Mechanism Categorizing Investors in the Russian Stock Market in the Context of Sustainable Development

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Abstract: The article examines the mechanism of categorization of investors in the Russian securities market from a systematic perspective. The mechanism of categorization of investors in the securities market is defined as a set of interrelated components and elements that protect the interests of investors, as well as the development of the securities market. The main components are subject, object, target, resource, tool, and organizational components. Special attention is paid to the characteristics of the components and elements of the categorization mechanism in the context of qualified and unqualified investors in the Russian securities market. This allowed us to identify the main problems of the current mechanism of categorization of investors and to determine ways to solve them. There are drawn conclusions about the need to identify subgroups of investors in each of the studied groups, as well as that it is necessary to take into account digitalization when categorizing investors in the securities market.

1 INTRODUCTION

The main function of the stock market is the redistributive function, according to which economic entities with a shortage of funds (issuers) are allocated the necessary funds by placing their securities among investors. Investors, as economic entities with a surplus of cash, play a key role in the implementation of this function. In developed stock markets, a categorization mechanism is used to protect investors from investment risks, i.e., to divide investors into qualified and unskilled ones based on awareness of the risks associated with investing in securities. Unqualified investors are prohibited from investing in certain groups of securities and financial instruments. However, in emerging stock markets, the categorization mechanism has a downside: the ban on investing in high-risk financial instruments restricts issuers ' access to the funds of unskilled investors, and pushes unskilled investors themselves to search for unregulated high-risk instruments for investment. This affects the development of the stock market and leads to the emergence of new risks, especially in the context of digitalization. The division of Russian investors into qualified and unskilled ones has been fixed in Federal Law No. 39-FZ "On the Stock Market" since 2007. At the same time, the law does not disclose the content of the concept of qualified investors and defines them through the established list on a formal basis. Starting from April 2022, the megaregulator introduces new rules and norms for classifying investors as qualified investors for the Russian stock market. The criteria and rules proposed by the megaregulator for classifying investors as qualified are quite strict (for example, individuals will be required to have a certificate of qualification in accordance with Federal Law No. 238-FZ "On Independent Assessment of Qualifications" or at least one of the international certificates (certificates) listed by the Bank of Russia). For unqualified investors, entrance testing is introduced and the list of permitted financial instruments is sharply narrowed. In general, the innovations affect the economic interests of not only investors, but also issuers, as well

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as professional participants in the stock market. The changes proposed by the mega-regulator do not disclose the impact of the new categorization on the development of the stock market and related financial markets, and create a problem of admission of new investors to the stock market.

2 METHODOLOGY

Scientific papers on the subject under study are not numerous, most often they apply a legal approach and describe the categorization of investors within the framework of current legislation. In this regard, there is a need for a systematic theoretical and methodological justification of the mechanism for categorizing investors, understanding its application in the field of state regulation of the stock market, self-regulation of the activities of professional participants in the stock market, influence on the implementation of the redistributive function of the stock market and, in general, on the development of the Russian stock market.

3 RESULTS AND DISCUSSIONS

In the scientific literature, the categorization of investors in the stock market is considered from different positions. The classical typology, which is presented in Russian and foreign studies, includes the division of investors into institutional and individual (retail). The activities of institutional investors are considered in great detail in the domestic and foreign literature. Trends in the functioning of institutional investors abroad are presented in the works of Davis E. Philip, Steil B. (Davisand Steil, 2001) Maranho, F. S., Bortolon, P. M. & Leal, R. P. C (Maranho, Bortolonand Leal, 2020), A. D. Crane, A. Koch, S. Michenaud (Crane, Kochand Michenaud, 2019), Simi Kedia, Laura T Starks, Xianjue Wang (Kedia, Starksand Wang, 2020), and D. Schmidt (Schmidt, 2009). The main focus of research on the activities of retail investors is the protection of their rights and interests. This position is presented in the works of the following authors: Y. M. Mirkin (Mirkin, 2002); A. E. Abramov (Abramov, 2014); Garg Atin, Chawla K. (Gargand Chawla, 2015). The methodological foundations for the typologization of investors in terms of the possibility of conscious risk-taking were laid down in the works on behavioral finance by D. Kanneman and A. Tversky (Kanneman & Tversky, 1979). Further division of investors into qualified (accredited, professional) and unskilled ones took place within the framework of the financial legislation of individual countries. Scientific research on the categorization of investors is based on the regulatory framework and approaches to the separation of investors already established by the State. The applied aspects of the functioning of qualified investors are presented on the basis of country-specific features. Thus, the works of Vijay Jog (Jog, 2015), Kamila Veselá (Veselá, 2015), Kailiang Ma (Ma, 2016) focus on the problems of information disclosure by issuers of financial instruments intended for qualified investors. Studies by a number of foreign authors are devoted to the recognition procedure and legal features of the functioning of qualified investors in a particular country (Roberta S. Karmel (Karmel, 2008), Hubertus Hillerström (Hillerström, 2007), Karen Lu (Lu, 2003)). The influence of qualified institutional investors on the dynamics of national stock markets is presented in the works of Liping Zou, William Wilson, Shijie Jia (Zou, Wilsonand Jia, 2017), Lu, Yang-Cheng, Wong, Jehn-Yih and Fang, Hao (Lu, Wongand Fang, 2009), Andy Lin, Chih-Yuan Chen (Linand Chen, 2006), Yu-Fen Chen, Chih-Yung Wang & Fu-Lai Lin (Chen, Wangand Lin, 2008), Wei Ting, Sin-Hui Yen and Chien-Liang Chiu (Ting, Yenand Chiu, 2008). The research describes the activities of foreign institutional qualified investors in the stock markets of developing Asian countries. The problems of functioning of the institute of qualified investors in Russia are fully reflected in the works of S. V. Lvova (it is proposed to introduce the concept of a candidate for the status of a qualified investor) (Lvova, 2020); N. B. Boldyreva and L. G. Reshetnikova (Boldyrevaand Reshetnikova, 2017). Thus, in the scientific literature, the description of the categorization of investors is mainly based on the already existing norms of state regulation and the gradation of the "qualifications" of investors, while the mechanism of categorization is not an object in the presented studies.

By the mechanism of categorization, the authors understand a system that includes components (subject, object, target, resource, instrumental, organizational). The components have a mixed impact on the stock market. Some components lead to deterrence, while others lead to the development of the stock market. The analysis of information sources on the categorization of investors in the Russian Federation showed that, firstly, following the current legislation, institutional (qualified investors) do not disclose information about their strategies; secondly, aggregated information on the market of qualified investors as a whole is not publicly available or is very fragmentary, which greatly reduces the base for researching this category of investors. This predetermined the emphasis on the qualitative characteristics of the mechanism for categorizing investors.

The categorization of investors, that is, the division of investors into qualified and unskilled to protect their interests, leads to a corresponding division of the financial instruments of the market itself into two unequal segments. If in the conditions of developed stock markets, unskilled investors have a fairly large choice of financial instruments (in particular, listed securities), then in the conditions of emerging stock markets, the tightening of categorization requirements for unskilled investors narrows their investment opportunities. The analysis of the norms of the current legislation and the use of the expert method allowed us to characterize the elements of the mechanism for categorizing investors (Table 1).

Table 1: Characteristics of the mechanism of categorization of investors in the Russian stock market

Mechanism components	Mechanism elements	Qualified investors	Unqualified investors
Subject Instrumental Organizational	Regulators	Bank of Russia, self-regulatory organizations	Bank of Russia, self-regulatory organizations
	Types of investors	Institutional Private	Not defined
Object	Indicators of attribution to the group	Quantitative Qualitative	According to the residual principle, the group is not defined within the group
Target	Target regulatory settings (micro-level)	Not defined	Reducing investment risks
	Regulatory targets (macro-level)	Not defined	Not defined
Resource	Legal support	Federal Law "On the Stock Market" Federal Law "On Investment Funds" Federal Law "On Non-State Pension Funds"	Federal Law "On the Stock Market"
	Regulatory support	Regulations of the Bank of Russia and self-regulatory organizations	Basic standards of self-regulatory organizations
	Information support	Publicly available information Exchange information	Publicly available information Exchange information
	Financial support	Budget financing of the development of regulatory legal acts on the categorization of investors and self-financing of self-regulatory organizations through membership fees	Budget financing of the development of regulatory legal acts on the categorization of investors
Instrumental	Restriction methods	Licensing for institutional investors Certification for private investors	Testing
	Stimulating methods	Unlimited set of financial instruments for investment	Not provided
	Compensation methods	Not provided	Not provided
Organizational	Methods and technologies of regulation and supervision by the regulator	Prudential proportional regulation of institutional investors	Limiting the set of financial instruments for investment
	Methods and technologies of digitalization	Regulatory Technology RegTech	Financial and investment platforms Key information documents

It can be assumed that in the conditions of digitalization, when new, often unregulated, financial instruments appear, unqualified investors will go to the associated financial markets, and thus the development of the domestic stock market will be slowed down. Thus, the mechanism for categorizing investors requires:

- the megaregulator (the Bank of Russia) defines clear targets for the use of the mechanism for categorizing investors, taking into account the impact of categorization on the volume of investment in individual segments and on the capitalization of the market as a whole;
- introduction of intermediate categories of investors in each group. This will allow investors to smoothly prepare for the transition to a more risky group and at the same time will not dramatically reduce the volume of investments in risky, but potentially profitable assets;
- clarification of the areas of protection of unqualified investors and protective tools in the basic standards of self-regulatory organizations (Gorlovskaya, 2020);

- development of incentive and compensatory methods to protect unqualified investors;
- taking into account digitalization when categorizing investors. Digitalization as one of the main drivers of financial markets provides new opportunities for investment and should be taken into account when determining (changing) quantitative and qualitative indicators of categorization of investors in order to develop the stock market.

4 CONCLUSIONS

Consideration of the categorization mechanism from a systematic perspective allows us to develop a system of quantitative and qualitative criteria for assigning investors to certain groups for state regulation of the stock market as a whole in the context of digitalization; as well as basic standards of self-regulatory organizations in the stock market.

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