enhance the convergence of knowledge and competence of the professional who individually provide investment advice and transactions with securities, as well as provide those who work on behalf of investment companies.

The basic requirements set out in the ESMA Guidelines are aimed at achieving the following objectives:

- Ensuring that the staff providing the services to the clients is assessed through the appropriate qualifications assessment and had sufficient experience;
- The level and intensity of knowledge and competence expected for those providing investment advice should be of a higher standard than those that only give information on investment products and services (Criteria for knowledge and competence for staff according to their professional activity are given in Annexes F, C);
- Conducting an internal or external assessment of the training and professional development needs of staff, assessing regulatory or legislative changes, and undertaking any action required to comply with the ESMA requirements for the qualification of professionals. This periodic assessment (at least once a

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\(^{26}\) ESMA is independent EU institution aimed on investors interests protection and facilitation of financial markets stability.
year) should provide information on training needs for a system of continuous professional development;

- upon the request of the regulator firms provide supporting material relating to the knowledge and competences of the personnel who provide the relevant services to clients;

- firms should ensure that staff providing relevant services possess the necessary knowledge and competence to meet relevant regulatory and legal requirements and business ethics standards

According to the said Guidelines, EU regulators and financial market participants should make every effort to comply with the guidelines that come into effect in January 2018. National competent authorities covered by the Guidelines should comply with the set recommendations and use them in their supervisory and regulatory practice. Moreover, the competent authorities had to indicate that they comply with or intend to comply with these Guidelines within two months from the date of publication (January 3, 2017). In the absence of a response by this deadline, competent authorities will be considered as non-compliant. Therefore, in most European countries, active work is underway to improve national assessment and certification systems in line with criteria set by ESMA.

Germany

The German financial regulator, the Federal Office for Financial Supervision (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin), in 2017 adopted a number of changes in the organization of training and certification of staff that provides investment advice and transactions with securities. As the representatives of the regulator point out, these changes are taking place since the market participants should be subject not only to national laws and regulations, but also to European norms. 27. Separate amendments are aimed to ensure that:

- the competencies requirements for the staff of the companies providing investment services are aligned with the requirements of the ESMA Guidelines;

- the new requirements on the competences of the staff giving information about investment products, investment services or ancillary services are aligned with the requirements of the ESMA Guidelines;

- the new requirements for the competencies of the staff investment services and portfolio management services are clarified;

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at least an annual review of competencies and the necessary practical experience of the staff is introduced to ensure they meet set requirements for working in the stock market.

Taking into account European integration aspirations of Ukraine, the ESMA guidelines should be taken into account when reforming the national system of certification of stock market staff. In this context, the experience of the Baltic States can be useful, which have successfully and in a relatively short time integrated into the European Union.

**Best international training and certification practices of stock market staff**

For Ukraine, the following principles and approaches for training, assessment and certification of stock market and asset management staff are most relevant:

- development and introduction of high requirements to the professionals working on the stock market concerning their knowledge of local legislation and competencies in the analysis of financial instruments;
- differentiation of standards and requirements for professionals involved in different types of work;
- the right to choose educational institutions / business schools / on-line programs to train for examinations;
- the right to use certificates of established international professional organizations and associations (CFA, CIIA, SFDR, and others) as a substitute for national examination;
- adding practical cases to the training curricula and exams;
- introduction of computer-based testing and / or automatic results grading and creating conditions for a transparent and adequate assessment of candidates' knowledge;
- ensuring the integrity of the exam by fully separating the process of exam preparation and administration;
- making sample exam questions available online;
- cooperation with international professional organizations and associations (ACIIA, CFA, CISI and others) regarding the use of their training programs, the transfer of experience in organizing examinations and adding practical questions to the exam;
• inviting SRO representatives, universities and training centers to provide their expertise in updating of training programs and preparing test questions for the exams;

• introducing the idea of continuous professional development (CPD) of staff, regular update of their knowledge, development of their skills, possible extension of the professional certificate to those professionals who actively improve their professional knowledge and skills via CPD;

• monitoring and analysis of the results of the national exams, including those exams specific for different specializations, as well as the presentation of these analysis in open access;

• creating the conditions for compliance with professional ethical standards in the stock market through the development and implementation of ethical codes and standards of professional conduct.

This experience should be taken into account when reforming the system of training and certification of stock market professionals in Ukraine. Introducing the best international practices in certification of professionals in Ukraine is an important condition for increasing the attractiveness of the domestic stock market for investors and its further development. Additionally, these approaches are also largely reflected in the Guidelines for the assessment of knowledge and competences developed by the European Securities and Markets Authority. Thus, their implementation will support the European integration course of the country's development.
3. ETHICS AS PART OF AN IMPORTANT COMPONENT OF THE FUNCTIONING OF STOCK MARKET

Ensuring that securities transactions and asset management are performed in good faith and according to the professional ethics and integrity principles is a crucial condition for the stable functioning of the stock market. Accordingly, the function of financial regulators is regulation of the behavior of stock market participants and control over their activities. When there is no efficient monitoring and rules of conduct are not followed, financial markets are particularly prone to abuse. Regulators and authorities around the world disclose unethical behavior, which has caused considerable damage to the credibility and reliability of the markets. This, in turn, has a negative impact on economic development as a whole, since it hinders participants from operating in the market, leads to the reduction in transaction volumes and the increase in costs.

Just state regulation and supervision is not enough to prevent abuse and ethical mistakes that are the cause of financial fluctuations and even crises. In today's realities, it is crucially important for the stock market professionals and managers to recognize their own responsibility, have sufficient knowledge and observe common ethical norms and principles. Participants in the stock market not only perceive the market environment as it is, but they themselves are involved in its formation and development. Surely, they are interested not only in maximizing their profits, but also in proper functioning of the market on which they operate, its reliable and stable development. Compliance with the rules of ethical business conduct in the market strengthens the reputation of professional participants, serves as a proof of reliability and competence both of individual participants and of the market as a whole. This all leads to increased investor confidence and increased volumes of operations. That is why, in international practice knowledge of and compliance with ethical norms and principles is recognized as a crucial element of building reliable reputation of professional market participants.

At first glance, the concept of stock market ethics may seem incompatible with the idea of maximizing profits as the main goal of any market participant. However, there are studies that prove that there is correlation between the wish to maximize wealth and adherence to the standards of business ethics. Moreover, some


29 Fair and effective markets review. – Available at: https://www.fca.org.uk/news/speeches/fair-and-effective-markets-review

researchers point out that achieving maximization of market value and profits is possible only under ethical business conduct. This approach is especially relevant in the long run.

Thus, the stock market ethics are the rules of fair conduct during all operations and customer consultations. The purpose of adhering to business ethics in the stock market is to make profit in transparent and honest way, following all the legislation and regulations, as well as professional and ethical rules and requirements.

**Codes of Ethics of professional organizations and associations**

In developing and implementing ethical standards in the financial sector, the key role belongs directly to market participants. Typically, self-regulatory organizations and professional associations and sometimes even individual market participants adopt of their codes of ethics for stock market professionals and asset managers.

Codes of ethics, developed by international professional associations are internationally significant. As noted above, some countries recognize international professional certificates, and holders of such certificates do not have to pass national examinations. It encourages the transfer of international standards and norms, including those on professional ethics, and contributes to raising public confidence in financial markets and the investment profession. In particular, the Code of Ethics and Standards of Professional Conduct, introduced by the CFA Institute in the 1960s, aims to promote high professional standards among members of the association and serves as a benchmark for assessing the ethics of investment professionals around the world. Ukraine would benefit from introducing the principles developed by the CFA, such as:

- **Professionalism**, which includes knowledge of the law, independence and objectivity, misrepresentation (one must not knowingly make any misrepresentations), misconduct (one must not engage in any professional conduct involving dishonesty, fraud, or deceit);
- **Integrity of capital markets**, which covers issues of material nonpublic information and market manipulation;
- **Duties to clients**, which include loyalty, prudence and care; fair dealing; suitability; performance presentation; preservation of confidentiality;

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• **Duties to employers**, which include loyalty; additional compensation arrangements; responsibilities of supervisors;

• **Investment analysis, recommendations, and actions**, which include diligence and reasonable basis; communication with clients and prospective clients; record retention;

• **Conflict of interest**, which include disclosure of conflicts; priority of transactions; referral fees.

Principles of Ethical Conduct, approved by the Association of Certified International Investment Analysts (ACIIA), are recognized by many European countries and can be used in the elaboration of ethical codes of Ukrainian self-regulatory organizations and associations. ACIIA draws attention to the following fundamental principles:

• **Honesty, Integrity, and Fairness**: Investment analysts shall observe high standards of honesty, integrity, and fairness in dealings with clients, prospective clients, and others related to professional activities, so as to enhance public confidence in the profession.

• **Reasonable Care and Diligence**: Investment analysts shall perform their professional activities with reasonable care, prudence and diligence.

• **Interests of Clients First**: Investment analysts shall always act in the best interests of their clients and prospective clients, and place the interests of clients and prospective clients before their own or that of their employers, or those of any third party.

• **Independence and Objectivity**: Investment analysts shall take reasonable care to maintain independence and objectivity and to make fair judgments in performing their professional activities.

• **Professional Competence**: Investment analysts shall continuously strive to maintain and improve their professional competence.

• **Required Knowledge and Compliance**: Investment analysts shall maintain knowledge of and comply with all applicable laws, rules, regulations, and the codes of ethics and standards of professional conduct of national or regional associations, and shall not consciously partake in any violation of an ethical or legal nature.

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33 ACIIA Principles of Ethical Conduct. Available at: https://www.aciia.org/aciia-principles-of-ethical-conduct.html#Fundamental
The Code of Conduct developed by the Chartered Institute for Securities and Investments (CISI) define separate principles for interaction with all stakeholders: clients, companies, regulators to ensure integrity, openness, transparency and fairness in the pursuit of professional activities. One of the established principles is the active development of professional competences and the commitment to continue learning to ensure the value of their knowledge, skills and experience, as well as to promote the professional development of others\textsuperscript{34}.

*Experience in incorporating ethical aspects in the certification of stock market staff*

The curricula and qualification exams of the stock market professionals of most developed countries include separate blocks devoted exclusively to ethical issues. Separate examples are the following countries:

- Denmark: separate training programs cover the issues of market abuse, money laundering and avoiding conflicts of interest.
- Norway: "Ethics and good advisory practice" component is mandatory; imitational ethical test aimed at test candidate’s understanding of the basic norms and principles of ethical behavior in the securities market.
- USA: compulsory training modules include Ethics and Business Conduct; Complaints and Investigation; Prohibited, and Fraudulent Behavior.
- Poland: part of the qualification exam is the issue of professional ethical standards.
- Turkey: all capital market professionals have to study ethical rules of professional conduct. Basic requirement is knowledge of the rules developed by self-regulatory organization - the Association of Institutions of Intermediary Activities in the Capital Market of Turkey.
- Baltic countries (Estonia, Latvia, Lithuania): the module "Ethics and regulation" is a compulsory part of the exam, and it covers about 15-25% of the test for investment consultants and 20-30% for professionals who provide information on investment services. At the same time, if the questions on national regulation vary according to each country, the question of knowledge and application of the Ethics Code of the Baltic Financial Advisers Association is common to all.

\textsuperscript{34} CISI Code of Conduct. – Available at: www.cisi.org/cisiweb2/docs/default-source/cisi-website/ethics/code-of-conduct-16.pdf
Thus, it is typical to have special block of the certification exam dedicated to the issues of professional ethics and rules of conduct in most countries. This is what the market very much needs at this point. A person who does not know and apply these norms and principles cannot be competitive on the national and international market.

_Codes of Ethics: The needs for Ukraine_

The stock market in Ukraine has undergone a complicated period of transformations, but the process of institutional development is far from complete. Despite the complexity and contradictions of the current situation, the stock market today has the potential for development and growth. Although there was not a lot of interest to the issues of professional ethics and rules of conduct before, today both the state regulator and the professional market participants themselves are acknowledging the problems in this sphere.

There is a need to expand the training curricula and introduce separate blocks where trainees could learn basic principles of stock market ethics, examine examples of violations of ethical norms, discuss potential strategies of stock market participants in such cases. This will enable stock market professionals to further understand, recognize, and classify various ethical issues and form their own in-depth awareness of responsible and ethical conduct. Thus, research findings on the implications of incorporating ethical issues into US financial market training curricula have shown that the study of "ethical cases" results in more ethical decisions by future market participants and changes their perceptions of the ethics of business conduct in the market.\(^{35}\)

Yet, before this can be included into the training program, major market participants and the regulator have to agree upon common approaches and standards of ethical conduct. Different interpretations of standards make it impossible to develop training curriculum, but more importantly, without a discussion and reflection of professional standards by a professional community, the ethical code will not be implemented fully and will not be the basis for individual and collective decision-making on the market.

The use of codes of ethics and standards of professional conduct developed by professional associations recognized by different countries of the world (ACIIA, CFA, CISI) could be beneficial. The introduction of ethical norms approved by international organizations and associations foster faster adaptation of the Ukrainian system of training and certification of stock market professionals to international requirements, and will promote a higher level of trust and transparency of the market.

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4. RECOMMENDATIONS FOR IMPROVING THE SYSTEM TRAINING AND ASSESSMENT OF PROFESSIONALS IN STOCK MARKET AND ASSETS MANAGEMENT

Based on an expert survey of stock market participants and the study of the best international practices, we have identified the main shortcomings of the existing system of training and certification of stock market professionals of Ukraine and main approaches of its improvement. Thus, the following problems are most pressing:

- mandatory training in institutions assigned by the regulator;
- outdated training programs and approaches to assessment of knowledge;
- professional ethics is not included in training programs and examinations;
- inefficient system of administering of the exams;
- no differentiation in requirements for managers and other staff of the firms;
- conflict of interest within the examinations procedures;
- there is not effective supervision over the process of training and certification of stock market professionals, no relevant analytics, and even the basic information on the certification is not easily accessible to the public;
- professional community is very little involved in the development of the training curriculum, teaching materials and training process as such.

I. New approaches to assessment

In order to overcome these shortcomings and build a efficient and transparent system of training staff in the stock market in Ukraine, we recommended to switch to a two-level system with the testing of relevant knowledge and competencies:

- the first level is for persons who obtain a qualification certificate of a professional in the stock market for the first time - *primary certification*;
- the second level includes continuous professional development and prolongation of the certificate - *re-validation of certification*.

Exams themselves should be divided into at least four blocks:

- basic knowledge of financial instruments, universal principles of economics which do not depend on the national context;
- knowledge specific to work in Ukraine (knowledge of relevant legislation and regulations);
• ability to apply theoretical knowledge, models and concepts to practical problems within certain specializations;

• knowledge and understanding of ethical principles and norms of conduct in the stock market.

The test will have only multiple-choice questions. Candidate will have to score the minimum number of points from each block which he / she must make in order to qualify for the exam. A person who failed the exam has the right to appeal against the results.

A person who has an international professional certificate in the relevant field may be exempted from taking a particular test block(s). Such decision is taken individually for each candidate by a test center according to the guidelines set by the National Commission on Securities and Stock Market.

This system entails the introduction of the idea of continuous professional development in Ukraine, which will contribute to improving knowledge and competencies of stock market professionals.

Primary certification is mandatory for all stock market professionals. At this stage, there is a need to rethink approaches to qualification requirements that determine the right to directly deal with securities and manage the funds of clients.

There is a need to differentiate the requirements for front office and back office staff. Front office staff must understand the specifics of all transactions with securities and take into account all the nuances of the agreements and transfer the relevant instructions to the back office. For back office employees, more emphasis should be placed on the knowledge of legislation, while for front office workers, knowledge of the economy and finance is more important. The requirements for the managers should be even higher. This should be reflected in the level of qualifications exams.

In order to be apply for primary certification, candidate has to undergo compulsory training, yet he/she will be able to choose training institutions and formats (including online). This means that the NSSMC will not have special agreements with specific institutions any more.

Ukrainian legislation and ethics will be mandatory courses. Basic economics course will be mandatory only for those candidates who have not taken economics in university (either as major or minor specialization). The final decision on the need to take economics course will be taken by the test center.

The trainings can be provided by different institutions.

Re-validation of certification is meant to ensure the continuous professional development of stock market professionals and may be a joint responsibility of the SRO and the state.
To implement this concept, a system of continuous professional development units will be introduced. The introduction of this system should be discussed among all stakeholders. Broad involvement of the Training Center of the NSSMC, SROs and professional associations in this process is crucial.

In order to re-validate the certificate person will have to accumulate continuous professional development (CPD) units, which can be received for different types of activities including:

- education at one of the Ukrainian universities or at any other provider of educational services;
- completing a study course, training etc;
- successfully complete study program for one of the internationally recognized professional certificates;
- active participation in the NSSMC working groups on improving the legislative framework;
- active participation in SRO working groups on the development of ethical codes and principles of professional conduct of stock market participants;
- active participation in the working groups for development of teaching materials and training curriculum for staff working in the stock market;
- research activities: presentations at academic conferences, publications in professional journals.

Different types of the professional development activities will amount to a certain number of points according to a pre-approved scale. This will incentivize stock market professionals to engage in continuous professional development. The role of the SROs will be to convert individual activities into the CPD points for individual candidates. They will not have the status of monopolistic provider of professional development services; their task will be to calculate the number of points received and thus confirm constant professional development.

Having obtained minimal number of CPD units, the candidate will take a shorter version of the test comprised of three blocks (during re-certification the candidates will not have to take basic economics block again).

According to the stock market participants, such an approach to the certification of the staff is quite feasible and sufficient. The stock market professionals will be motivated to continually improve their qualifications through training, development of the regulatory framework, research and other means of acquiring new knowledge and skills. The development and administration of the CPD points system should be transferred to the SROs of the stock market of Ukraine. This will meet their demands
for bigger role in the process and hopefully will help create more adequate system of training and certification. Additionally, the joint responsibility of the regulator and the SRO for the re-certification process will promote continuous cooperation and the mutual understanding between different stakeholders.

Every stock market specialist that has minimal number of CPD units will have to undergo a re-certification procedure within the 90-day period from the third anniversary of the date of obtaining a qualification certificate. If this is not done, the person will have to go through initial certification again.

In order to integrate into the international professional community, it is recommended to recognize international professional certificates which can serve as substitute to the national exams. The details of such a mechanism should be the result of discussions between market participants, the regulator and independent experts. Examples of implementing such policy decisions in other countries (Poland, Turkey) could be of use.

**II Qualification Exam: New Content, Procedures, and Approaches**

*Contents*

Test specification is subject to approval by the NSSMC. At the same time, the formation of these requirements should result from the joint work of the regulator, SRO / market participants and educational institutions in order to ensure the quality of the program, as well as broad involvement and confidence in the process. For this purpose, the NSSMC will form a working group (up to 20 people) from representatives of different stakeholders, who will be involved in the development of the requirements.

It is not enough to have theoretical knowledge of the subject but also to be able to apply this knowledge to practical situation within Ukrainian context. In order to prepare such test questions, there should be in-depth understanding of the functioning of the stock market in Ukraine. For that the practice analysis will be performed. The task of practice analysis is to collect and analyze comments from practitioners on the specifics of the functioning of the stock market in Ukraine. This will serve as the basis for the development of case-studies for the training and practical test item for the exam.

Results of practice analysis should be presented and discussed at at the meeting of the working group.

The exam program established by the working group will be approved by the commission and must be reviewed at least once a year (more often if the legislative framework changes).
Key topics will have to be identified in order to help build the specifications (taxonomies) for each topic.

*Procedure for forming the test item database*

Development and implementation test specification and preparation of the test items are very important steps. New test items database will have to be created which will include only properly-designed test items. In order to do this the following steps need to be taken:

1. proper selection and training of persons who will be involved in the preparation of test items;
2. ensuring independence and impartiality of the test writers, as well as members of the examination commissions;
3. reviewing each test item (deciding on the minimum number of reviewers; selecting criteria for rejecting poor quality test tasks based on the results of the review, etc.);
4. creating database to include those test items that has been reviewed and edited;
5. pre-testing the test items to ensure that they perform as expected;
6. selecting the test items which have pre-tested well, calibrating tests database.

*Administering qualification exam*

In order to guarantee the objectivity of the evaluation, the administration of the exam will have to be changed:

1. since interviews proved to be subjective and inefficient for evaluating the candidates, this exam phase will be eliminated;
2. all test should be written or taken on computer.

In order to guarantee transparency of the assessment, post-test analysis will be performed and presented to the public, including the aggregated data on the test result and pass rates. Information on the national pass rate, pass rate for separate specializations and different test centers will guarantee more trust and confidence to the examination procedures.

*III. Professional ethics*

Professional ethics and norms of professional conduct should be incorporated into qualification exams and training curricula, specifically those for the managers and staff working in the front-office. Particular attention in teaching and testing should be given to such ethical issues and considerations:

- ensuring transparency of the market and disclosing the necessary information both to the management of the firm and the market regulator;
• informing the client of all circumstances related to the operation of securities purchase and sale operations, including the risks inherent in these operations;
• preventing the distribution of false or unreasonable information about issuers or securities;
• prevent dissemination of insider information that may create advantages for individual stock market participants;
• maintaining confidentiality of information about client transactions and their account status;
• ensuring the integrity of the pricing mechanism in the market;
• not taking any steps that could undermine the fairness and stability of the functioning of the market;
• preventing the use of manipulative tactics and strategies, as well as practices that create false visibility of market activity.

Certain norms of professional and ethical behavior of stock market participants are defined in legislative and regulatory documents. However, there is a need for a comprehensive Code of Ethics developed by the market participants with the support of the self-regulatory organizations and associations. A series of roundtables and workshops are proposed to discuss and formulate the norms and principles of ethical conduct of stock market participants and asset managers.

As already mentioned above, many countries have used professional codes of ethics and standards of professional conduct developed by professional associations (for example, ACIIA, CFA, CISI). The adoption of such codes will allow faster adaptation of the Ukrainian system of training stock market professionals to international requirements, and will promote a higher level of trust and transparency of the market. However, the documents cannot be simply translated and officially adopted, in order to perform their function as regulatory document, they will have to be discussed and understood by the professional community.

Only after such codes have been developed, they can be incorporated into the training programs and qualification exam.

Taking into account all of the above recommendations will facilitate the creation of a transparent system of training of people employed in the stock market and asset management in Ukraine, which will be based on independent assessment of candidates according to the best international practices.
CONCLUSION

The stock market of Ukraine is still in the making. There are still a number of problems that require joint efforts by the state, private and public sectors in order to create a stable and reliable stock market. One of the important and urgent tasks for today remains the issue of building an effective system of training and certification of stock market professionals that will meet current market needs and international standards.

Based on the study of international experience and taking into account the views of key market participants we have developed the main recommendations on how to construct a comprehensive and trustworthy system of training and certification of professionals in the stock market and asset management in Ukraine:

- transition to a two-level system of certification (initial certification and re-validation of certification);
- differentiating approaches for different categories of professionals (specializations);
- development of a system of continuous professional development (CPD) according to the best international practices; it can be a joint responsibility of the state and the SRO and will promote the involvement of the professional community in CPD on the stock market; person will have to obtain specific number of points for different types of professional development activities;
- allowing to use certificates of established international professional organizations and associations (CFA, CIIA, SFDR, etc.) as substitute for national qualification exams;
- right to independently choose educational institutions / business schools / online programs to train for examinations, including mandatory training cycles;
- transition to written (potentially - computer-based) testing during qualification examinations without individual interviews;
- broad discussion of the educational and training needs for the market with the SROs, educational institutions etc;
- development and implementation of strict methodological guidelines for preparation of test items for the qualification exams;
- formation of a new database of test items which have been edited, reviewed and pretested according to the said guidelines; sample test items can be presented online;
- adding ethics component both to the training and qualification exams;
- regular monitoring and analysis of the results of examinations, ensuring that this analysis is openly available.

The implementation of these recommendations should be based on fruitful cooperation between the market regulator - the National Securities and Stock Market Commission, the SROs, market participants, the self-regulatory organizations and professional associations, as well as the academic community in in order to reform the existing system.

<table>
<thead>
<tr>
<th>Steps</th>
<th>Who is involved</th>
<th>Timeline</th>
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<tr>
<td>Discussion of the main approaches to reforming the system of training, certification of stock market professionals and adoption of a new concept of the certification system</td>
<td>NSSMC, SROs, professional associations</td>
<td>Nov-Dec 2017</td>
</tr>
<tr>
<td>Regulatory changes</td>
<td>NSSMC</td>
<td>2018</td>
</tr>
<tr>
<td>Conducting practice analysis</td>
<td>NSSMC, SROs, professional associations, individual experts</td>
<td>Jan-Feb 2018</td>
</tr>
<tr>
<td>Development and adoption of norms and principles of ethical behavior of stock market participants and asset managers</td>
<td>SROs, professional associations</td>
<td>Mar-Apr 2018</td>
</tr>
<tr>
<td>Developing the continuous professional development points’ system</td>
<td>NSSMC, SROs, professional associations, individual experts</td>
<td>May-Jun 2018</td>
</tr>
<tr>
<td>Preparation of a training program describing the expected learning outcomes for the stock market professionals</td>
<td>NSSMC, SROs, professional associations, individual experts</td>
<td>Jul-Aug 2018</td>
</tr>
<tr>
<td>Task</td>
<td>Responsible Bodies</td>
<td>Timeframe</td>
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<tr>
<td>Writing test items according to the new standards</td>
<td>NSSMC training centre, SROs, professional associations, academics</td>
<td>Sep-Oct 2018</td>
</tr>
<tr>
<td>Editing, reviewing, pretesting the test items</td>
<td>NSSMC training centre, SROs, professional associations, academics</td>
<td>Nov-Dec 2018</td>
</tr>
<tr>
<td>Conducting first exam according to the new rules and procedures</td>
<td>NSSMC training centre</td>
<td>Jan-Feb 2019</td>
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</table>

The proposed system takes into account the different needs of the training of stock market professionals such as thorough knowledge and understanding of legislation and current trends in market development, as well as introduces ethical norms into the stock market. It is designed to meet current needs and challenges of the stock market development in Ukraine.
APPENDICES

Appendix A

List of persons who are obliged to be certified:

• the head of a legal entity (except for banks, in case there is deputy head of a bank or a member of the executive body, who is responsible for the bank's professional activities in the stock market according to the internal documents of the bank);

• the deputy head of a legal entity, which is responsible for the legal entity's professional activity in the stock market according to the internal documents of the bank (in there is such a deputy);

• the head of a structural unit of a legal entity that carries out a certain type of professional activity in the stock market (if such a unit exists). If such a unit is a part of other structural units of a legal entity whose activities are not exclusively related to the conduct of professional activity in the stock market, the heads of such structural units of the legal entity shall be certified, unless there is designated deputy head responsible for the legal entity's professional activities in the stock market;

• staff operating directly on the stock market.

If a legal entity that carries out professional activity in the stock market, its branches, representative offices and other separated units the following persons are also subject to certification:

• head of a separate unit;

• the deputy head of a separate subdivision who is responsible for the division’s professional activity in the stock market (if there is one);

• the head of the relevant structural subdivision of this separate subdivision who is responsible for securities transactions (if there is one);

• staff operating directly on the stock market.
Appendix B

List of fields of studies:

international law and international economic relations;
law and law-enforcement activity;
applied economics;
economic theory, economic cybernetics, international economics, enterprise economics, human resources management and labor economics, applied statistics, marketing, finance and credit, banking, taxation, accounting and auditing, commodity research and commercial activities, commodity research and customs expertise, commodity expertise and services, safety and quality management of goods, organization of wholesale and retail trade;
management of organizations, management of innovative activity;
mathematics, actuarial and financial mathematics, mathematical economics and econometrics, computer mechanics;
applied mathematics, computer mathematics, mathematical and computer modeling, cryptology, informatics, applied informatics, system analysis and management, systems and methods for decision making;
information management systems and technologies, information technology design, system design, systems of artificial intelligence, computer systems and networks, system programming, specialized computer systems, software systems, software engineering;
public administration.
Appendix C

Types of professional activity in the stock market

- Trading in securities
- Depository services
- Asset management of institutional investors
- Organization of trade in the stock market
- Clearing services
- Mortgage-related services