# THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF THE FORMATION OF THE INTERNATIONAL SECURITIES MARKET

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Abstract: This article provides an assessment and analysis of the formation of the international securities market since, in modern conditions, the international stock market (as a system of institutions and relations) refers to that part of the international financial securities market where transactions with such foreign stock assets as stocks, bonds and financial derivatives, are carried out and there is an international transfer of financial claims and liabilities between the asset owner, their companies and debtors. Being a small part of the international financial market at its initial stage, it then expanded significantly and has now become one of its main components. The authors conclude that the international securities market is characterized by many constant foreign exchange transfers and depends on changing exchange rates.

Keywords: International market, securities, globalization, Eurobonds, stock exchange, financial market.

## 1 Introduction

About eight centuries have passed since the appearance of the first security. Of course, the stock market has come a long way over this time; it is difficult to imagine a modern economy without securities. There were government loan bonds, bills of lading and promissory notes used in foreign trade, as well as receipts used in internal and external settlements even in the USSR, in a state with a centralized, policy-driven economy.

The development of the entire financial sphere (and the securities market is part of the financial market) is not carried out on its own, but follows the development of the production sphere, the needs and patterns of production itself.

The main reason for the issuance of the first government securities was war. The war outcome depended more and more on financial power than on military art. The first government securities issued by the governments of Holland and England were unsuccessful, since a fixed percentage of them was paid to the original buyer throughout the life. These securities could change hands, but in order to get a percentage, the new owner had to prove that the original security owner was alive. The receipts appeared at the turn of the 16-17th centuries, simultaneously in England and Holland. Dutch bankers issued to their customers, who deposited their money, special bearer receipts with which they could pay off their debts. English banks made available special books with order forms (receipt book prototype) to their depositors, which could be used for settlements. Receipt circulation was not regulated by law, but exclusively by banking and commercial practice, for a long time. Then the receipts began to be used in other countries.

Thus, having arisen at the turn of the 12-13th centuries, the securities market acquired its inherent shape by the beginning of the 19th century. Bills of lading and receipts were actively used around the world, stocks and debt instruments were traded on the stock exchanges, the states actively made loans against their own securities. Professional money changers-bankers and stock brokers appeared. However, the stock market began to really rapidly develop only in the 20th century (Nuretdinova et al., 2016).

## 2 The Main Properties and Functions of Securities

From an economic point of view, a security is a set of property rights to certain material objects that are isolated from their material basis, have their own material form and can independently circulate in the market. They play a significant role in the state payment cycle, in mobilizing investments. As an economic category, securities are characterized by such economic properties as value, liquidity, profitability, presence of an independent turnover, circulation speed, and investment potential. Being a product, they play two roles: a means of payment and a means of credit.

The international securities market was initially developed as part of the national markets and then gradually became the global market segment as a whole. First of all, it was considered as a combination of transactions with foreign securities in the national markets, purchases and sales of the international securities.

The international securities market is a primary market, first of all. In broader terms, the international securities market is considered as a combination of international and foreign emissions, that is, the issue of securities by foreign issuers in the national market of other countries. Currently, the global securities market includes both the stock market and the bond market. The international bond market can, with a certain degree of conventionality, be represented as a combination of two markets: the foreign bond market and the international bond market (the so-called Eurobond market). Foreign bonds are a kind of national bonds. Their specific nature is connected only with the fact that the issuing entity and the investing entity are located in different countries (Zolotarev, 2018).

The international securities market is characterized by many constant foreign exchange transfers, therefore it is strongly affected by changing exchange rates. The states whose business entities take part in the securities transactions on the international market, control and regulate them, as well as pursue a protectionism policy. Russia became a participant in this market after adoption by the State Duma of laws permitting doing relevant activities to the state enterprises, as well as the private capital (Rubtsov, 2017).

The development of international securities trading encounters a number of difficulties: state control and limitation, taxation in the countries of importers and exporters, customs duties, complexity of mutual settlements, etc. However, since all the countries are aware of the need for interstate securities trading that serves cross-border capital migration, then these difficulties are resolved through bilateral and multilateral agreements and the improvement of settlement mechanism.

An obstacle to the development of this trade is the need to transfer securities from one country to another. Transferring is associated with risk, and therefore with high insurance payments and postal rates. In addition, it requires a certain time, which may be undesirable (in a rapidly changing market conditions) in some cases.

Currently, it has been developed and legislated a procedure (most developed and many developing national securities markets participate in it), which helps various market entities to actively participate in the international securities trading, including making complex arbitrage transactions. This procedure helps foreign companies to quote their shares on the national exchanges (sell over-the-counter) and relieves them of the many difficulties associated with sending securities from country to country.

The procedure is as follows: on behalf of their clients (or brokerage firms representing their clientele), the commercial investment banks acquire foreign shares (bonds) that remain in their storage places (depositories), and issue the deposit certificates in exchange. The latter, as the share (bond) representatives of the respective companies, are allowed for sale on regional stock exchanges.

Thus, there is a constant change of securities owners, not only nationally, but also internationally. This change can be triggered by a number of important factors, which include:

The rate of deposit certificates issued for the shares (bonds) of US companies (for example) may be greater on the exchanges of Russia and a number of other countries than in the country of their acquisition, because the demand for them will be higher (Russian buyers see reliable means in American stocks for the capital accumulation); 2. The taxation of income from securities and transactions with them is different in different countries, which gives an impetus to the cross-country trade in them.

In the USA, such deposit certificates are issued by Morgan Garant Bank, which, in case of increased demand for certificates on foreign exchanges, makes their additional issues. However, repeated issues often do not lead to a complete coincidence of securities prices - the latter may still be higher.

A closed-end fund issues a fixed number of its shares and does not accept them back. The shares of such funds are traded on the secondary securities market and are listed on the stock exchange (not only demand and supply affect their rate, but also other factors). The exchange system in the countries where one exchange dominates, located in the main financial center of the country, and the remaining organized securities markets are regional in nature, is called monocentric. Monocentric exchange systems are available in the UK (London Exchange), France (Paris Exchange) and Japan (Tokyo Exchange).

There is one or more large stock exchanges in a polycentric system, along with the main exchange. A similar system is available in Canada (Toronto and Montreal exchanges), Australia (Sydney and Melbourne exchanges), Germany (Frankfurt am Main, Dusseldorf, Munich and Hamburg exchanges). In the USA, the exchange system does not quite correspond to the classification given: there are several large exchanges in the country, but one of the leading ones is New York (the world's largest stock exchange).
In a monocentric exchange system, the securities issued in foreign countries are traded on only one main exchange, and in a polycentric (as in the USA) - on several major exchanges. Therefore, the flows of foreign securities in the national stock markets are highly monopolized.

## 3 The International Securities Market in Modern Conditions

One of the leading trends in financial globalization is the formation and development of the international securities market (ISM), which ensures the movement of transnational capital flows and their subsequent placement. From a functional point of view, the international securities market refers to the totality of national and international markets that ensure direction, accumulation and redistribution of money capital between market entities through different financial institutions to reproduce and to achieve a normal balance between supply and demand for capital.

From an institutional point of view, the international securities market is a set of financial institutions - market participants. There are several major international securities markets:

1. European market with financial centers in London, Zurich, Frankfurt, Paris, Milan;
2. The North American market with a financial center in New York;
3. The Far Eastern market with financial centers in Tokyo, Singapore, Hong Kong.

The international securities markets trade in the following types of securities: debt securities; Eurobonds.

Russia became a participant in this market after adoption by the State Duma of laws permitting doing relevant activities to the state enterprises, as well as the private capital (Rubtsov, 2017).

The modern world economy is characterized by the increasing globalization of capital markets, the integration of national stock markets into the international. The international stock market sector is an organized securities market of national and foreign issuers denominated in foreign currency. The international securities market consists of two sectors.

Firstly, it is a sector of securities that have appeared on the international financial market and are the result of economic relations between different countries at the state and corporate level. This sector also includes securities issued by the financial institutions of various international organizations (UN, EU).

Secondly, this is the sector of national securities received for sale on the international market. At present, foreign securities can be purchased in Russia: firstly, on the stock exchanges, where they are listed and registered; secondly, on the over-the-counter market, where they are traded by commercial banks, investment funds; thirdly, by turning to the services of firms of stock market participants in other countries (Semenov, 2016).

The purpose of acquiring foreign securities can be not only profit or playing on the difference in their exchange rates, but also the desire to save their savings from inflation, to ensure their conversion to a stable currency. Most countries welcome the influx of foreign capital in this form and create the necessary concessions to increase it. So, the US tax law provides for a 50% tax rate on the growth of the market value of shares, if they are owned by foreigners. There are a number of companies in Russia that have been investing their capital in the shares of US companies and other countries for several years. They include, for example, the American-Russian Commercial Alliance (ARKA) - an Open Joint Stock Company with 100% of foreign capital (registered in 1991)1. ARKA is affiliated with the New York Stock Exchange, where it can acquire shares through the intermediaries.

The client selects the securities interesting to it using the payment list - at the exchange rate on the New York Stock Exchange (payment is made in foreign currency and roubles). Sovlex, Granika brokerage companies et al. work actively with the shares of foreign firms. Their number is constantly increasing.

The penetration of shares of foreign firms on the Russian stock exchanges is hampered by a lack of operational and information communication with the stock markets of other countries, inability to choose foreign securities correctly and act in contact with the Western professionals. There are funds for the purchase of foreign securities in Russia: $20-25 billion is in circulation in the country. Acquisition of foreign stock values means capital outflow from Russia. If it occurs in accordance with the current legislation, then it is a legal form of capital export (Avdokushyn, 2012) carried out in accordance with the international practice.

The securities market is characterized by small volumes, low liquidity, “unformed nature” in the macroeconomic sense (unknown macro proportions between different types of securities, as well as their share in the economy financing), underdeveloped material base, trading technologies, depository and clearing networks, lack of well-designed, long-term stock policy in Russia today. The development of the Russian securities market is hindered by an underdeveloped taxation system, especially taxation of trading income in new types of securities. Ensuring the long-term competitiveness of the Russian stock market and forming an independent financial center in Russia cannot be regarded as purely sectoral or departmental tasks. The solution of these problems should become the most important priority of long-term economic policy.

The system of cross-border relations is noticeably becoming more complicated - mutual capital flows in Europe are growing after the Eurozone creation, the volume of financial resources is moving between developed and developing countries, especially between Western European countries and the countries of the Near and Middle East, Southeast Asia, etc. At the same time, the US role as a leading capital exporter is decreasing - over the first decade of this century, the US share in total cross-border investments has decreased from 50% to 32%.

The main problems in the development of the securities market in Russia are organizational, personnel and methodological. These problems are associated with the lack of developed market infrastructure and poor information support. Personnel problems are predetermined by the short period of development of the securities market and the insufficient number of highly professional specialists. Methodological problems are caused by the lack of elaboration of the methods for carrying out many stock transactions and individual procedures on the securities market. The problems of the securities market development are also related to: 1) insufficient financing of the economy using stock market instruments (in Russia - less than 6%, and in the countries with developed market economies - up to 80%); 2) an insignificant real capital share in the financial market; 3) the lack of a modern system of clearing settlement centers, depositories, independent registrars providing informational “transparency” of the market for all participants and meeting the international standards; 4) legal unpreparedness to conclude agreements with partners, taking into account possible losses from the unexpected market changes, as well as the reliability of partners in terms of their solvency; 5) the lack of uniform, consistent with the international standards, all-Russian classifiers of transactions, technologies of banks and exchanges; 6) inconsistency of the existing forms of accounting with the international standards.

The development of the securities market involves a unified system of trading, clearing, settlements and custody services throughout Russia. This is possible, if the MICEX cooperates with the regional exchanges. It is also important to attract regional issuers and investors to the market and create favorable working conditions for them. Further development of the securities market is planned in 2015. In particular, the Central Bank of the Russian Federation, together with the MICEX, plans to expand deposit and lending transactions of the Bank of Russia. This means that the Central Bank of the Russian Federation and commercial banks will issue securities and place them on the MICEX.

## 4 Conclusions

1. The analysis made allows us making a general conclusion that the cross-border investment network is undergoing significant changes as the expansion and deepening of economic and political ties between different regions and groups of countries takes place by the beginning of the XXI century. The foreign asset growth is determined not only by the movement of investments between the major financial centers of developed countries, but also reflects the increasing importance of the financial markets of developing countries.
2. The international stock market is also defined as a group of institutions and organizations providing international trade in financial products, for example, a section of foreign shares on the stock exchange. In this case, the relationship between the sellers and buyers in the course of trading financial instruments also enters the international securities market. The shares to be sold in this section are put up, for example, by a multinational company, and the buyer is a brokerage firm engaged in the international transactions.

## 5 Summary

Based on the foregoing, it should be noted that the development of the entire financial sphere (and the securities market is part of the financial market) is not carried out on its own, but follows the development of the production sphere, the needs and patterns of production itself.

The main objective of the development of the Russian securities market is turning the redistribution of financial resources into a highly effective mechanism, which contributes to a significant increase in the investment attractiveness of Russia and lowering the cost of investment resources. The Russian securities market, with all its existing shortcomings, has great development potential and should turn from a mechanism for servicing predominantly speculative transactions to a mechanism for redistributing investments.

Improving the securities market is one of the most important tasks facing the government of the Russian Federation and the Federal Service for Financial Markets. According to many experts, improving the securities market should give a serious impetus to accelerate the economic development of our country. The program for improving the securities market in the Russian Federation is designed for a long-term period, according to many experts, Russia will soon be able to become one of the leading financial centers in the world, where various types of transactions will be made, both with Russian and foreign securities. According to statistics, the consequences of the financial crisis in our country have been successfully overcome; in the near future, an increase in the number and volume of various transactions in the securities market is planned.

Thus, the state of the stock market is the most important indicator characterizing the "health" of the economy and the economic system as a whole. Moreover, the stock market is a leading indicator of the real economy, predicting its behavior.

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