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FINANCIAL AND ECONOMIC SECURITY IN THE FIELD OF FINANCIAL MARKETS AT THE STAGE OF EUROPEAN INTEGRATION

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ABSTRACT

Purpose: the aim of this article is to study the features of the financial and economic security of the integrated financial market of the EU

Theoretical Framework: the concept of financial security was considered as a complex multi-tiered system. The theories of healthy competitive investment environment, and theory of capital markets functioning were employed in the study.

Design/Methodology/Approach: the instrumental and methodological apparatus of the work is based on the use of general methods of scientific knowledge: comparison, abstraction, analysis and synthesis. Dialectical metod was used, as well as formal-logical, problem-theoretical, systemic-structural, and the method of comparative legal analysis.

Findings: the EU has achieved noticeable success in providing economic security of financial markets over the past decades. The EU experience in this area can be considered the most complete. The uniqueness of this experience is also proven by the fact that it is based on national achievements and the centuries-old financial culture of the EU member states, among which several states are rightfully recognized as global financial players and have the status of international financial centers.

Research, Practical and Social Implications: For global expert and regulators community, turning to the EU experience is not only valuable, but also relevant, under the necessity to consider the best world practices when creating a common financial market.

Originality/Value: the EU experience in the field of financial and economic security of financial markets is systematized not at the level of individual EU members, but at the level of EU as a community in whole.

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SEGURANÇA FINANCEIRA E ECONÔMICA NO CAMPO DOS MERCADOS FINANCEIROS NA FASE DA INTEGRAÇÃO EUROPÉIA

RESUMO
Objetivo: o objetivo deste artigo é estudar as características da segurança financeira e econômica do mercado financeiro integrado da UE.
Estrutura teórica: o conceito de segurança financeira foi considerado como um sistema complexo de múltiplos níveis. As teorias de ambiente de investimento competitivo saudável e a teoria de funcionamento dos mercados de capitais foram empregadas no estudo.
Desenho/Metodologia/Proteção: o aparato instrumental e metodológico do trabalho é baseado no uso de métodos gerais de conhecimento científico: comparação, abstração, análise e síntese. A metodologia dialética foi utilizada, assim como formal-lógica, teórico-problemática, sistêmico-estrutural e o método de análise jurídica comparativa.
Conclusões: a UE obteve sucesso notável no fornecimento de segurança econômica dos mercados financeiros durante as últimas décadas. A experiência da UE nesta área pode ser considerada a mais completa. A singularidade desta experiência também é comprovada pelo fato de ser baseada em realizações nacionais e na cultura financeira secular dos estados membros da UE, entre os quais vários estados são legitimamente reconhecidos como atores financeiros globais e possuem o status de centros financeiros internacionais.
Pesquisa, Implicações Práticas e Sociais: Para a comunidade global de especialistas e reguladores, recorrer à experiência da UE não só é valioso, mas também relevante, sob a necessidade de considerar as melhores práticas mundiais ao criar um mercado financeiro comum.
Originalidade/Valor: a experiência da UE no campo da segurança financeira e econômica dos mercados financeiros é sistematizada não no nível dos membros individuais da UE, mas no nível da UE como uma comunidade em geral.

Palavras-chave: Mercado Financeiro, Segurança, Integração, Mecanismo Financeiro, Regulamentação.

SEGURIDAD FINANCIERA Y ECONÓMICA EN EL ÁMBITO DE LOS MERCADOS FINANCIEROS EN LA FASE DE INTEGRACIÓN EUROPEA

RESUMEN
Objetivo: el objetivo de este artículo es estudiar las características de la seguridad financiera y económica del mercado financiero integrado de la UE
Marco teórico: el concepto de seguridad financiera se consideró un sistema complejo de varios niveles. En el estudio se emplearon las teorías de un entorno de inversión competitivo y saludable, y la teoría del funcionamiento de los mercados de capitales.
Diseño/Metodología/Enfoque: el aparato instrumental y metodológico del trabajo se basa en el uso de métodos generales del conocimiento científico: comparación, abstracción, análisis y síntesis. Se utilizó el método dialéctico, el formal-lógico, el problemático-teórico, el sistémico-estructural y el método de análisis jurídico comparado.
Conclusiones: la UE ha logrado un éxito notable en la provisión de seguridad económica de los mercados financieros durante las últimas décadas. La experiencia de la UE en este ámbito puede considerarse la más completa. La singularidad de esta experiencia también queda demostrada por el hecho de que se basa en los logros nacionales y en la cultura financiera centenaria de los Estados miembros de la UE, entre los cuales varios Estados son legítimamente reconocidos como actores financieros mundiales y tienen la condición de centros financieros internacionales.
Implicaciones prácticas, sociales y de investigación: Para la comunidad mundial de expertos y reguladores, recurrir a la experiencia de la UE no sólo es valioso, sino también pertinente, en virtud de la necesidad de considerar las mejores prácticas mundiales a la hora de crear un mercado financiero común.
Originalidad/Valor: la experiencia de la UE en el ámbito de la seguridad financiera y económica de los mercados financieros se sistematiza no a nivel de los miembros individuales de la UE, sino a nivel de la UE como comunidad en su conjunto.

Palabras clave: Mercado financiero, Seguridad, Integración, Mecanismo financiero, Regulación.

INTRODUCTION

In modern developed countries, the financial sector occupies a leading position, influencing the economy with the help of financial mechanisms, financial incentives and, thereby, ensuring the establishment of special financial power. The vulnerability of the financial system to external influences (prices, exchange rates, etc.) is much higher than in many countries of the world. Consequently, the stability (sustainability) and security of the financial sector can and should be considered as factors in ensuring the financial and, as a consequence, national security of countries and supranational associations. In this regard, ensuring the financial security of the state is directly related to an increase in the efficiency of the financial sector, contributing to the innovative socio-economic development of the country, and represents a set of measures: conducting an effective monetary policy, reforming the banking system and financial markets.

Financial security is a complex multidimensional category that is characterized by close interdependence and interaction of its components. Therefore, shortcomings and mistakes in maintaining some parameters of financial security immediately affect others.

Among the main reasons for the emergence of the problem of financial security of the EU states at the present stage of development of the world economy, the following should be highlighted[G]:

- The rapid development of the process of transnationalization of economic relations, the internationalization of the world economy (called globalization);
- A constant increase in a huge mass of capital, the extreme mobility of which creates a tense situation, a high degree of concentration of financial resources both at the macroeconomic level (budget systems of states and international organizations) and at the global level (interstate economic integration);
- The growing autonomy of sub-state entities (TNCs, TNBs (transnational banks), etc.), which have significant financial power, their influence on the national economic complexes of individual countries;
- A high degree of mobility and interconnection of financial markets based on the latest information technologies;
- A variety of financial instruments and a high degree of their dynamism;
- Unprecedented interpenetration of domestic and foreign policies of states, which are increasingly dependent on world finance;

[G] Heikki Marjosola, "Regulating financial markets under uncertainty: the EU approach," *European Law Review* 39, no. 3 (2014): 338-361.

- Increased competition and friction between states in the economic and other spheres, the use by powerful economic factors and strategies for conquering the world economic space;

- Excessive dependence of national economies (in particular, the budget sector) on foreign short-term speculative capital, which makes their financial systems extremely vulnerable;

- A global increase in the instability of the world financial system, the emergence of threatening crisis trends, the inability of modern financial institutions (including international ones) to effectively control them.

The formation of the financial security system should take place on the basis of the development of an appropriate scientific theory, concept, strategy and tactics, the implementation of an adequate policy, the presence of the necessary institutions, the application of measures, approaches and methods of its provision.

The creation of a single financial market in the EEC, and then in the EU, has always been considered as the most important component of the Single Market, designed to ensure the smooth and most efficient movement of financial resources between member countries for sustainable economic growth and financial stability.

The development of financial integration in the European Union was largely facilitated by the implementation of the provisions of the White Paper on the completion of the formation of the internal market in the region (1986), as well as the introduction of a single European currency, the euro (1999), in combination with the adoption of the Financial Services Action Plan (FSAP).

The Action Plan for the Development of Financial Services was adopted in December 1998 in Vienna by the EU Economy and Finance Ministers. It was designed for five years (2000-2005) and contained a package of 42 regulatory measures, including 24 pieces of legislation, aimed at achieving three strategic goals:

a) Creation of a single market for wholesale financial services;

b) Formation of an open and safe market for retail services;

c) Creation of a set of rules and regulations for prudential banking supervision.

EMU and the Action Plan, by eliminating the foreign exchange and regulatory segmentation of the financial market, have largely contributed to the strengthening of the consolidation and internationalization of the European banking sector. The processes of intra-national and cross-border mergers and acquisitions of banks have intensified. By 2007, European lending institutions were more internationalized than American and Japanese banks.

At present, the European financial market, taking into account its banking segment, in terms of assets-to-GDP ratio, is comparable to the Japanese market and slightly exceeds the US capital market[H]. At the same time, excluding the banking sector, the infrastructure of the European financial market in terms of transparency, liquidity, conditions for the formation of asset prices, information transparency is significantly fragmented by country and is generally less developed than, for example, in the United States.

The above factors determine the high relevance of the study of the features of the financial and economic security of the integrated financial market of the EU, especially in the context of the current dynamism and turbulence of the external environment, which has been observed back since the 2008 global financial crisis.

MATERIALS AND METHODS

It should be noted that many economists consider financial security as a component of economic security. Thus, according to some researchers, the financial security of the country is an integral element in the system of economic security[I]. Along with this, a number of authors adhere to the point of view that this category should be considered as an independent scientific concept. In their opinion, the financial security is the characteristics of financial system, which allows it to function reliably in a changing internal and external environment, fluctuations in the level of financial and economic risk (Sergakis, 2018). The concept of financial security is quite broad, as is the interpretation of finance - a system of economic relations. It is quite logical that financial security represents a complex multi-tiered system. Financial security is understood as the following components:

- The degree of protection of financial interests at all levels of financial relations;
- The state of the financial, monetary, currency, banking, budget, tax, investment, customs and stock systems, capable of ensuring financial stability and effective functioning of the national economic system in the mode of its growth;
- The quality of financial instruments and services, preventing the negative impact of possible miscalculations and direct abuse (Moloney, 2016).

The state of financial security is one of the fundamental factors of the independence of a sovereign state under modern economic conditions. Due to the rapid change in market conditions in the world financial markets and the interconnected system of economic relations

[H] Niamh Moloney, *EU Securities and Financial Markets Regulation* (Oxford: Oxford University Press, 2016).
[I] Liudmyla Khudyakova, "Creation of a sustainable financing system in the European Union," *World Economy and International Relations* 63, no.7 (2019): 16-22.

in the structure of the world economy, the state of the financial sector is increasingly difficult to control, given the instability of the internal and external environment. In such a situation, there is a need for a comprehensive preventive assessment of external and internal factors that directly or indirectly affect the financial sector (Aminova, 2017).

In this regard, the instrumental and methodological apparatus of the work is based on the use of general methods of scientific knowledge: comparison, abstraction, analysis and synthesis. The methodological tools used are characterized by the following methods and techniques of cognition: dialectical, formal-logical, problem-theoretical, systemic-structural and the method of comparative legal analysis. The problem-theoretical, system-structural and method of comparative analysis were of particular importance.

To determine the factors for the onset of financial risks, we take a number of monetary, regulator, and macroeconomic variables, the choice of which is determined by the study and generalization of theoretical and empirical scientific literature devoted to forecasting and modeling crisis phenomena. At the same time, the indicators used to assess the likelihood of a risk ("crisis") can be divided into several groups: indicators of the balance of payments; indicators characterizing economic growth, financial indicators, monetary indicators. With the help of such a system of indicators, it is possible to assess the likelihood of risks occurring in different periods of time.

RESULTS

The creation of a single financial market in the EEC, and then in the EU, has always been considered as the most important component of the Single Market, designed to ensure the smooth and most efficient movement of financial resources between member countries for sustainable economic growth and financial stability.

In accordance with the Single European Act (EEA), which entered into force in 1987, it was decided to create by 1993 a single internal market, providing for the freedom of movement of goods, capital, services and labor. In terms of financial parameters, this meant that companies and individuals within the Community should have equal access to financial services regardless of their location, which should facilitate the optimal allocation of resources. Effective harmonization of the activities of financial institutions is impossible, in turn, without the complete cancellation of restrictions on the movement of capital[J]. The main task of forming a unified capital market at that time was to create optimal conditions for mobilizing savings and

[J] Mads Andenas, and Gudula Diepenbrock, *Regulating and Supervising European Financial Markets* (New York: Springer, 2016).

financing the investment process within the Community. It remains important because, to this day, a significant part of the EU's savings is invested outside its borders. One of the first practical measures was the liberalization of the movement of capital, the idea of which was laid down in the 1957 Treaty of Rome[K]. The first directives for the implementation of this article, adopted in 1960 and 1962, concerned the abolition of restrictions related to foreign trade transactions and direct investment. In the following decades, only minor steps were taken in this direction.

In the 70s, amid monetary instability and the collapse of Werner's plan to create a monetary and economic union, the full liberalization of the movement of capital was postponed indefinitely.[L] The issue was resolved only in the 80s, when two fundamental Directives were adopted. The first one (1986) concerned the liberalization of long-term commercial loans and operations with most securities, including those issued in foreign currencies (with the exception of government or local bonds). The second one (1987) extended the freedom of transactions to all types of capital transactions[M]. Moreover, in the latter case, the principle of "interested" parties was in effect, or the possibility of gradual accession of the Community member states to the implementation of the Directive. To neutralize the negative consequences for the stability of exchange rates, clauses were introduced on the possibility of a temporary (up to 6 months) restoration of restrictions.

The 1988 Directive actually completely removed restrictions on the movement of capital both within the Community and with third countries (Jurkowska-Ziedler, 2009). The goal set by it to ensure free movement of capital in 8 of 12 EU countries by July 1, 1990 was achieved. From this date, the first stage of the construction of the Economic and Monetary Union (EMU) began[N]. In November 1993, the Maastricht Treaty entered into force, which clearly formulated the principle of free movement of capital.

The creation of a single EU financial market, along with the liberalization of capital flows, presupposed the harmonization of the activities of credit and financial institutions, the rules for their regulation and supervision, and tax legislation. However, attempts at complete unification have caused significant practical difficulties.

The compromise solution provided for the following: 1) harmonization of only the

[K] Anna Jurkowska-Ziedler, "The Regulation of the Single Financial Market in the European Union. A New Dimension," *Bialostoskie Studia Prawnicze* 5 (2009): 115-124.
[L] Alexander Lehmann, "Emerging Europe and the capital markets union," *Policy Contribution* 17, (2020): 1-14.
[M] Jurkowska-Ziedler, *The Regulation of the Single Financial Market*, 115-124.
[N] Jose Albuquerque de Sousa, et al., "Nascent markets: understanding the success and failure of new stock markets," CEPR Discussion Paper 11604 (2016). Centre for European Policy Research

fundamental norms of banking regulation and supervision (in particular, capital adequacy ratios), as well as harmonization of taxation of income from capital investments; 2) licensing and control over banking activities by the country of origin of a credit and financial institution (the principle of a single banking license) and at the same time mutual recognition of national legislation. This was intended to catalyze further harmonization of the financial markets of the EU member states. As a follow-up to these provisions, about 30 directives have been developed in three main areas of financial services: banking, securities, and insurance. Of particular note is the Second Banking Directive, approved in 1989, which consolidated the principle of a single banking license (single passport) throughout the EU, thereby encouraging a universal banking model[O].

A similar principle of a single license is also the basis for the directive governing transactions with securities (the principle of single quotation), with the only difference that the host country has more control in terms of "rules of doing business" on the exchanges[P]. The goal is to create a single securities market based on the unification of national exchanges[Q].

Finally, in the third area insurance, which is the most heavily regulated by national authorities the Council approved only a directive extending the principle of country of origin control to property and accident insurance for corporations. It should be noted that wholesale operations in the capital markets were quite internationalized from the very beginning, while the sphere of retail trade in financial services still remains fenced off by numerous barriers[R]. In this situation, along with the competition between market participants, the "deregulation competition" on the part of national government bodies has increased[S]. It was only possible to prevent its transformation into a "war of deregulation" by strengthening the coordination of general economic and credit and financial policies.

DISCUSSION

In 2008-2009, the negative consequences of the global financial crisis forced the EU to move from strategic planning to anti-crisis management in the financial sector. There was a lot of 'work on mistakes' to be done, including a rethinking of the results of the implementation of

[O] Andenas and Diepenbrock, *Regulating and Supervising*
[P] Oleksandr Akimov, et al., "Entrepreneurship education of the formation of the e-commerce managers professional qualities," *International Journal of Entrepreneurship* 25, no. 7 (2021): 1-8.
[Q] Inna Deyneha , Liudmyla Akimova, and Olha Kratt, "Regional features of marketing mix formation in rural green tourism," *Actual Problems of Economics* 9, no. 183 (2016): 184-194.
[R] Liudmyla Akimova et al., "The negative impact of corruption on the economic security of states." *International Journal of Management* 11, no.5 (2020): 1058-1071.
[S] Akimov, et al., *Entrepreneurship education*; Akimova et al., *The negative impact of corruption*

the first EU program documents adopted in the field of financial services[T]. The legal acts that were adopted as part of the implementation of the first program document (FSAP) are either still in force or have undergone major reform.

Since 2009, there have been really important changes in the legal regulation of the single financial services market related to the functioning of the financial system of the European Union, the issues of building the European Banking Union, the reform of EU legal acts in the field of combating abuse in the securities market, etc.[U].

The reform has not bypassed the Directive of the European Parliament and of the Council No. 2004/39/EC on the markets in financial instruments (Markets in Financial Instruments Directive, MiFID), which was adopted on April 21, 2004 and is a vivid example of the implementation of measures provided for in the FSAP. This legal act has played an important role in ensuring a high level of harmonization of financial regulation across the EU. This was achieved through the creation of a mechanism for mutual recognition in the provision of investment services and investment activities[V]. The harmonization was also facilitated by the unification of the conceptual apparatus, since the directive introduces the same definitions for all EU member states of a number of important financial terms.

MiFID aims to create a healthy competitive investment environment, which implies the creation of a level playing field for all entities covered by it.

Despite all the advantages of MiFID, the 2008 global crisis clearly revealed its weaknesses. Among the most pressing problems that have emerged in the course of the application of MiFID and its complementary acts, the following can be singled out:

- Lack of a homogeneous competitive environment between markets and market participants;
- Difficulties in accessing financial markets for small and medium-sized enterprises;
- Lack of adequate transparency for market participants and regulators, incomplete supervisory powers on key issues;
- Defective protection of investors' rights;
- Shortcomings in the organization of companies' activities, including weak control over the execution of transactions, insufficient consideration of risks.

[T] Marek Dabrowski, "The global financial crisis: Lessons for European Integration." CASE Network Studies & Analyses, No. 384, Center for Social and Economic Research (CASE), Warsaw, 2009.
[U] Piotr Siemiątkowski, "External financial security of the European Union member states outside the Eurozone," *Journal of International Studies*, 10, no. 1 (2017): 84-95.
[V] Liudmyla Akimova et al., "Adaptive management of entrepreneurship model as a component of enterprise resource planning," *Academy of Entrepreneurship Journal* 26, no. 3 (2020): 19-26.

To solve these and some other tasks, in October 2011, draft of new documents were prepared - the MiFIR (Markets in Financial Instruments Regulation) and the MiFID II (Markets in Financial Instruments Directive) directives, which were supposed to replace the first MiFID. After several years of discussion, these documents were finalized and published in the EU7 official gazette in June 2014.

This is about a serious reform, and MiFID II itself, according to some Western lawyers, acts as a kind of "backbone of financial regulation"[W]. Such a striking characteristic applies not only to MiFID II, but also to MiFIR. These legal acts of the EU form a single legislative package, which was prepared by the responsible institutions of the EU as a whole: MiFID II and MiFIR were published on the same day, entered into force at the same time and also began to apply simultaneously from January 3, 2018.

In January 2018 (with a one year delay), effective implementation of these legal acts began at the level of the EU member states. The delay is explained by the difficulties that have arisen at the level of the EU member states in the implementation of the tasks assigned to them. The difficulties are understandable, since MiFID II and MiFIR are seriously changing the approaches to the regulation of the financial services sector, significantly expanding the scope of regulation[X]. The depth of the reform can be judged not only by the number of articles, but also by the issues that have been regulated[Y]. Some of them were either not previously regulated, or the regulation was partial: new types of trading floors, the derivatives market, algorithmic and high-frequency algorithmic trading, support for small and medium-sized enterprises, and other complex issues.

Thanks to MiFIR, unification will cover the issues of ensuring transparency in trade transactions with various financial instruments, unified approaches to informing about transactions, trading in derivatives, ensuring non-discriminatory access to mutual settlements for financial instruments, etc.

Great hopes are pinned on MiFID II and MiFIR, primarily related to their important role in the development of a single market for financial services. These hopes are not unfounded, since the new legal acts make it possible to achieve harmonization and unification of the national legal systems of the EU member states in a number of important areas of regulation.

[W] Alexander Lehmann, "Emerging Europe and the capital markets union," *Policy Contribution* 17, (2020): 1-14.
[X] Madan Gupta et al., "Application of Fuzzy Logic Data Analysis Method for Business Development," *Lecture Notes in Networks and Systems* 194 (2021): 75–93.
[Y] Anatoliy Kalyayev et al., "Global Security Governance: Conceptual Approaches and Practical Imperatives." Proceedings of the 33rd International Business Information Management Association Conference, IBIMA 2019: Education Excellence and Innovation Management through Vision 2020, 10-11 April 2019, Spain, Granada, pp. 4484-4495.

Now, when these difficulties have been overcome, and MiFID II and MiFIR have been applied at the level of EU member states for almost a year, it can be said that the EU over the years has done serious 'work on mistakes' and carried out a serious revision of previously existing legal norms. This circumstance allows referring the beginning of the application of MiFID II and MiFIR to the main events of 2018 in the context of the implementation of the task of building a single market for financial services in the EU. The new legal framework should significantly "improve the efficiency, stability and transparency of financial markets", as well as improve the conditions for competition in the field of trade and clearing of financial instruments, in order to increase the security of the EU financial market in the context of integration[Z].

In addition, the following features and imbalances in its development have a significant impact on the formation of the regional financial market in the European Union[AA]:

1. Imbalances in the capital markets of most EU countries caused by the excessive predominance of the banking sector in their structure against the background of relatively weak development (in comparison, for example, with the USA) (of the stock market).

2. Insufficient development of institutions (financial intermediaries in the EU countries in terms of market value and cross-country differences in terms of their access to transparent and comparable information, investment restrictions on certain types of assets and requirements of prudential supervision, ultimately limiting the possibilities of cross-border accumulation and redistribution of resources.

3. Remaining barriers to free cross-border capital movement between EU member states, including differences in bankruptcy procedures, difficulty in settling outstanding loans, as well as a lack of information on transaction costs in the implementation of transactions, negatively affecting the development of financial integration.

These features and imbalances in an underdeveloped regional financial market increase the vulnerability of the European capital market to external and internal shocks during crisis periods, limit the possibilities of cross-border funding of investments of non-financial companies, restrain the population's propensity to save, and prevent cross-country smoothing of business cycles.

The problem of creating a single EU financial market cannot be considered outside its interaction with third countries and the international financial market. J. Delors' call to create

[Z] Olha Cherednichenko, "Two Sides of the Same Coin: EU Financial Regulation and Private Law," *European Business Organization Law Review* 22 (2021): 147–172.
[AA] Karel Lannoo, "EU Financial Market Access After Brexit," *Intereconomics* 51, no. 5 (2016): 255-260

an "open, but not generally accessible Europe" was reflected in the directives of the late 1990s, which completed the abolition of restrictions on the movement of capital between the EU countries and extended a similar regime to third countries. At the same time, a clause was introduced on the observance of the principle of reciprocity when granting foreigners the right to establish, provide credit and financial services and access the securities markets in order not to infringe on the interests of the EU member states[BB]. However, Great Britain and Luxembourg, which have the most developed financial markets, opposed the application of this clause.

The time that has passed since the late 1980s and 1990s shows that, despite the measures taken, the national financial markets in the European Union have not become a single whole. The global financial crisis of 2008–2009, and then the European debt crisis, showed that the EU financial system needs reconstruction and renewal of the institutional framework for financial regulation and supervision.

The EU's response to the global financial and economic crisis of 2008-2009 was the decision in 2012 to create a Banking Union. The introduction of the Single Rulebook, the Single Supervisory Mechanism represented by the European Central Bank (ECB), the Single Resolution and the European Deposit Insurance Scheme (EDIS) was implied.[CC] While certain results were achieved in the first two directions, the third one is slipping. It was possible to agree only on a single amount of payments on deposits in the event of bank bankruptcy (100 thousand Euros). As for the pan-European deposit insurance system, it has many opponents[DD]. First of all, these are Germany and other donor countries, which are afraid of an increase in their expenses if they have to make payments to bank depositors from financially disadvantaged countries of southern Europe.

The incompleteness of the creation of the Banking Union is 'complemented' by the emergence of new risks associated primarily with ensuring cybersecurity. Until now, European banks in the event of cyber attacks consult with national governments and financial regulators[EE]. However, the eurozone needs a pan-European capable regulatory body in this area. The existing European Cybersecurity Agency (ENISA) is simply a coordinating institution and lacks the necessary enforcement powers.

[BB] Klymenko, Viktoriya, Liudmyla Akimova, and Marina Korzh. "Regional aspects of middle class development in Ukraine." *Actual Problems of Economics* 4, no. 178 (2016): 178–188.
[CC] FESE Blueprint. "Capital Markets Union by 2024." A Vision for Europe. May 28, 2019.
[DD] European Central Bank. Financial Integration and Structure in the Euro Area, 2020
[EE] Miroslav Kryshtanovych, et al., "Modeling the Process of Forming the Safety Potential of Engineering Enterprises," *International Journal of Safety and Security Engineering* 11 (2021): 223-230.

The post-crisis reform of the EU banking sector played a certain role in increasing its stability, building up the capital base, reducing leverage, but this is not enough to effectively finance sustainable economic growth in the EU and increase the Union's competitiveness in world markets. This is why the Capital Market Union (CMU) Action Plan was adopted in 2015. Its goal was to form a single pan-European securities market, balance financial risks, diversify and expand investment opportunities. Banks, acting as organizers of the initial offering of securities, market makers in the secondary market, are called upon to play an important role in the implementation of CMU[FF].

The starting conditions for the implementation of the Plan were quite specific in comparison with other developed countries[GG]. European capital markets are characterized by the fact that they have a relatively small capacity, which leads to a strong dependence on the banking sector (imbalance in the shares of market and bank financing), and differ significantly from country to country. About 40% of household savings in the EU are bank deposits (for comparison: in the US - 10%); only 30% of liabilities of non-financial companies are securities; more than half of long-term assets of investors are placed on their national markets. European companies, especially small and medium-sized enterprises (SMEs), predominantly rely on bank loans (in the eurozone their share before the 2008-2009 crisis was 70% of all financing, and in the USA - 40%)[HH].

The main goals of CMU 2015 were as follows: maintaining the convergence of the economies of the EU countries, reducing economic “shocks” in the eurozone. As stated in the Five Presidents' Report, the Capital Markets Union is a clear priority for the European Commission (EC). Integrated capital markets in the EU should represent a barrier to systemic shocks in the European financial sector, provide diversified sources of financing for companies, especially SMEs, and ensure risk-sharing across the Union. The main tasks of the CMU include:

- Stimulating investment activity in the EU and outside it with an emphasis on SMEs, infrastructure investment and long-term projects to create new jobs;

- Stimulating cooperation within the EU: countries with small market capacity and high growth potential will gain access to capital and investment markets for their projects, and countries with developed capital markets will benefit from increased cross-border investment flows;

[FF] Lannoo, *EU Financial Market Access*
[GG] Olena Oliinyk, et al., “The Impact of Migration of Highly Skilled Workers on The Country’s Competitiveness and Economic Growth,” *Montenegrin Journal of Economics* 17, no. 3 (2021): 7-19
[HH] Lannoo, *EU Financial Market Access*

- Maintaining the stability of the financial system; integrated financial markets will allow the financial systems of the EU countries to redistribute economic shocks, weakening their impact on individual countries;

- Deepening financial integration and increased competition should lead to diversification of funding sources, reduce costs and increase European competitiveness.

In other words, the Capital Markets Union is a long-term structural reform program that should strengthen the nexus between savings and economic growth. In addition, the 2015 Plan noted that its effectiveness will be achieved only as a result of the implementation of a whole set of 33 measures ("building blocks"), which were to be implemented by 2019. Their wide scope is noteworthy: from supporting infrastructure investments to a pan-European taxation and promotion of innovative corporate finance schemes.

Brexit has strengthened the EC's resolve to implement the Capital Markets Union concept as soon as possible. Other problems of its implementation included the following: financial innovations (FinTech) that change markets; low efficiency of financial supervision; environmental and social challenges; lack of long-term investment, especially infrastructure investment; heterogeneity of the financial market[II]. The latter problem is especially clearly visible in the venture capital markets: its size in the EU is extremely small (less than 0.05% of GDP) several times less than in the USA (0.38%)[JJ]. This market is relatively developed only in the UK and France.

In 2019, another analysis of the CMU implementation showed that not everything laid down in the 2015 Plan was implemented[KK]. The most notable advances have been made in the following areas: the updated Prospectus Regulation, which came into force in mid-2019, that provided a simplified EU-wide market entry procedure, especially for SMEs. In addition, in February 2019, an agreement was reached between the EC, Parliament and the Council on a project for the supervision of investment companies. It requires investment companies with assets over 30 billion Euros to acquire a banking license. If these companies are located in the euro area, they will automatically be subject to the Uniform Supervision Procedure (SSM)[LL].

Among the innovations that appeared in the CMU concept in 2019, there are three initiatives dedicated to sustainable finance and linked to the green economy and the Paris

[II] Cherednichenko, *Two Sides*
[JJ] Liudmyla Khudyakova, and Elena Sidorova, "EU single financial market: illusion or reality?," *World Economy and International Relations* 64, no. 9 (2020): 63-72.
[KK] Akimova et al., *The negative impact*
[LL] Iryna Mihus, et al., "Monitoring the state anti-crisis management of economic security of the Ukraine banking institutions," *Business: Theory and Practice* 21, no. 2 (2020): 804–812.

Agreement on climate[MM]. Two of them have already been adopted (the introduction of two benchmarks on "green" financing and the requirements for reporting transparency), but the third one (the development of a "green" taxonomy) is stalled.

By the end of 2019, 11 of the 13 main proposals of the CMU Action Plan had been legally approved, 6 of them entered into force, but there are not many real changes in European financial markets. In general, the CMU should complement the Banking Union, since only together these projects ensure the effectiveness of the EU's financial integration[NN]. According to the ECB, the level of financial integration in the euro area as of March 2020 remained unsatisfactory.

The lack of real progress in solving the stated objectives of the 2015 Action Plan, as well as the new financial and economic conditions in the EU, made it necessary to revise the strategic goals and development directions of the Capital Markets Union. In 2019, leading experts from Germany, France, the Netherlands, and a number of other countries were tasked with taking a fresh look at the results of CMU for five years and presenting their proposals. The answer was presented in two reports, which contain largely similar provisions. In addition, at the end of 2019, an annual report by the Association of Financial Markets in Europe (AFME) was published, showing clear gaps in the implementation of the CMU.

The EU remains significantly lagging behind in the area of financial innovation. FinTech companies in 27 EU countries have received investments worth only $7.2 billion since 2009, compared to $120 billion in the US, 20.3 billion in the UK (78% of all European funding) and 238 billion in China[OO].

At the same time, there are also obvious successes: in the area of sustainable financing, the EU claims to be the world leader, not without reason. This is the most important priority of the EC since the adoption of the action plan in this area in 2018. In 2018 alone, the issue of green bonds in the EU amounted to 55.9 billion Euros[PP].

In October 2019, the report of the so-called NEXT CMU High Level Group was published. Its authors even proposed a new name for the Capital Markets Union, Savings & Sustainable Investment Union. It reflects the idea that the main goal of unifying the capital markets of the EU countries should be not just the desire to increase the share of market funding

[MM] Igor Panasiuk, et al., "Virtual Laboratories for Engineering Education." 11th International Conference on Advanced Computer Information Technologies, ACIT 2021 – Proceedings, pp. 637–641.
[NN] Akimova et al., *The negative impact*
[OO] Nataliya Kondratjeva, *European Model of Market Integration: Formation and Perspective* (Moscow: Institute of Europe of the Russian Academy of Sciences, 2020).
[PP] Kondratjeva, *European Model*

(marketbased) by reducing the share of bank lending (bank-based), but completely restore consumer confidence, which fell sharply after the 2008-2009 crisis, to the financial services market and expand its use to meet the financing needs of the real, digital and climate neutral economy. There are three main priorities: people, sustainable development, and digitalization.

CONCLUSION

In general, on the basis of the study, it can be concluded that different EU countries have a diverse vision of the regulation of financial markets, but it is completely obvious that the crisis that has engulfed the financial market of developed countries has become a challenge to its very system of state regulation. In this regard, the processes of reforming the current system of state regulation of financial services markets have been updated.

Nevertheless, it seems obvious that one legal shell is not enough to create a financially integrated union. And this determines other weaknesses of the legal approach to the definition of financial integration. Obviously, if the previously described legal infrastructure is successfully prepared and implemented, and the volume of transactions in the financial markets between EU member states is symbolic, it will hardly be possible to speak of a financially integrated union. After all, if the degree of cross-country interweaving of property relations (shares), financial liabilities (fixed-income securities and bank loans) and other attributes of financial markets remains low, then the union in the context of this market will be more fragmented than integrated.

The presence of a large number of approaches to the definition of financial integration somewhat complicates the analysis of ongoing processes and does not give a clear understanding of how it is developing and at what stage it is currently. However, it appears that these complexities are not very significant and will be resolved over time, for example, by more specific clarifications from the ECB. In addition, all approaches are characterized by a number of common points: the widespread use of the concept of financial integration as a synonym for the concept of integration of financial markets; emphasizing the crucial role of a unified European currency as a powerful catalyst for integration processes in the financial markets of the eurozone member countries. To obtain the most complete picture of the development of the financial integration of the EU, it seems necessary to use equally all the considered approaches, which, of course, complement each other.

It is obvious that the EU could have achieved much greater success in building a single market for financial services if this area fell within its exclusive competence. However, since the sphere of the financial services market belongs to the joint competence of the EU and its

member states, this presents the main difficulty in the development of its legal mechanism.

Large-scale changes are expected in European financial regulators. Reforms are carried out at the supranational level within the European Union, while the national legislation of the EU member states is being improved. The success of this initiative will depend on a number of factors, including the proper application of existing regulatory models, taking into account the following aspects: participation or non-participation of the market and professional community in regulation; subject and scope of regulation. A detailed study of the experience of European regulators operating at the level of the entire European Union, as well as the national experience of financial regulators in Luxembourg and Belgium, provides a better understanding of the prospects for regulatory reform.

One thing is clear: the future system should be as close as possible to all participants in the financial services market, be as transparent and understandable as possible, have a high degree of autonomy, including financial, combine regulatory, control and supervisory powers.

It should be noted that the EU is constantly improving the pan-European mechanism for regulating the financial services sector and each time moving to increasingly more effective mechanisms. The reforms are not completed, they are ongoing, and there is hope that the practice of half-measures will be overcome, while the EU will triumph over all crisis phenomena. The planned reforms will make the EU more resilient.

The experience of solving economic security problems convincingly shows the need to improve the conceptual provision of economic security in the foreign economic sphere, to use the positive features of globalization for the purposes of the social development of the state, and to prioritize the provision of national economic interests in the formation of foreign and domestic policy.

In particular, the processes of institutional convergence extend to the financial sector. As a result, new integrated institutional financial structures appear, the functions of which change qualitatively - an example is the so-called financial supermarkets, the study of which at the macro level seems to be a very urgent task.

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