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Analysis of management forms of collective investment institutions to organise the accounting system

Abstract. *Introduction.* The development of collective investment institutions (CII) results in new possibilities for Ukrainians to invest their savings to make profit through transfers of their own resources to professional managers with the aim of further investment of such resources in various assets: securities, immovable property, etc. The evolution of collective investment institutions, and in particular venture capital funds, should be provided by means of the developed accounting system. *The purpose* of the article is to determine ways of development of collective investment institutions type, to differentiate between venture capital funds and other funds and to analyse of procedural and institutional forms of the development of venture capital funds according to their basic characteristics effecting the organisation of the accounting system. *Results.* The authors have defined various types of institutions for collective investments are defined. Distinctive features of venture capital funds and other institutions are emphasised. The analysis of legal types of CII in terms of their basic characteristics effecting the organisation of the accounting system is performed. *Conclusion.* Determination of types of CII as well as procedural and institutional forms of venture capital funds will help to develop an accounting system that would meet the objectives of the activity, respond to the risk component of the activity and provide the required information for both internal and external users.

Keywords: Collective Investment Institutions; Venture Capital Funds; Accounting System; Information

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Аналіз форм господарювання інститутів спільного інвестування для організації системи бухгалтерського обліку

Анотація. У статті визначено типи інститутів спільного інвестування, встановлено відмінності венчурних фондів від інших інститутів. Зроблено аналіз організаційно-правових форм створення венчурних фондів за їхніми основними характеристиками, що впливають на організацію системи бухгалтерського обліку. Проведений аналіз допоможе організувати таку систему бухгалтерського обліку, яка б відповідала цілям діяльності, враховувала ризикову компоненту діяльності та забезпечувала необхідною інформацією внутрішніх і зовнішніх користувачів.

Ключові слова: інститути спільного інвестування; венчурні фонди; система бухгалтерського обліку; інформація.

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Анализ форм хозяйствования институтов совместного инвестирования для организации системы бухгалтерского учета

Аннотация. В статье определены типы институтов совместного инвестирования, установлены отличия венчурных фондов от других институтов. Выполнен анализ организационно-правовых форм создания венчурных фондов с учетом их основных характеристик, которые влияют на организацию системы бухгалтерского учета. Проведенный анализ поможет организовать такую систему бухгалтерского учета, которая соответствовала бы целям деятельности, учитывала рисковую компоненту деятельности и обеспечивала необходимой информацией внутренних и внешних пользователей.

Ключевые слова: институты совместного инвестирования; венчурные фонды; система бухгалтерского учета; информация.

1. Introduction. Promoting the development of collective investment institutions is one of the most effective measures to stimulate investment processes under the conditions of a challenging economic situation not only in Ukraine but also in the world in the context of fiscal deficit, low credit activity of commercial banks, and unstable currency rates.

The development of collective investment institutions results in new possibilities for Ukrainians to invest their savings to make profit through transfers of their own resources

to professional managers with the aim of further investment of such resources in various assets: securities, immovable property, etc. An analysis of the development of collective investment institutions has shown that the number of venture capital funds increases much faster than the number of other institutions of collective investment. The development of collective investment institutions, in particular venture capital funds, should be secured by the advanced accounting system.

Thus, it is essential to study different types of collective investment institutions and consider procedural and institutional forms of venture funds management with regard to their influence on the accounting system.

2. Brief Literature Review. In Ukraine, the problem of the organisation of the accounting system of collective investment institutions, including venture capital funds, is still new and unresolved. This could be explained by a short period of CII availability in Ukraine. However, an increase in the number of CII shows topicality and timeliness as for the research of accounting aspects of venture capital funds in terms of the development of the financial system.

The problems related to the activities of collective investment institutions were studied by foreign scientists, such as W. Sharpe, J. Bailey, G. Alexander (1999) [1], J. Frank (2010) [2], L. Gitman (1997) [3], M. Johnk (1997) [3], E. A. Farber (2013) [4], S. G. Ovchinnikov (2002) [5], L. D. Pankratova (2010) [6], Ye. V. Ternikova (2012) [7], J. Busse (2010) [8], A. Goyal (2010) [8], S. Wahal (2010) [8], T. Angelidis (2013) [9], D. Giamouridis (2013) [9], N. Tessaromatis (2013) [9], R. Evans (2010) [10] and others. The relevant studies were done by a number of Ukrainian scientists, among who are I. M. Kreidych [11], S. Z. Moshenskyi [12], S. V. Cherkhasova [13], L. Ye. Furdychko [14], I. V. Zhyly [15] and others. However, despite the great number of scientific papers concerning the analysis of collective investment institutions and venture capital funds the majority of researches reveal only legal aspects or theoretical issues of CII activities.

3. The Purpose of the article is to determine ways of development of collective investment institutions type, to differentiate between venture capital funds and other funds and to analyse of procedural and institutional forms of the development of venture capital funds according to their basic characteristics effecting the organisation of the accounting system.

4. Results. From social and economic viewpoint, collective investment is important as the invested money comes to various branches of national economy, creates new jobs and innovations. First of all, not only the state but also risk enterprises are interested in successful and positive development of collective investment institutions (including venture capital funds) as for funding their own innovative projects. In Ukraine investment funds started in 2001 only after the establishment of a regulatory framework, namely after the adoption of the Law «On Collective Investment Institutions (Unit and Corporate Investment Funds)». According to data by the Ukrainian Association of Investment Business, analysis of the number of collective investment institutions means the origination of a new class of institutional investors including risk capital. In the near future they will become powerful players in a stock market having significant influence on the securities market and stimulating emergency of new financial tools. Collective investment institutions unite different investors making them possible to get investment advantages resulting from concentration of all financial resources.

I. Ye. Semencha points out that application of investment funds (collective investment institutions among other things) is one of the most promising forms of national economy investing [16, 6]. Businesses are also interested in successful and dynamic development of collective investment institutions, in particular venture capital funds, as they have a chance for financial sources being alternative to bank credits. Besides, physical parties having relatively low financial potential may become a party of stock market as well as a state raising additional budget funds owing to active economic development. Venture capital funds are the most popular CII. As a matter of principle, venture capital funds are aimed at strategic attraction of investments for new enterprises (or the ones being developed), innovative projects, and development projects which are expected to be very profitable but at the same time being very risky in terms of the attracted investment default and certain exception from general approach to CII activity foundations [17].

However, according to y A. V. Smityuh, real motivation of their foundation in Ukraine is a chance for a big investor to optimise taxation as well as institutional and management structure of the investor's property rather than portfolio investment in its classic sense, to promote investment projects or risk investment [18, 223].

A developed accounting system should provide progress of collective investment institutions. Among other things, the accounting system of venture capital funds should take into consideration the risk component of venture activities; if it is ignored accounting data cannot mirror the factual state of a venture entity, which means that accounting does not carry out its task [19, 133].

Accounting of CII depends on a type of collective investment institution (Figure 1).

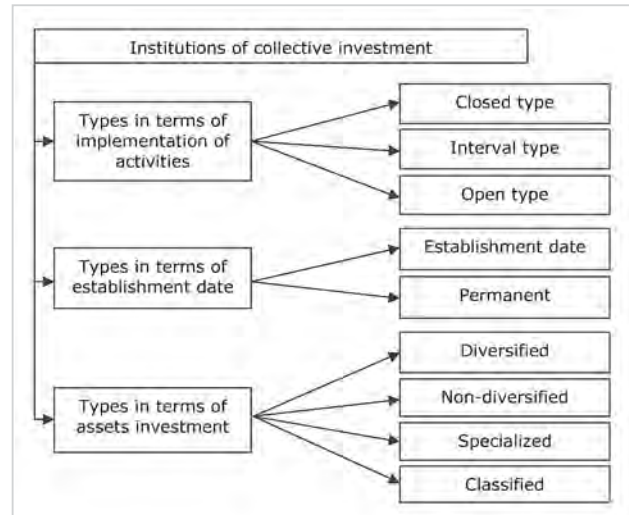


Fig. 1: **Types of Institutions of Collective Investment**
Source: Compiled by the authors on the basis of the Law of Ukraine «On Collective Investment Institutions»

Depending upon the procedure of activity implementation, CII are divided into: institutions of open type which repurchase own issued securities at any time; institutions of interval type which repurchase own issued securities during specified time period; institutions of closed type which are not responsible for the repurchase of own issued securities. Depending upon the establishment date, CII are divided into terminal ones if they are established for definite time period specified in their regulations and permanent CII if the terms are not specified. However, closed-type institute of collective investment can be only terminal [20]. In the context of assets investment, CII are considered diversified if the total value of securities of one issuer in CII's assets is not more than 10% of the total amount of securities; the total value of securities of CII's assets is not more than 5% of the total amount of securities, and not less than 80% of total cost of CII's assets are monetary funds. Depending upon the investment type, CII can be considered as specialised if they invest into money market funds, funds of government securities, bond funds, index funds, and funds of bank metals. CII are considered as classified if they invest assets only into one specific class of security assets, estate property class, class of rental assets, class of credit assets, class of stock commodities and monetary funds; in addition it has not any requirements for the assets structure. Institutions of collective investment which cannot be considered diversified, specialised or classified belong to undiversified ones.

According to the data by PJSC «Corporate investment non-diversified closed type fund «FIM Invest», the number of venture capital funds is 90% of the total number of collective investment institutions. According to the Law of Ukraine «On Collective Investment Institutions», a venture capital fund is an undiversified closed-type institution of collective investment engaged in private placement of securities of institutions of collective investment among legal and physical entities. Thus, either legal or physical entities can be investors or members of a venture capital fund if they purchase securities of such a fund and their total value is not less than 1,500 minimum monthly salaries specified by the Law as of 1 January 2014. By the end of 2015 the majority of venture capital funds of Ukraine had been legal entities (95.11%) and to a lesser degree physical entities (4.89%) (see Figure 2).

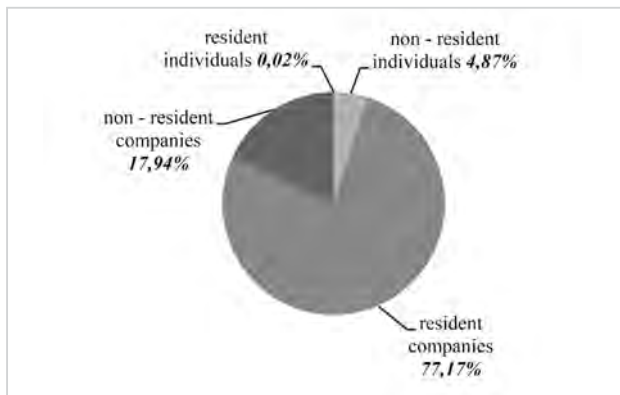


Fig. 2: **Members of venture capital funds of Ukraine in 2015**
Source: Assessed by the authors

Non-diversification means unavailability of strict requirements as for distribution of the funds' assets among different investment objects, which makes it possible to hold the controlling share of other enterprises and have a great amount of securities (being not allowable for stock trading or within distribution and information system) among own assets. World practice of venture capital funds activity shows that 50% of assets of venture capital funds are corporate rights with assets being not allowable for stock trading or within distribution and information system.

The analysis of activities of venture capital funds of Ukraine and data by the Ukrainian Association of Investment Business helped identify the following differences of venture capital funds from other institutions of collective investment:

- venture capital funds may perform business transactions to give loans to emitters whose share in corporate rights is among assets of such venture capital funds;
- assets of venture capital funds can be totally corporate rights, securities being not allowable for stock trading or within distribution and information system or securities without any ranking score;
- contrary to the companies controlling assets of other CII, companies controlling assets of venture capital funds participate in control connected with emitters' activity whose corporate rights are part of assets of venture capital funds controlled by this company;
- securities of venture capital funds must not be subject to public offering;
- placement of securities of venture capital funds is performed by means of direct offering of securities to a definite circle of people;
- mission of venture capital funds activities is to attract investors' money and channel it to innovative high-profitable business by means of purchase of venture capital funds' securities or its contributing to the nominal capital. After a certain time period venture capital fund sells either stocks or share in nominal capital and distribute the obtained profit among the fund members.

In Ukraine, venture capital funds by their type may be either corporate or share

ones but they should be only undiversified and closed. In 2015, the number of registered institutions of collective investment was 2053, of which 376 were corporate investment funds and 1677 were share investment funds [21].

The primary investment objective of venture capital funds is to achieve short-term profitability being higher than deposit revenue and provide security of capital in the context of daily liquidity.

The development and improvement of collective investment institutions may become one of the key mechanisms to mobilise personal savings and channel them to meet investment requirements of national economy. However, there is also a different view. M. M. Yermoshenko points out that the objective of investment activities is not always connected with making profit [22, 47]. According to the data by the Ukrainian Stock Market, venture capital funds specialised in closed placement of their securities among investors (legal and physical entities), are widespread in Ukraine. The performed analysis of investment profitability demonstrates that investment into closed funds of CII is more profitable in comparison with the open ones. However, such an investment risk is greater and the investment itself is less liquid.

To determine the effect of procedural and institutional forms of venture capital funds business on the accounting system, Table 1 explains procedural and institutional forms of venture capital funds according to their basic characteristics.

5. Conclusions. The results of the analysis of procedural and institutional forms of venture capital funds make it possible to say that venture capital funds (undiversified and closed institutions of collective investment) may be established in the form of corporate or share funds; owners of securities of the funds are the members of such funds. Today, share investment funds are not typical for civil law, which implies ownership without a clearly identified owner. Despite the fact that share collective investment institutions are not legal entities, they have all the features of legal entities except for the statute and the USREOU (Unified State Register of Enterprises and Organizations of Ukraine) code. A legally determined

Tab. 1: **Analysis of procedural and institutional forms of venture capital funds in terms of their basic characteristics effecting accounting system organisation**

| Basic characteristics effecting accounting system organisation | Venture capital funds (undiversified, closed institutions of collective investment) | |
|---|---|--|
| | Corporate investment funds (CIF) | Share investment funds (SIF) |
| procedural and institutional forms of establishment | legal entity | is not legal entity being totality of assets belonging to members of such a fund on the basis of collective partial ownership |
| members of venture capital funds | Predefined set of people, namely: legal and physical entities | |
| participation of members in management of venture capital funds | managerial bodies are general meeting of shareholders and the board of supervisors | members may establish the board of supervisors |
| minimum of registered (share) capital | 1,250 minimum monthly salaries established by law on the date of the fund registration as legal entity | minimum assets of a share fund is 1,250 minimum monthly salaries established by law on the date of the fund registration as a collective investment institution |
| unit of own capital | capital stock | share capital |
| relationships with a company engaged in assets management (CAM) | CAM is engaged in assets management of CIF on the basis of appropriate agreement | CAM manages the fund activities |
| types of securities | shares | investment certificates which emitter is CAM managing SIF |
| form of securities | uncertified | |
| contributions by members | monetary resources only | |
| payment terms for securities | term envisaged by the prospectus of venture capital fund securities issue but no later than three working days from the moment of concluding the agreement on the purchase of securities of the fund; instalment payment is not allowed | |
| investment strategy | risk innovative projects | |
| structure of assets | monetary funds, real estate, corporate rights, rights of demand, and securities not allowed for stock trading | |
| accounting | independent accounting | accounting of operations and results of activities by a company in terms of assets management through share fund; it is performed by assets management company separately from accounting of operations and results of its business activity |

Source: Suggested by the authors

amount of the registered (share) capital of such funds equal to 1,250 minimum salaries is available. Securities of venture capital funds are of uncertified form only. That cuts expenses connected with the issue of securities and investors' risks related to possible loss of certificates; moreover, it supports the practice of refusal from a documentary form of securities turnover. The key difference of forms of venture capital funds is that the corporate fund is a legal entity; in accordance with the Law «On Accounting and Financial Reporting in Ukraine» it is obliged to keep accounting records.

As for the share fund, it is not a legal entity and its accounting of operations and results of activities is kept by a company that provides assets management separately from accounting of operations and results of own activities.

Thus, the determination of types of CILs as well as procedural and institutional forms of venture capital fund will help to develop an accounting system that would meet the objectives of the activity, respond to the risk component of the activity and provide the required information for both internal and external users.

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