JEL Classification: G1; G11; G12; G14 **DOI**: https://doi.org/10.31521/modecon.V41(2023)-09

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The Role of Securities as the Main Instrument of the Financial Market in International Business

Abstract. Introduction*. In the modern world securities are the most common instruments of the financial market, allowing the companies and governments to raise funds for development and the investors to receive income from investments.*

Purpose. *The purpose of the study is to analyze the main types of securities their characteristics and functions in the financial market, in particular, to determine and study the relationship between securities and the capital market, assessment of the role of securities in international business and formation of price indicators and indices of financial market.*

Results. *The article examines the main types of securities used in the financial market, namely shares, bonds, derivatives and investment certificates. It is established that shares represent a share in the ownership of the company and grant the right to participate in voting and receive dividends. It is also noted that bonds represent the issuer's obligation to repay borrowed funds and pay interest. Derivatives depend on the value of the underlying asset and can be concluded on the basis of financial contracts. The possibilities of derivatives are described, in particular their role in leverage and risk hedging, the transparency of derivatives trading on stock exchanges and the possibility of gaining access to various markets and assets through the use of derivatives are noted. Investment certificates are considered as a type of securities that combine funds of various investors and are managed by professional market participants. The relationship between securities and the capital market in the financial system is studied. It is noted that the capital market plays an important role in providing access to capital for companies and investment opportunities for individual investors. In particular, the role of stock indices in the financial market is considered.*

Conclusions. *Securities today play a significant role in the financial market and perform the various functions related to raising capital, generating income, diversification of financial portfolio, protection against inflation and other financial risks, providing liquidity to capital markets and access to them, and also provide price openness and transparency in the financial market, which allows its participants to obtain potentially high profits.*

Keywords: *securities; shares; bonds; derivatives; investment certificates; capital market; international business.*

УДК 336.763

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Роль цінних паперів як головного інструменту фінансового ринку в міжнародному бізнесі

У сучасному світі цінні папери є найбільш поширеними інструментами на фінансовому ринку, що дозволяють компаніям та урядам залучати кошти на розвиток, а інвесторам – отримувати дохід від інвестицій

[1]**Стаття надійшла до редакції**: 21.10.2023
Received: 21 October 2023

Метою дослідження є аналіз основних видів цінних паперів, їх особливостей та функцій на фінансовому ринку, зокрема визначення та дослідження взаємозв'язку між цінними паперами та ринком капіталу, оцінка ролі цінних паперів в міжнародному бізнесі та у формуванні цінових показників й індексів фінансового ринку.

У статті досліджено основні види цінних паперів, що використовуються на фінансовому ринку, а саме: акції, облігації, деривативи та інвестиційні сертифікати. Визначено, що акції представляють собою частку власності у підприємстві та надають право на участь у голосуванні й отримання дивідендів. Окрім того, встановлено, що облігації є зобов'язанням емітента повернути позичені кошти та сплатити відсоток. Розглянуто, що деривативи залежать від вартості базового активу та можуть бути укладені на основі фінансових контрактів. Описано можливості використання деривативів, зокрема їхню роль у левериджі та хеджуванні ризиків, наголошується на прозорості торгівлі деривативами на біржах і можливості отримання доступу до різних ринків та активів через використання деривативів. Розглянуто інвестиційні сертифікати як вид цінних паперів, що об'єднує кошти від різних інвесторів й управляється професійними учасниками ринку. Досліджено взаємозв'язок між цінними паперами і ринком капіталу в фінансовій системі. Визначено, що ринок капіталу відіграє важливу роль у забезпеченні доступу до капіталу для підприємств і можливостей інвестування для індивідуальних інвесторів. Розглянуто, зокрема, й роль фондових індексів на фінансовому ринку.

Цінні папери сьогодні відіграють значну роль на фінансовому ринку, виконують різноманітні функції пов'язані, із залученням капіталу, генерацією доходу, диверсифікацією фінансового портфеля, захистом від інфляції та інших фінансових ризиків, наданням ліквідності ринкам капіталу та доступу до них, а також забезпечують цінову відкритість та прозорість на фінансовому ринку, що дозволяє його учасникам отримувати потенційно високий прибуток.

Ключові слова: *цінні папери; акції; облігації; деривативи; інвестиційні сертифікати; ринок капіталу; міжнародний бізнес.*

JEL Classification: *G1; G11; G12; G14.*

Formulation of the problem. Currently, securities are the most common instruments in the financial market, allowing international companies, enterprises and governments to raise funds for development and investors to receive income from investments. However, the use of securities is associated with risks that must be taken into account when investing. Due to these risks, the financial market is unstable. Securities can affect it because they can be used as a tool to attract capital and finance various projects. Therefore, if securities are used improperly, they can lead to a crisis in the financial market.

In addition, investors can become victims of manipulation in the securities market. Securities can be manipulated in various ways, including inadequate information about companies, excessive use of credit leverage, etc. Securities can also be misused for market testing and price manipulation, so it is important to research the specifics of securities and their impact on the financial market.

Analysis of recent research and publications. Considering the research of theoretical information about securities, their characteristics, function and connection with the capital market, it is revealed that in the remaining scientific researches and publications it is usually considered superficially and partially, and therefore it requires systematization. The characteristics and functioning of shares are considered in the works of I. Yakusheva, O. Peresipkin, A. Manilo [1], as well as M. Stetsko [2]. Bonds as another type of valuable papers are considered in the works of S. Ilechko [3] and M. Dubini, Y. Gornoya, I. Gorban [4]. Special attention to derivatives, as another type of financial instruments, is given in the works of D. Chance, R. Brooks [5], as well as O. Lavrik and T. Kovalenko [6]. Investment certificates are studied in the works of V. Yarotsky [7] and O. Cheberyako [8]. The connection between securities and market capital is described in the work of M. Zavezion [9]. Indices as market indicators are studied in the works of S. Bezvukh [11], T. Kulinich, I. Larkspur and others [13].

Formulation of research goals. The purpose of the study is the analysis of the main types of securities, their characteristics and functions in the financial market, in particular, the definition and study of the relationship between securities and the capital market, the assessment of the role of securities in international business and in the formation of price indicators and indices of the financial market.

Outline of the main research material. Securities are an integral part of the financial market and perform the various functions. According to the scientific studies the main types of securities are shares, bonds, derivatives and investment certificates (Fig. 1).

Figure 1 – **Types of securities**

Source: developed by the authors

Shares are one of the most common types of securities. They represent a share of ownership in a company and confer the right to vote and receive dividends. Shares allow companies to raise capital by issuing new shares or selling existing shares on the secondary market. In addition, shares can be an investment object for financial participants to profit from the growth of their value in the market [1].

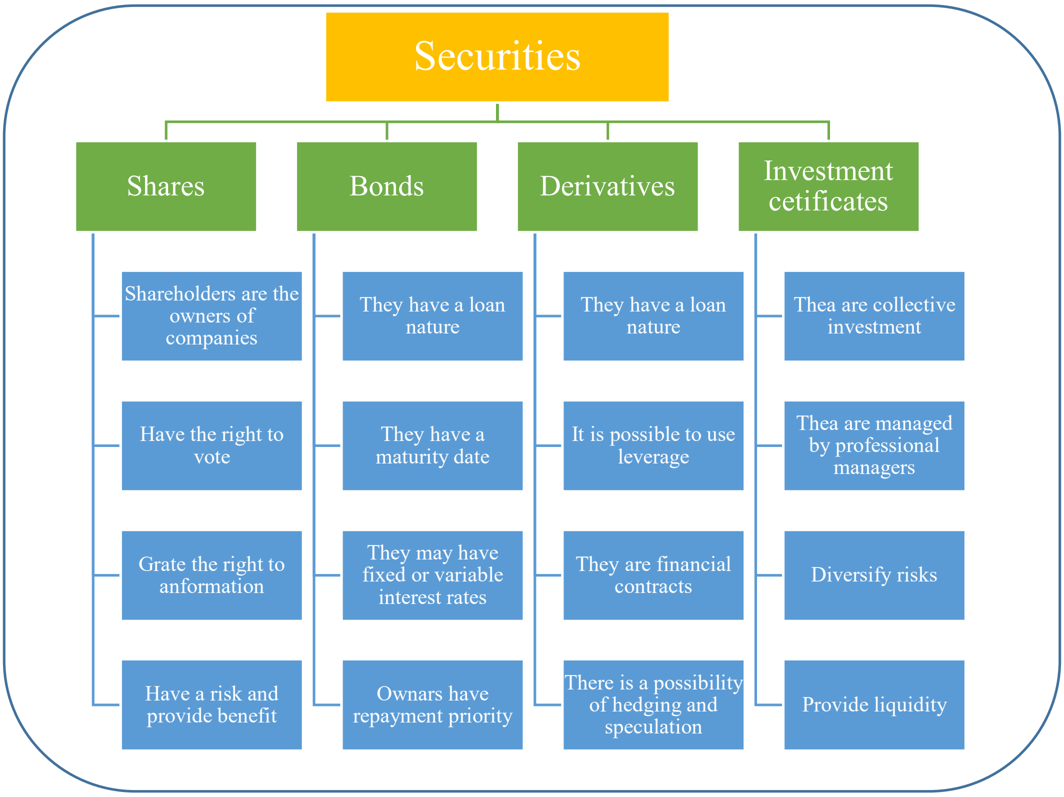

Figure 2 – **Features of securities**

Source: developed by the authors

One of the characteristics of shares is ownership and profit sharing, where shareholders are owners of the company according to the number of shares they own. They have the right to receive a share of the company's profits in the form of dividends, which are paid to shareholders in accordance with the decision of the general meeting of shareholders. In addition, shareholders usually have the right to vote at general meetings where strategic and important decisions for the company are made. The number of votes depends on the number of shares owned by the shareholder.

Another feature of shares that can be highlighted in their analysis is the right of shareholders to receive information about the company's financial position, activities and development prospects. This information is provided in the company's reports, which are published regularly and are available to all shareholders [2].

It is equally important to consider the functions of this type of securities, the first of which is capital attraction. Issuing shares is one of the ways to attract capital for development and financing of enterprises. Companies can issue shares and sell them on the market and receive the necessary funds for business expansion, investment in new projects and other purposes [2].

In addition to raising capital stocks allow the investors to invest in the different companies and industries allowing them to diversify their portfolio and reduce the risk. Investors can choose stocks from the different sectors of the economy, different countries or different sizes of the companies depending on their investment goals and risk tolerance.

It is also worth noting that shares are freely traded on stock exchanges, which allows shareholders to buy and sell shares at the market price. This ensures the liquidity of shares and the ability to transact in them quickly.

Another function of shares is the ability of large shareholders to have a significant influence on the management of the company. They can use their votes at the general meeting of shareholders to make decisions about the company's strategy, the selection of management personnel and other issues related to the company's activities [2].

Bonds are another important type of security. They represent the issuer's obligation to return borrowed funds and pay interest for the use of those funds. Bonds can have different maturities, interest rates, and be issued as government, corporate, or municipal bonds. Investors buy bonds with the goal of receiving a steady stream of interest income and returning borrowed funds in the future [3].

Bonds are a loan, which means they are a form of credit where the bondholder lends money to the issuer, which can be a company or a government. The issuer agrees to repay the amount borrowed (the principal amount of the bond) within a specified period of time and to pay the interest (coupons) on the bond at a specified interest rate [4]. In addition, bonds have a fixed maturity date when the issuer must repay the principal amount of the loan. This term can be short (a few months) or long (tens of years), depending on the type of bond and the issuer's needs [3].

In addition, bonds may have a fixed or variable interest rate at which coupons are paid. Coupons are paid to bondholders on specified dates during the life of the bond. A fixed interest rate remains constant throughout the life of the bond, while a variable interest rate may change depending on market conditions. In the event of default or bankruptcy of the bond issuer, bondholders have a certain repayment priority over shareholders. Bonds usually have a higher priority because they represent the issuer's obligation to creditors [4]. Like stocks, bonds are a means of raising long-term capital for the issuer. Companies and governments can issue bonds, sell them to investors, and use the proceeds to expand operations, invest in projects, refinance existing debt, etc. It's also worth noting that bondholders receive income in the form of coupons, which are interest payments on the bond. This allows investors to receive a stable stream of income from their investment [4].

Like other types of securities, bonds allow investors to diversify their portfolios by spreading risk across different types of securities. They can choose bonds from different issuers, different maturities, different credit ratings, and different industries.

Another important feature is the ability of some types of bonds, such as index-linked bonds, to provide protection against inflation. They correlate with the level of a price index, which allows investors to preserve the real value of their investments in the event of rising prices [3].

The next type of securities are derivatives, which are financial contracts whose value is based on the price of the underlying asset. Securities of this type include options, futures, swaps, etc. [5]. Derivatives are derivative financial instruments because their value depends on the value of the underlying asset or indicator. The underlying assets can be various financial instruments, market indices or commodities [5]. A special feature of derivatives is that they allow investors to use leverage, which means that investors can control large positions with limited capital. This can increase the potential profits, but it also increases the risks. In addition, derivatives are based on financial contracts that define the terms of the agreement between the parties. These contracts can be standardized (for example, futures or options traded on an exchange) or customized to the specific needs of the parties [5].

Derivatives are also used to hedge risk. Investors can use derivatives to hedge their positions against undesirable changes in the value of the underlying asset. On the other hand, derivatives can also be used to speculate on market fluctuations for profit. As mentioned above, derivatives can be used as a tool to hedge risks, particularly currency, interest rate or price risks. Investors can enter into derivative contracts to protect themselves against unwanted changes in prices or exchange rates [6].

In addition, derivatives allow investors to gain access to various markets and assets even if they do not own the physical asset. It provides the ability to trade and invest in a variety of assets and markets without the need for a physical purchase. An important aspect of how this type of security works is that derivatives traded on exchanges typically have publicly available prices and transaction transparency. This allows investors to obtain up-to-date information about market prices and market participants [6]. In addition, the leverage provided by derivatives can allow investors to achieve high potential returns on their investments. However, it is important to note that leverage also increases risk and can lead to significant losses [6]. Another type of security to consider is investment certificates, which are collective investments that pool funds from different investors and are managed by professional managers. These certificates provide access to different types of assets and risk diversification, allowing investors to take positions in different markets [7].

Investment certificates represent a collective investment because the money collected from different investors is pooled into a common fund. This allows investors to invest in a wide range of assets that may be unavailable or under-allocated to individual investors. Investment certificates are managed by professional financial managers or fund companies who analyze the markets and make decisions about buying and selling assets. This gives investors access to expert management and the experience of professionals [8]. Investment certificates also allow investors to diversify their investments across different assets, reducing the risk of concentration in any one asset. This helps to reduce possible losses that may occur due to negative changes in the market of a particular asset. In addition, it should be noted that many investment certificates are traded on stock exchanges, which provides investors with liquidity and the ability to buy or sell their investments at current market prices. The primary function of investment certificates is to preserve and grow the investor's capital. Depending on the type of certificate and the management strategy, the value of the certificates may depend on market conditions and the performance of the investment portfolio [8]. Some investment certificates also provide income to their holders in the form of dividends, interest or other forms of income. This can be a source of regular passive income for investors. In addition, investment certificates can be used to hedge risks, especially currency, interest rate or market risks. Investors can use the different types of certificates to protect their investments against undesirable changes in prices or market conditions [7].

It is important to note that some mutual funds provide investors with access to specialized markets or assets that may be difficult for individual investors to acquire [8]. Other investment certificates, in particular pension funds, also allow investors to plan and accumulate funds for life after retirement [8].

Securities and the capital market are inextricably linked components of the financial system (Fig. 3). The capital market provides the opportunity to buy and sell securities, and securities are instruments that can be traded on the capital market. The interaction between these two elements plays a key role in providing access to capital for firms and investment for individual investors. The capital market provides a meeting point between the needs of those seeking capital to expand their business or finance projects, and those who have excess capital and are looking for investment opportunities. The capital market can be represented by stock exchanges, where stocks and other securities are publicly traded, and by the over-the-counter market, where private transactions between investors take place [9].

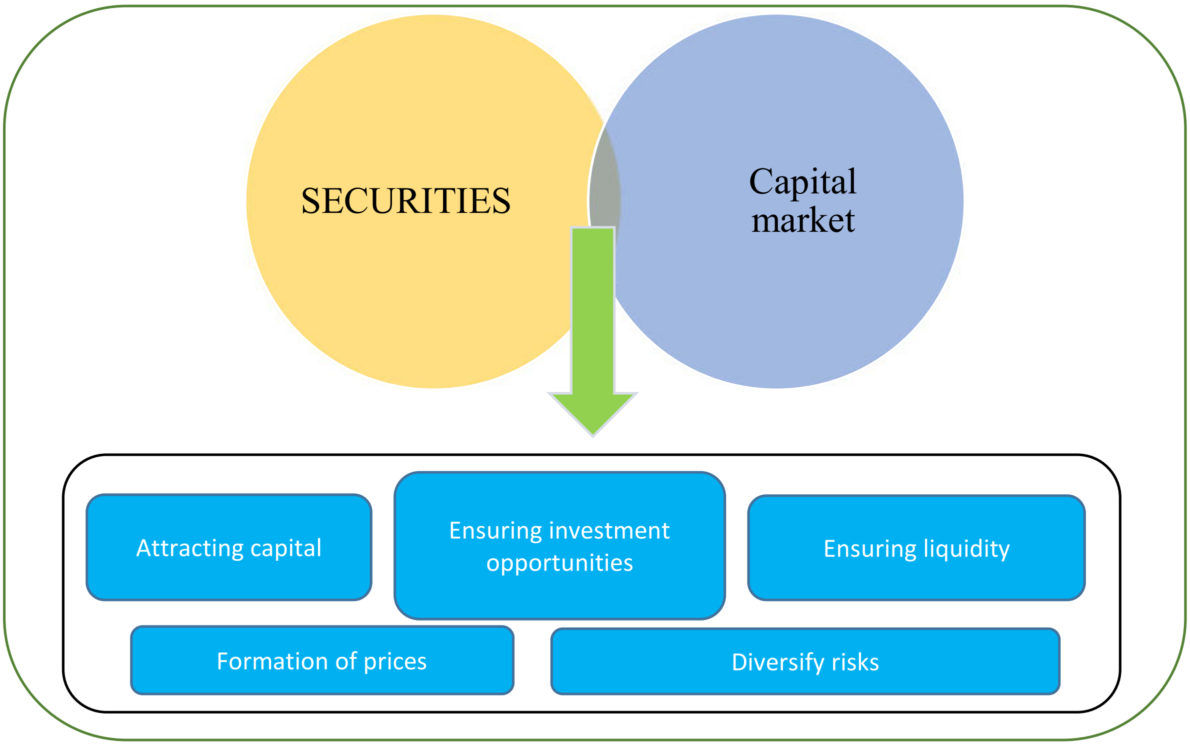

Figure 3 – **Functions of securities and the capital market**

Source: developed by the authors

The main functions of securities and the capital market are (Fig. 3):

- Raising capital: Securities such as stocks and bonds allow companies to raise capital to finance their operations. Issuing shares allows companies to raise money by selling part of their ownership to investors. Issuing bonds allows companies to raise borrowed capital by promising to repay it along with the payment of interest.
- Opportunity to invest: Investors use securities to invest their money for profit. Stocks can give investors the opportunity to receive dividends and increase the value of the stock if the company is successful. Bonds provide stable income in the form of interest and repayment of principal over a period of time.
- Liquidity: The capital market ensures the liquidity of securities, which is the ability to buy and sell stocks and bonds quickly. This allows investors to access their funds and conduct securities transactions at any time.
- Price formation: The capital market acts as a platform for determining the prices of securities. Supply and demand affect the prices of stocks and bonds and reflect the market's general view of the potential value of these securities.
- Diversification of risks: Investors can use securities to diversify their portfolios and reduce risk. Allocating funds among different stocks and bonds can help reduce the impact of negative events on a single asset [9].

Securities such as stocks and bonds are actively traded on financial exchanges, where their market rate or price is determined. The prices of stocks and bonds reflect the existing supply and demand in the market and reflect the general opinion of investors about the value of these securities. The value of the prices of these securities is used to calculate the various price indicators and indices of the financial market [9].

According to the World Federation of Exchanges (WFE), the global capitalization of the national stock market (Fig. 4) will increase from USD 65.04 trillion in 2013 to USD 121.94 trillion in 2021. As of June 2022, the total market capitalization of domestic companies listed on stock exchanges around the world is recorded at 105.07 trillion US dollars, which confirms the importance of the influence of securities on the financial market in general [10]. One of the most popular price indicators in the financial market is a stock index. A stock index is an important tool for measuring the general movement of stock prices in the market. It consists of a certain number of stocks selected on the basis of their market capitalization and market presence. The change in the value of the stock index reflects the general trend of the stock market and serves as a reference point for investors and specialists in the financial industry [11].

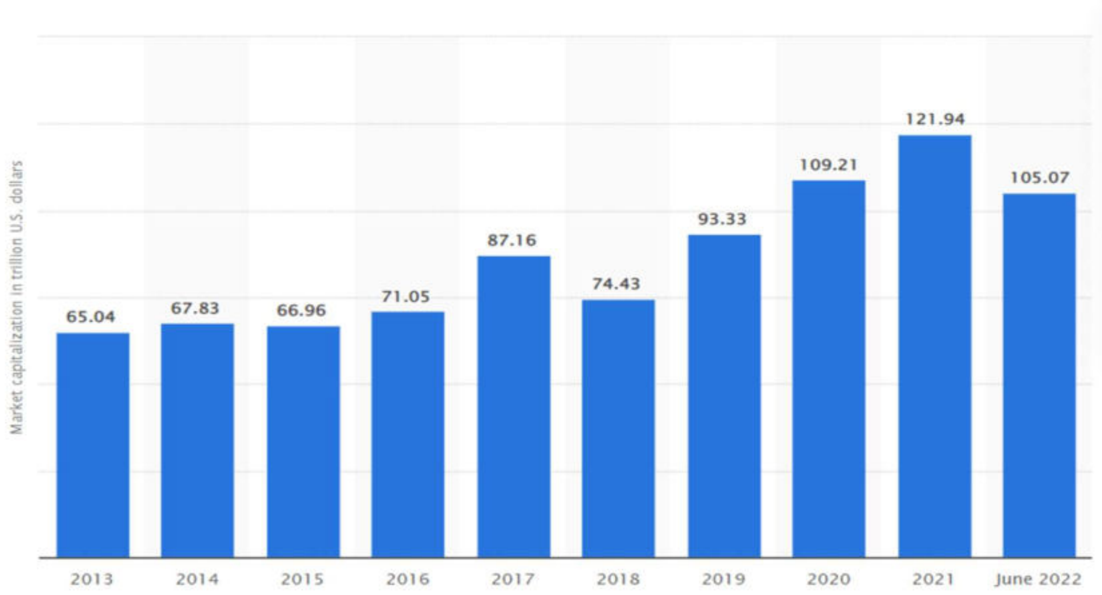

Figure 4 – **Total market capitalization of domestic companies listed on stock exchanges worldwide from 2013 to June 2022 ($ trillion)**

Source: developed by the authors based on [10]

According to WFE data, the greatest activity with securities on the capital market as of October 2022 (Fig. 5) was observed in the North American region, followed by Asia and Europe. The size of the circles in the figure reflects the size of the capitalization of the exchanges shown relative to each other, starting from $0.85 trillion on the B3 exchange in Brazil and ending with the New York Stock Exchange (NYSE) with a volume of $22.11 trillion [12].

Securities also influence other price indices such as sector indices, regional indices and industry indices. These indices reflect the price movements of the shares of other groups of companies included according to defined criteria. They allow to get an idea of the state of individual market sectors and economic development of regions. First of all, the role of securities in the formation of price indicators and indices is that they reflect the state of the capital market and investment activity. Changes in securities prices indicate changes in investment preferences and risk attitudes of market participants. This influence is two-way, as the movement of stock and bond prices can be caused by both macroeconomic factors and events related to individual companies or industries [13].

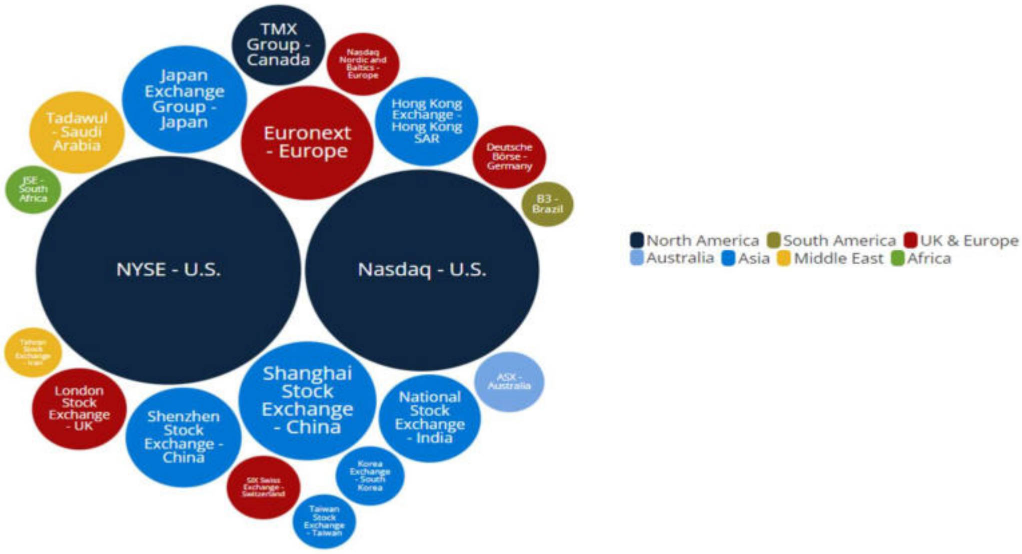

Figure 5 – **The largest stock exchanges by market capitalization of domestic companies registered on the exchange, as of October 2022**

Source: developed by the authors based on [12]

Conclusions. Securities in the system of international business play an important role in the financial market. It is considered the types of securities, namely shares, bonds, derivatives and investment certificates, which have their own characteristics, primarily related to the goals and capabilities of financial market participants, such as the investment period and the level of potential risk.

Securities also perform a variety of functions related to attracting capital, generating income, diversifying the financial portfolio, protecting against inflation and other financial risks, providing liquidity to and access to the capital markets, as well as providing price openness and transparency in the financial market, which allows its participants to obtain a potentially high profit. The relationship between securities and the capital market shows that they play the important role in the financial system. Securities represent the various forms of financial instruments that can be bought and sold in the capital market. They also provide opportunities for companies to raise capital to expand their operations and for investors to invest their funds for profit.

The capital market provides the infrastructure and mechanisms for trading securities, which can be traded publicly on stock exchanges or in private transactions on the over-the-counter market. The movement of securities prices reflects investment activity and the state of the capital market. Securities are the main components used in the calculation of sector, regional and industry indices. These indices provide information on the price movements of stocks and groups of companies included in the indices.

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