



#UkrFinForum17

Day 2. Panel 5-1

TUESDAY, 26 SEPTEMBER 2017

Relaxation of FX controls, capital markets regulation, BEPS

FX liberalization is not the acute problem that it was two years ago.

FX restrictions have been eased by the National Bank of Ukraine, which contributed to the stabilization of the financial system as a whole, and the FX market in particular. However the regulator does not have a predetermined timeframe for the complete removal of FX barriers.

Oleg Churiy, Deputy Governor on the National Bank of Ukraine (NBU), believes that some existing FX restrictions have become ineffective and obsolete; however, they can only be rescinded at the legislative level. The NBU is planning to introduce a recently developed bill on foreign currency to the National Council of Reforms for submission to parliament. They are looking to change the philosophy: everything that is not explicitly forbidden will be allowed. Current regulations require permission for each currency transaction. The authors propose a phased-in introduction of the new law, if approved.

The NBU plans to abandon licensing requirements on FX transactions, and also on general licenses. It will set a maximum cap for certain types of operations for the withdrawal of funds from abroad. Currently, this mechanism is available to individuals, who are allowed to invest abroad up to US\$50,000 (UAH1.3m).

Commercial banks will retain the function of financial monitoring. Also, the NBU will not issue permits for non-resident borrowing, limiting its function to maintaining statistics.

Despite past devaluations, Ukrainians continue to keep about half of their funds in banks in the national currency. At the same time, for many reliable banks, it has become problematic to reinvest foreign-currency deposits, so they effectively suspended collection of long-term deposits by lowering their rates virtually to zero.

Ruslan Demchak, MP, Deputy Chairman, Parliamentary Committee on Finance and Banking Policy, believes that the new currency law will not restrict the NBU's ability to regulate the currency market in a timely manner. In the future, depending on economic conditions, the NBU will be able to introduce currency restrictions.

Demchak believes that the law on currency and the implementation of BEPS should be conducted through parliament simultaneously, and as soon as possible. Chances for this legislation to pass look good. "If we do not become a member of BEPS, Ukraine will be put on "black lists", which will hinder doing business in the country."

Timur Khromayev, Chairman of the National Securities and Stock Market Commission (NSSMC), noted the enormous dependence on foreign markets and financial instruments. Half of the country's GDP depends on the pricing on foreign commodity exchanges. Khromayev believes that currency liberalization is not enough; it is necessary to create a domestic market, powerful domestic banks,

capitalized non-banking institutions, the second and third levels of pension reform, and ensure transparent pricing at domestic exchanges.

Without joining BEPS, Ukraine will be on the black list of foreign fiscal authorities

Volodymyr Kotenko, Partner at EY, stresses the shortcomings of the existing legislation on transfer pricing. BEPS principles dictate that cross-border companies report breakdowns of taxes paid in all jurisdictions. This will allow tax authorities to gain a better understanding of the activities of companies, in particular the economic content of export operations.

It is felt that tax amnesty has a negative impact on tax discipline, as taxpayers have an incentive to avoid paying taxes until the next amnesty announcement. In Ukraine, there was only an attempt to make a quasi-amnesty, but it cannot be described as successful or inclusive. It should not be taken as a model, although tax amnesties, as such, are sometimes necessary. Because of the complexity of legislation, the majority of companies can be caught in violation of currency or fiscal legislation, with no malicious intent. Therefore, it is necessary to clearly outline the mechanism an amnesty, and its irreversibility.



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

WEB www.icu.ua



@ICU_UA

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Director
makar.paseniuk@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Roman Nikitov, ACCA, Director
roman.nikitov@icu.ua

Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

STRATEGY AND CORPORATE DEVELOPMENT

Vlad Sinani, Director
vlad.sinani@icu.ua

SALES AND TRADING

Konstantin Stetsenko
Managing Director
konstantin.stetsenko@icu.ua

Liliya Kubytovych
Asset Management Product Sales
liliya.kubytovych@icu.ua

Sergiy Byelyayev
Fixed-Income Trading
sergiy.byelyayev@icu.ua

Yevgeniya Gryshchenko
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

Vitaliy Sivach
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Bogdan Vorotilin
bogdan.vorotilin@icu.ua

RESEARCH

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

