

Activities of financial market participants

**Survey of Financial Market  
Participants on  
Supervisory Activities  
Carried out by  
the Bank of Lithuania**

2019

SURVEY OF FINANCIAL MARKET PARTICIPANTS  
ON SUPERVISORY ACTIVITIES  
CARRIED OUT BY THE BANK OF LITHUANIA  
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## FOREWORD



The Bank of Lithuania aims to create an advanced and attractive regulatory and supervisory environment, at the same time fostering competition within the financial sector. Our success in achieving this goal is dependent on close communication with financial market participants in order to determine their position on our supervisory practices.

The first survey of financial market participants on the Bank of Lithuania's supervisory activities was conducted in 2016. Back then, we laid a solid foundation: having received feedback from market participants, we took into consideration their opinions, comments and suggestions, most of which have already been put into practice. We have also taken our own initiatives: in order to help financial market participants better prepare for any changes, we have started publishing preliminary inspection plans, specifying the legislation to be amended or adopted, and actively providing various forms of consultation. Last year, the Bank of Lithuania implemented a smart e-licensing tool that allows potential financial market participants to remotely apply for a licence in a faster, easier and less expensive manner. FinTech companies developing innovative financial products can test them in the Bank of Lithuania's regulatory sandbox.

Conducted in 2018, the second survey showed that we are on the right track. This is evidenced by the continued improvement in the assessment of supervision carried out by the Bank of Lithuania (from 80% to almost 85%). The share of those who believe that the legislation regulating the Lithuanian financial market does not set out any excessive requirements has doubled. We are also proud that the market participants have acknowledged the competence and expertise of the Supervision Service of the Bank of Lithuania. Seeking further improvement, we will examine all the information provided by the survey respondents.

The Bank of Lithuania will maintain its strict supervisory position in order to ensure stability, credibility, transparency and protection of consumer interests within the financial sector. Having chosen a supportive supervisory approach, we show our confidence and willingness to maintain open and constructive cooperation. As for the future, we are going to continue along the same path.

A handwritten signature in blue ink, consisting of a large, stylized loop followed by a vertical line extending downwards.

Chairman of the Board  
Vitas Vasiliauskas

## ABSTRACT

- The purpose of this survey is to find out the opinion of financial market participants (hereinafter – FMPs) on the financial market supervision function performed by the Bank of Lithuania – both generally and with regard to several key elements of the supervisory process, i.e. legislation and regulation, licensing, prudential supervision, supervision, inspection and investigation of financial services and markets, as well as resolution of disputes and complaints.
- The survey was conducted in June-August 2018. A total of 285 representatives of FMPs supervised by the Bank of Lithuania were surveyed. The majority of respondents were representatives of banks, credit unions and insurance companies.
- The majority of the surveyed were rather or very satisfied with the activities carried out by the Supervision Service (SS) of the Bank of Lithuania: positive responses amounted to 65%, i.e. 1 percentage point more compared to the previous survey. Only 2% (6 respondents out of 285) indicated that they were dissatisfied and 7% – rather dissatisfied with the SS activity.
- The absolute majority of respondents indicated that the Bank of Lithuania was implementing effective supervision of the financial market.
- When responding to questions regarding the implementation of the SS mission, respondents were most pleased with the SS contribution in promoting responsible behaviour of FMPs: 76% of respondents are rather or very satisfied with this contribution. The same share of respondents (76%) positively assessed the contribution of the SS in ensuring reliable and effective operation of the financial market. More than half of the surveyed positively evaluated two other aspects of the SS mission: sustainable development of the financial market (56%) and rational financial decisions made by consumers (54%).
- When assessing individual areas of the SS activity, prudential supervision and market conduct supervision received the most positive evaluations (rather good and very good): both of these areas were positively assessed by 74% of respondents. Inspection and investigation functions were positively evaluated by 66%, while licensing activities – by 64% of respondents. Legislation and regulatory functions of the Bank of Lithuania were favourably assessed by 61% of the surveyed. The function of dispute and complaint resolution received least positive feedback (about 56%).
- The majority of supervised FMPs are satisfied or very satisfied with the consulting and advisory activities of the SS as well as its market reviews, trainings and presentations.
- The share of FMPs who believe that the Lithuanian legislation regulating supervision of the financial market is not excessive has doubled (from 10% in 2016 to 20% in 2018), while the share of those who believe that the country's legislation creates an excessive burden has decreased respectively. The legislative regulation was most favourably assessed by consumer credit providers, banks, insurance companies and intermediaries, whereas payment and electronic money institutions were least positive.
- FMPs were more satisfied with informal consultations provided by the SS than official answers to their enquiries.
- Among the main areas for improvement in the SS, respondents indicated an excessive amount of statistical information collected from FMPs, claiming that the SS should seek to reduce the administrative burden. The surveyed would like to be timely notified of any changes to the reports (in particular those coordinated by the European Union (EU) institutions: European Central Bank (ECB), European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA)) as well as of resolutions considered for adoption by the Board of the Bank of Lithuania. They would like the Bank of Lithuania to take steps to ensure timely preparation of legislation implementing secondary regulations. According to some respondents, the SS often takes excessively strict approach to the EU

regulations and should take on responsibility and initiative to adapt the regulation to the national market needs and reduce the burden on FMPs.

- FMPs would like the Bank of Lithuania to better prepare for presentation of innovations or new legislation, and give practical examples suited for the Lithuanian financial market, specify alternative ways to implement the requirements and take into account the opinion of FMPs.

## I. OBJECTIVES, METHODS AND PARTICIPANTS OF THE SURVEY

The survey aims to find out the opinion of FMPs on the financial market supervision carried out by the Bank of Lithuania, both in general terms and in light of the key elements of the supervision process, namely:

- legislation and regulation;
- licensing;
- prudential supervision;
- market conduct supervision;
- inspections and investigations;
- resolution of disputes and complaints;
- consumer financial education.

This survey is also aimed at obtaining feedback from FMPs, i.e. to find out how they see the SS activities, communication of its officials, formal and informal consultations, effectiveness of the supervisory process and, taking into account constructive suggestions provided by FMPs, to improve the organisation of the financial market supervision carried out by the Bank of Lithuania.

The survey is comprised of an online poll and confidential interviews with responsible persons of FMPs. In total, 285 responsible persons of FMPs supervised by the Bank of Lithuania were surveyed. The majority of them (43%) were highest-level executives (company managers, council or board members), 23% – middle managers, and 32% – other specialists (see Table 1).

Table 1. Distribution of survey participants by their position

Position	Number	Share, %
Head of company, council or board member	122	42.8
Head of Department/Division/Unit	65	22.8
Other specialists	98	34.4
<b>Total</b>	<b>285</b>	<b>100.0</b>

Invitations to take part in the survey were distributed to over 600 representatives of financial institutions, but only 370 of them agreed to participate in the survey and provided their contact details. The overall response rate reached nearly 77% of respondents. Therefore, it can be stated that the results are representative and reflect the general opinion of FMPs.

The survey was carried out in June-August 2018. The main survey method was completion of a standardised questionnaire (see Annex). All responsible employees were given the following options for completing the questionnaire:

- filling in an e-questionnaire online;
- filling in a paper questionnaire;
- answering questions by phone.

However, in the age of the digital revolution, absolutely all (100%) respondents chose to complete the questionnaire online.

The distribution of respondents by the type of FMPs is presented in Table 2.

Table 2. Distribution of survey participants by the type of FMPs

Market participants	Number	Share, %
Banks	56	19.6
Credit unions and central credit unions	95	33.3
Insurers and insurance intermediaries	61	21.4
Payment institutions and electronic money institutions	15	5.3
Asset management companies and financial brokerage firms	20	7.0
Consumer credit providers, intermediaries, operators	20	7.0
Other financial market participants <sup>1</sup>	18	6.3
<b>Total</b>	<b>285</b>	<b>100.0</b>

The majority of respondents were representatives of banks, credit unions and the insurance sector. With regard to the fact that the number of respondents in the respective sectors was very similar and varied between 70% and 79% (except for the group of consumer credit providers, intermediaries and operators (60%) and the bank segment (90%)), the summarised findings have not been adjusted.

The survey targeted respondents that have been actively communicating with the SS. Survey results show that nearly 72% of the surveyed had meetings or otherwise communicated with the supervisory authority at least once a quarter, and 26% – at least once a month or more often.

Table 3. Frequency of communication with the SS

Frequency of communication	Number	Share, %
At least once a month or more often	74	26.0
About once in 3 months	130	45.6
About once in 4-6 months	36	12.6
About once in 7-12 months	45	15.8
<b>Total</b>	<b>285</b>	<b>100.0</b>

It should be noted that a significant share of the surveyed (more than a quarter) were inspected or their activities were otherwise investigated prior to the survey, and one in seven respondents were subject to some type of sanctions (see Table 4). Both of these indicators have increased compared to the previous survey.

Table 4. Distribution of respondents by whether they have been subject to inspection or sanctions

Sanction	Response	Number	Share, %
Inspection carried out	Yes	76	26.7
	No	187	65.6
	No opinion	22	7.7
<b>Total</b>		<b>285</b>	<b>100.0</b>
Sanctions imposed	Yes	40	14.0
	No	222	77.9
	No opinion	23	8.1
<b>Total</b>		<b>285</b>	<b>100.0</b>

<sup>1</sup> Other financial market participants not attributed elsewhere: issuers, investment companies, financial advisor firms, regulated market operator, central securities depository.

## II. GENERAL EVALUATION OF THE ACTIVITIES CARRIED OUT BY THE SS

When answering the questions, respondents were given the opportunity to convey their insights and suggestions for the SS activities both in general and with respect to specific areas, as well as to express their opinion on the fulfilment of the SS mission: supervising the financial market with a view to ensuring its reliable and effective functioning, sustainable development, responsible actions of FMPs, and rational financial decisions made by consumers.

Chart 1. Overall satisfaction with the activities carried out by the SS

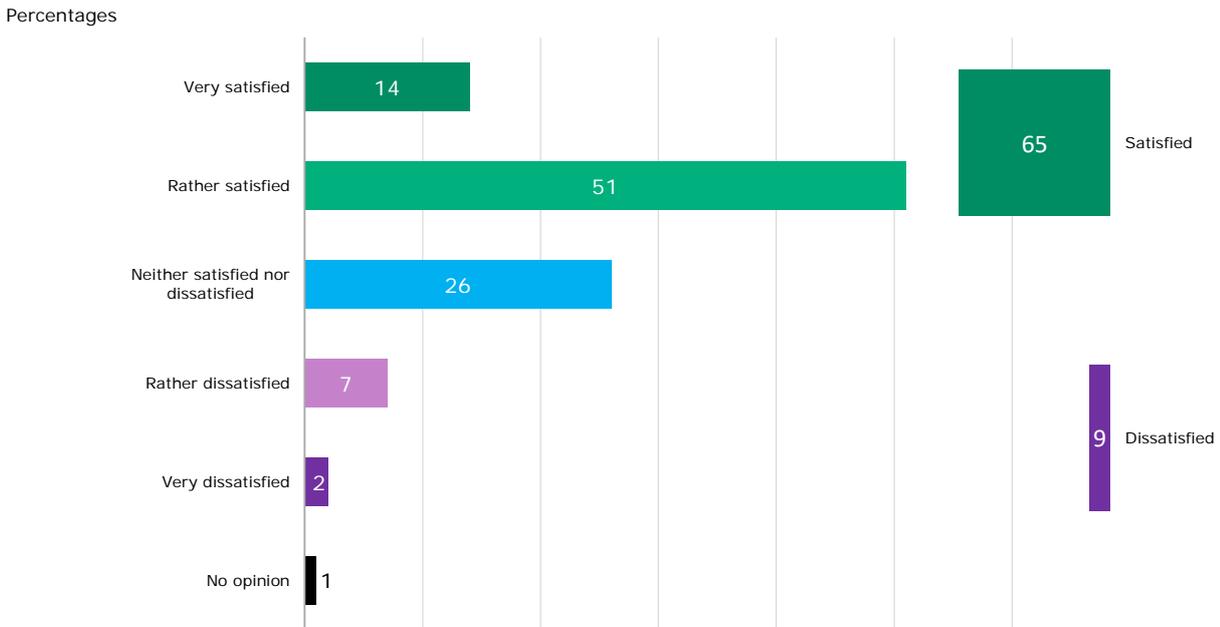
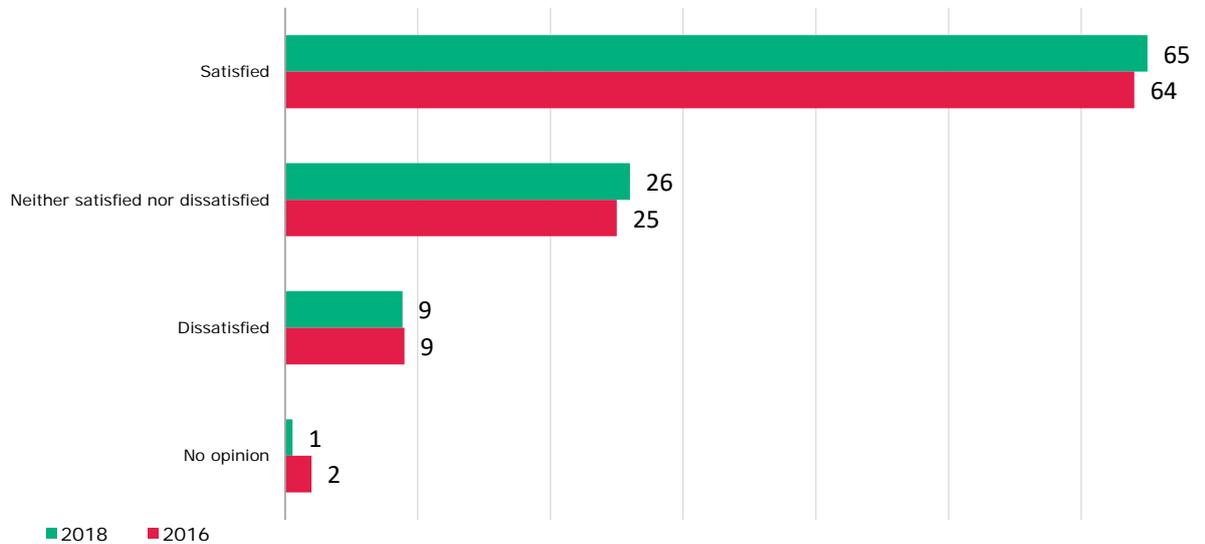


Chart 1 shows that the majority of survey respondents are either very satisfied or rather satisfied with the activities carried out by the SS, and the overall number of positive opinions amounts to 64.9%. Only 2% of respondents (6 out of 285) indicated that they were dissatisfied and 7% – rather dissatisfied with the SS activities.

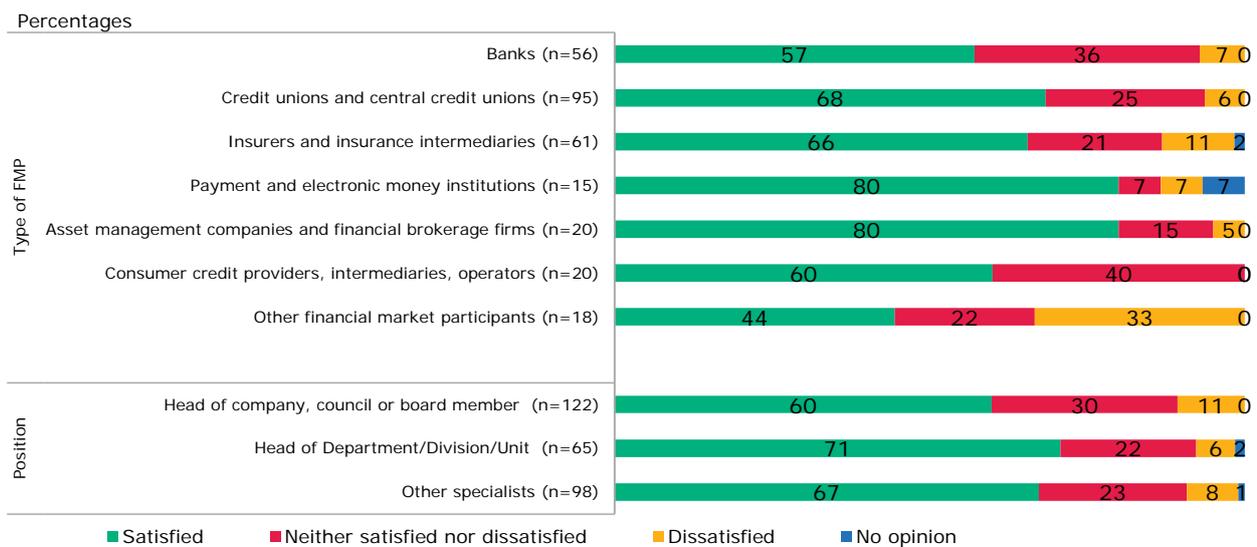
Compared to the previous survey, the distribution of results has remained almost unchanged. The overall number of satisfied respondents has increased by 1% and reached 65%.

Chart 2. Overall satisfaction with the activities carried out by the SS (compared to the previous survey)



The SS activities were most favourably assessed by payment and electronic money institutions as well as asset management companies and financial brokerage firms; the share of their positive responses amounted to around 80%. Credit unions, insurers and insurance intermediaries were more likely to give positive ratings compared to the overall average of the financial sector. Compared to the previous survey, banks' satisfaction with the SS activities slightly decreased to 57%. Other FMPs not included in the above groups (e.g. issuers) tended to be most critical of the SS activities.

Chart 3. Overall satisfaction with the activities carried out by the SS (distribution by market participants)



It should be noted that the greatest change was seen in positive evaluations by consumer credit providers, intermediaries as well as crowdfunding and peer-to-peer lending platform operators. Their share has increased by 16 percentage points and there were no negative responses.

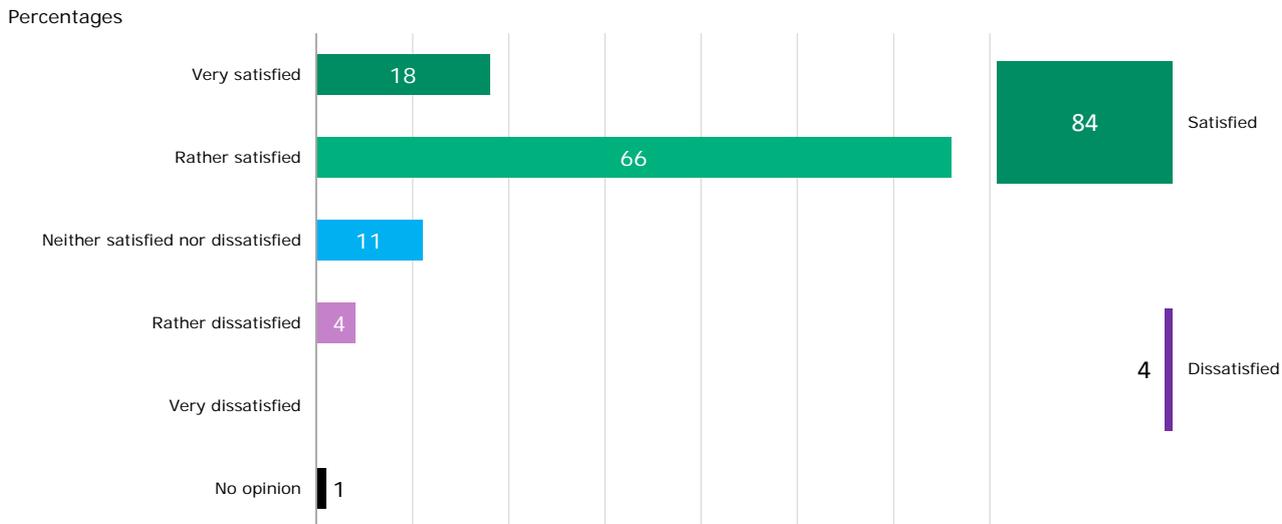
Although there is no significant link between the distribution of evaluations and respondents' positions, senior managers were slightly more reserved in assessing the SS activities than middle managers and other specialists. Managers of departments or other divisions were most satisfied with the SS activities; the proportion of such respondents has increased by 6 percentage points (up to 71%) compared to the previous survey. Among senior managers, the share of respondents satisfied with the SS activities has decreased by 1 percentage point, while the share of positive evaluations by middle managers has increased from 65% to 71%.

Among the main areas for improvement in the SS, respondents indicated the following:

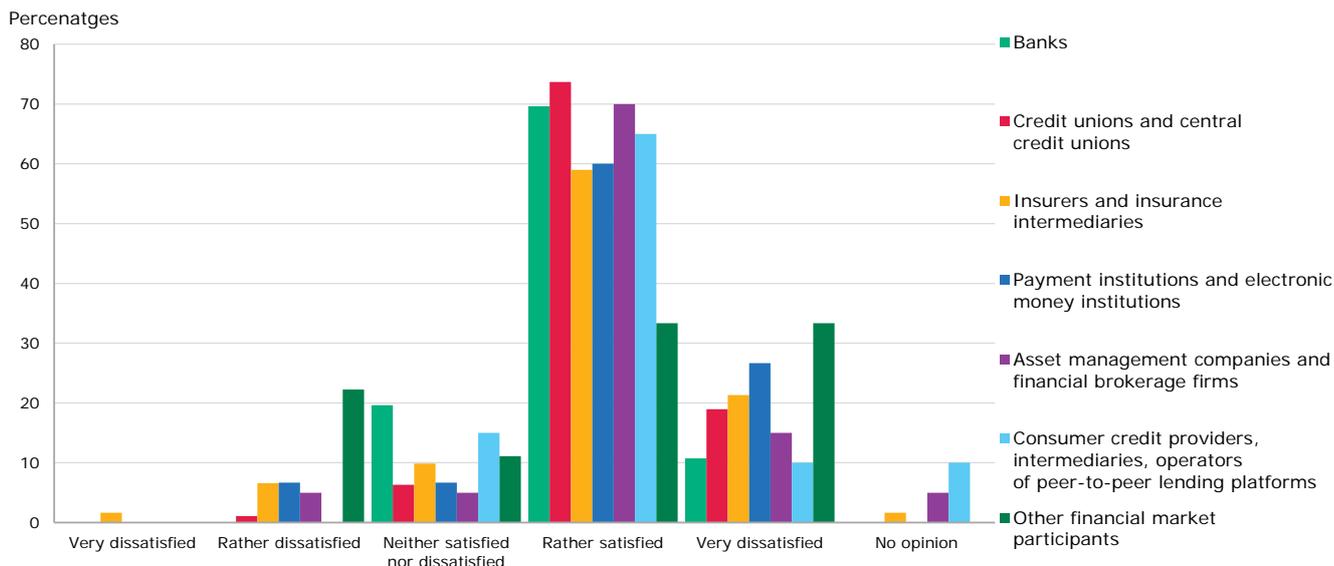
- According to some respondents, the SS has been collecting an excessive amount of statistical information from FMPs, which, in their opinion, is of minor significance, while the SS should aim to reduce the administrative burden.
- The surveyed would like to be timely informed of any changes to the reports (in particular those coordinated by the EU institutions: ECB, EBA, EIOPA, ESMA), as well as of resolutions considered for adoption by the Board of the Bank of Lithuania.
- Respondents noted that the SS should take steps to ensure timely preparation of legislation implementing secondary regulations. In the view of some respondents, the SS often takes excessively strict approach to the EU regulations, while it should take on responsibility and initiative to adapt the regulation to the national market needs and reduce the burden on FMPs.
- FMPs would like the Bank of Lithuania to better prepare for presentation of innovations or new legislation and give practical examples suited for the Lithuanian financial market, specify alternative ways to implement the requirements and listen to their opinion.
- FMPs are facing more language barrier problems; respondents would highly appreciate if enquiries and communication (e.g. trainings, consultations, meetings) were available in English.

Positive assessment of the supervisory staff of the Bank of Lithuania was largely determined by the availability of consultants, their friendliness and fast response time: respondents could contact the employees directly with any questions, were comfortable with calling them and appreciated their pleasant communication. In addition, respondents noted the need of additional employees in the SS due to the growing financial market. They felt that the workload and busyness of the employees supervising companies and the financial market sector they operate in were constantly increasing.

Chart 4. Effectiveness of supervision  
Overall distribution



Distribution by market participants



The absolute majority of respondents indicated that the Bank of Lithuania and the SS were implementing effective supervision of the financial market.

The share of respondents who believe so has increased by 4 percentage points and reached 84%. The proportion of respondents who had no opinion has reduced to 1%, while the share of those who believe that the supervision of the financial market is not effective has decreased to 4%.

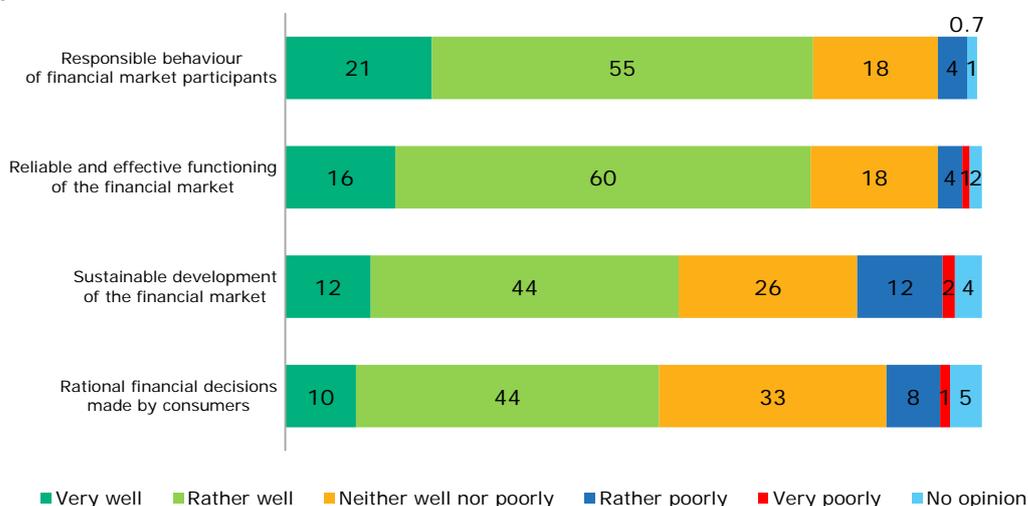
Respondents indicated the lack of information on the implementation of new regulatory requirements and directives, and that some actions of the SS (excluding the EU requirements) hindered market development instead of helping it, which resulted in significant additional costs, increase in FMPs' service prices, making them less useful to customers. Some respondents would like the SS to give more attention to emerging companies with no experience in implementing the requirements.

Some respondents believed that part of the requirements, investigations and analyses were excessive and arose out of distrust in FMPs, which in turn limits their possibilities to focus on business development and require additional costs. The surveyed representatives pointed out that FMPs were providing a large number of reports without receiving any feedback. In addition, some respondents noted that the employees of the Bank of Lithuania who carry out inspections of FMPs' activities often treat operational risk incidents as legislative violations, whereas systemic weaknesses of a company (inappropriate organisational structure, ensuring of independence of control functions) are virtually not assessed.

When responding to the questions about the implementation of the SS mission, respondents were most pleased with the SS contribution in promoting responsible behaviour of FMPs, and the steps taken to achieve a reliable and effective operation of the financial market: 76% of the surveyed evaluated this contribution rather or very well. More than half of respondents positively evaluated two more aspects of the SS mission: sustainable development of the financial market (56%) and rational financial decisions made by consumers (54%).

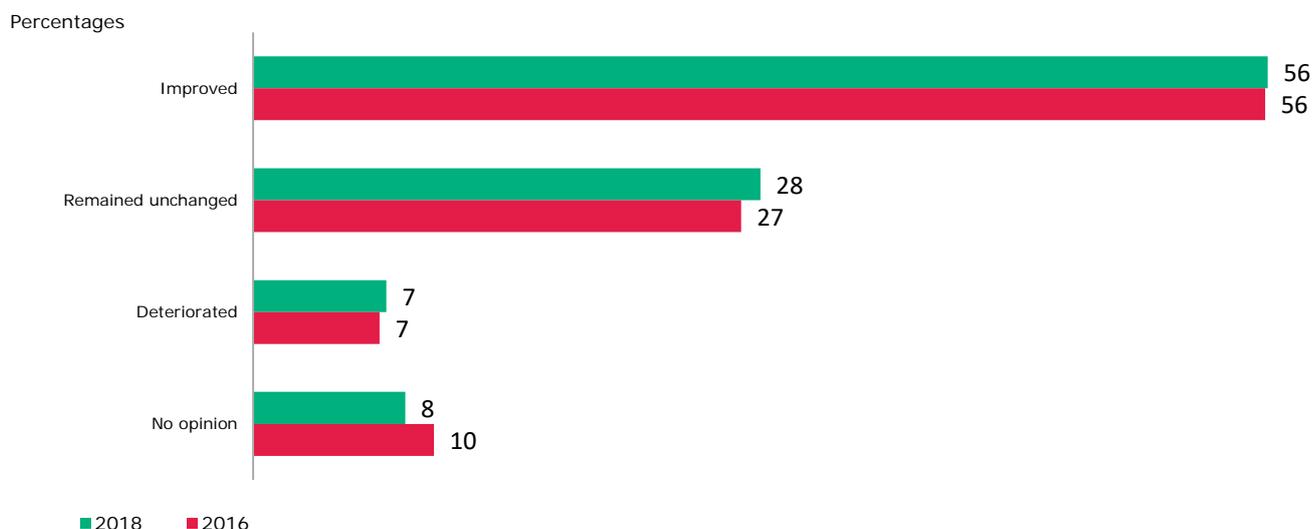
Chart 5. Assessment of the SS activities in implementing its mission and contributing to public interests

Percentages

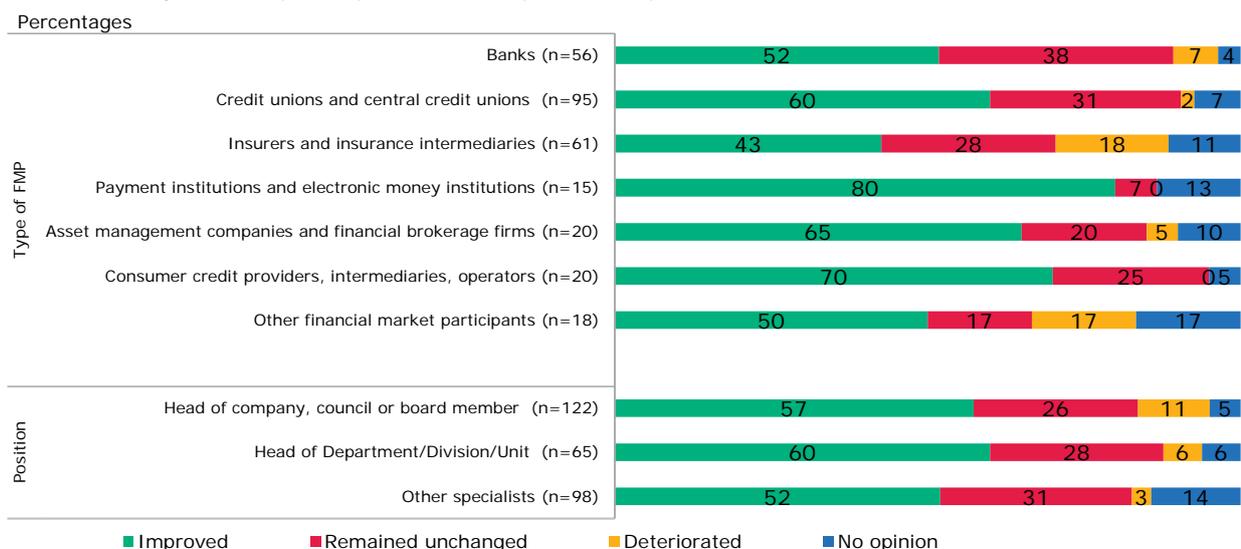


Slightly more than half of respondents believe that the SS activities in implementing its mission has slightly or substantially improved over the last two years. Similar results were obtained in the survey carried out two years ago. Therefore, it may be considered that the majority of FMPs see a positive shift in the supervision of the financial market. However, the self-perception and supervisory requirements in the Lithuanian financial market have been increasing. Thus the contribution of the SS to the public values is seen similarly or slightly better than in the survey conducted in 2016.

Chart 6. Change in the SS activities while implementing its mission over the last two years  
Overall distribution



Distribution by market participants and respondents' positions



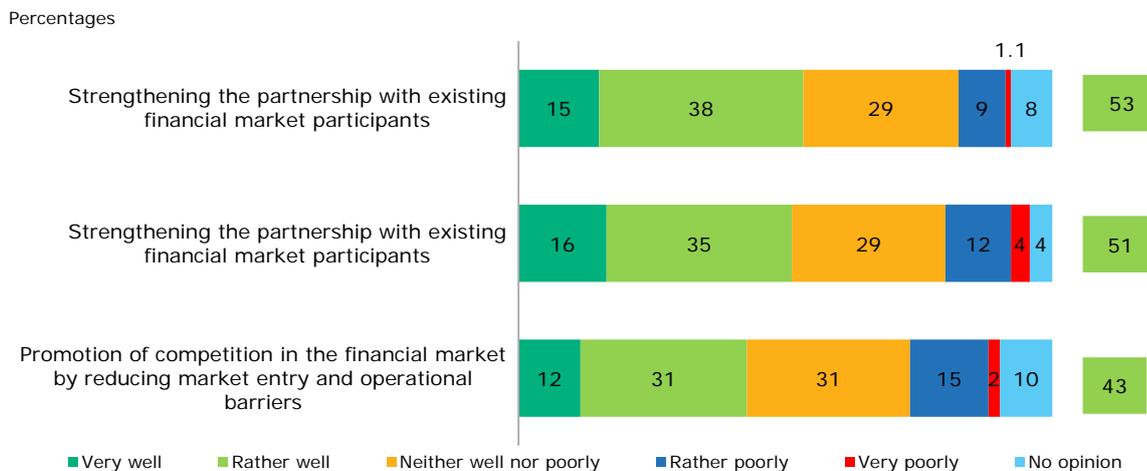
80% of payment and electronic money institutions believe that the implementation of the SS mission has improved. In addition, a large proportion of respondents – 70% of consumer credit providers, 65% of asset management companies and financial brokerage firms and 60% of credit unions and central credit unions – claimed that the activities of the SS had improved. The majority of those who believe that the SS activities have deteriorated were insurers and insurance intermediaries (18%), banks (7%) and other FMPs (17%).

The distribution of responses by representatives' positions has shown no significant differences; however, it should be noted that the SS activities were most positively assessed by middle managers, while the majority of those who believe that the performance of its mission has deteriorated were senior managers.

The SS aims to create and maintain an environment conducive to promoting competition and innovation in the financial field and to operate as a partner in the financial sector. In this survey, we asked FMPs for their opinion on the implementation of these initiatives. The results show that they rather positively assess the promotion and introduction of innovation in the financial market and partnership initiatives with the existing

FMPs: the share of positive ratings was 53% and 51% respectively. However, only 43% of respondents gave a positive assessment to promotion of competition by reducing entry barriers.

Chart 7. Achievement of strategic objectives of the Bank of Lithuania



When assessing the achievement of strategic objectives of the Bank of Lithuania, the surveyed FMPs had the opportunity to provide their suggestions for these objectives. Some respondents believed that the Bank of Lithuania did not contribute sufficiently to the development of the financial market: they would like to see constructive cooperation between the SS and the market, sharing of best practices, provision of clear guidelines to FMPs, and education of financial service users. They would also like to see further reduction of the burden on the FMPs, so that they could focus on the development of new solutions rather than implementation of regulatory requirements.

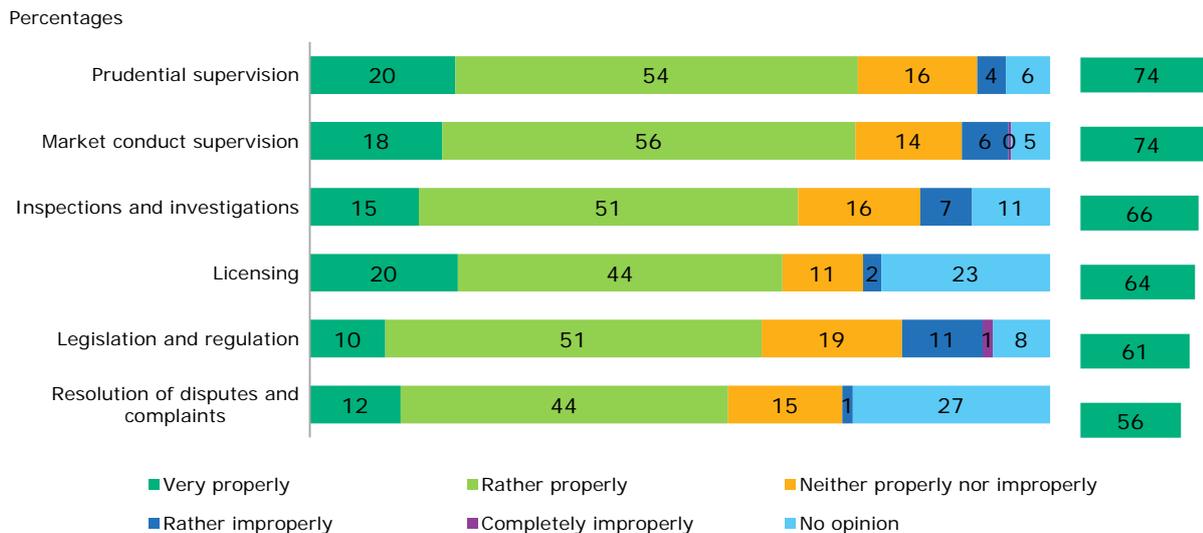
### COMMENT BY THE SUPERVISION SERVICE

With a view to creating a favourable legal environment, the SS of the Bank of Lithuania asked the FMPs, associated consumers groups and other stakeholders to give suggestions for improvement of the financial market regulation.<sup>2</sup> The Bank of Lithuania received more than 100 reasonable suggestions in different areas of regulation of the financial sector, predominantly on improvement of regulation of collective investment undertakings and pension accumulation activities. The majority of them have already been or will be taken into account when drawing up draft legislation. The SS has also received suggestions for reducing the administrative burden. The Bank of Lithuania has revised and streamlined the internal processes, especially in the field of licensing, prepared clearer application and questionnaire forms, and provided more flexibility, e.g. allowed copies of documents submitted to the Bank of Lithuania to be approved by lawyers representing the FMP. In the prestigious Central Banking awards, the Bank of Lithuania was selected as the winner of the first Catalyst Award. The award and the Bank of Lithuania’s activities in the field of innovation were presented in Singapore, one of the most important global financial centres. According to Central Banking, a journal on the world’s central banks, the judging panel was impressed with the Bank of Lithuania’s broad-based approach to FinTech, and particularly with the created environment favourable to development of financial technologies and open to FinTech companies quickly forming relationships with the central bank and integrating within the financial system.<sup>3</sup>

<sup>2</sup> For more information, see <https://www.lb.lt/en/news/bank-of-lithuania-continues-building-supportive-regulatory-framework>.

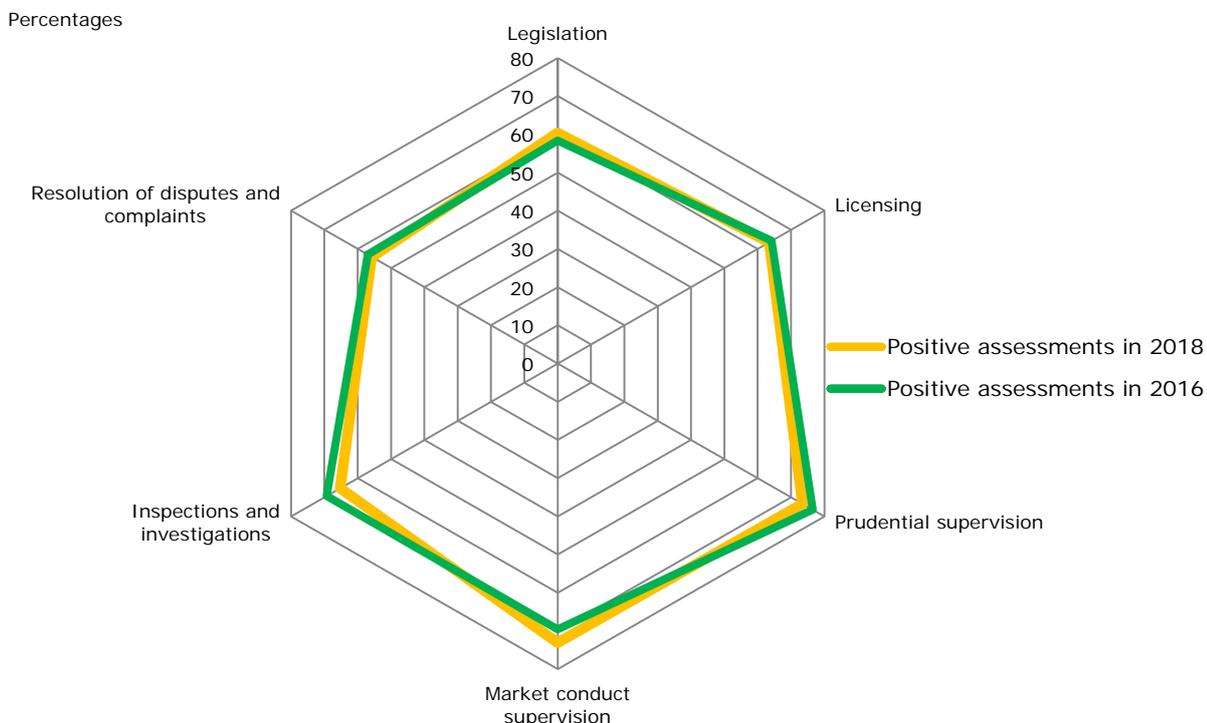
<sup>3</sup> For more information, see <https://www.lb.lt/en/news/bank-of-lithuania-winner-of-central-banking-s-first-catalyst-award>.

Chart 8. Implementation of the main SS functions



Some changes were observed in the evaluation of individual fields of the SS activities. Most positive ratings (rather and very properly) (by 74% of respondents) were given to prudential supervision as well as financial services and market supervision. These activities were assessed differently two years ago and, therefore, such shifts should be seen as a good balance between prudential supervision and consumer protection.

Chart 9. Comparison with the previous survey results



Compared to the previous year, the proportion of positive assessments in other fields has decreased; however, it still accounts for about two-thirds of all responses. The share of respondents positively assessing inspections and investigations decreased from 70% to 66%, while positive ratings of the licensing process

decreased by 1 percentage point (to 64%). On the other hand, the proportion of the surveyed who positively assess the legislation and regulation activities increased from 59% to 61%.

## LICENSING

With respect to licensing, FMPs would like to see better implementation of one-stop-shop principle, have the possibility to reach the required specialist for direct consulting and be able to submit all documents in digital format. Some respondents requested that the questionnaires should be simplified and the amount of documents required during licensing procedure should be reduced, so that they would be considered more rapidly.

## COMMENT BY THE SUPERVISION SERVICE

In 2018, while developing an attractive regulatory environment open to innovation and seeking to make the licensing process more effective, the Bank of Lithuania introduced a smart regulatory technology tool which allows FMPs to submit applications for licences to the Bank of Lithuania in electronic form.<sup>4</sup> At the moment, the Bank of Lithuania is working on further expansion of the functions of this tool so that the applicants could submit not only documents necessary for licensing procedures but also other applications and supporting documents related to activities of FMPs and authorisation of their shareholders and managers. This tool will help prospective FMPs to remotely submit an application for a licence in a faster, easier and cheaper way. We expect that eventually it will become the main platform for the exchange of information and cooperation between the Bank of Lithuania and FMPs on the issues of authorisation.

The Bank of Lithuania accepts documents signed by a qualified electronic signature and sent by e-mail, via e-delivery system or other channels. However, it is essential for the Bank of Lithuania to be able to verify the authenticity of the documents signed by a qualified electronic signature. Furthermore, in order to clearly explain the requirements for FMPs, a licensing guide "How to obtain a licence?"<sup>5</sup> was published on the Bank of Lithuania website. In 2017, in order to implement the one-stop-shop principle, the SS established a project manager position with the following key functions: to coordinate the implementation of the SS actions set out in its strategic plan, to ensure communication with the prospective Lithuanian FMPs and to supervise smooth exchange of information with other structural units of the Bank of Lithuania on new and existing FMPs intending to use new and innovative business models. The employee in this position is responsible for the management of FMPs' suggestions to reduce the administrative burden and coordination of their implementation.<sup>6</sup> It should be noted that the licensing procedures have been established following the guidelines of European legislation seeking to achieve uniformity in the authorisation processes in all EU Member States. Therefore, although the Bank of Lithuania revises the requirements applied to Lithuanian FMPs on a regular basis, the minimum information required is determined by European regulations that cannot be disregarded.

In response to the opinion provided by FMPs, certain legal acts have been amended in order to make improvements in certain supervisory areas. For example, in 2018, in order to improve self-regulation possibilities, the Bank of Lithuania transferred the examination of insurance intermediaries and financial brokers to the associations established in these fields. In addition, the Bank of Lithuania adopted resolutions regulating the evaluation of

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<sup>4</sup> Electronic application for authorisation (<https://www.lb.lt/en/authorisation-application>).

<sup>5</sup> Licensing Guide (<https://www.lb.lt/en/how-to-obtain-a-licence>).

<sup>6</sup> Section for new market participants (<https://www.lb.lt/newcomer>).

FMPs' managers, harmonising requirements at the system level and reducing requirements for smaller FMPs – insurance intermediaries and payment and electronic money institutions carrying out restricted activities. Furthermore, we have prepared detailed licensing forms and templates that help to save time in the licensing process.

The above processes and measures have significantly contributed to the continuous increase in the number of Lithuanian financial institutions and differentiation of services. It should be noted that the Bank of Lithuania treats both large and small FMPs equally and they have equal opportunities to develop and distribute their products. As before, the Bank of Lithuania will strive to strengthen the Lithuanian financial sector and supervise appropriate provision of services in line with consumers' interests.

## INSPECTIONS AND INVESTIGATIONS

When assessing the inspection function carried out by the Bank of Lithuania, respondents emphasised the resulting administrative burden: during inspections, the employees responsible for the inspected area are burdened with additional tasks and have less time for their key responsibilities. FMPs requested the following:

- Better coordination of investigation schedule and flows of the requested information. According to the surveyed, the supervisory staff find it difficult to cope with the increased workload, especially where several investigations are carried out simultaneously; ensuring that inspections and deadlines for provision of information do not overlap with other essential internal functions of the company, e.g. annual financial reporting and external audit, deadlines for submitting reports for the supervision purposes;
- Clear communication on investigations and their objectives;
- More feedback: during inspections, FMPs would like to have more partner-like communication with the supervision specialists and to receive more practical advice on how to deal with the identified problems.

## COMMENT BY THE SUPERVISION SERVICE

The Bank of Lithuania plans inspections of FMPs by taking into account the risk assessment and the principle of rotation. In order to avoid unreasonable burden on FMPs, the Bank of Lithuania carries out inspections and investigations only when the required result cannot be achieved by other supervisory functions, and more often performs targeted<sup>7</sup> inspections rather than general<sup>8</sup> ones. In 2018, 27 inspections were carried out, i.e. 9 less than in 2017, and the number of days spent at the inspection site decreased by one third: from 366 in 2017 to 245 in 2018. Among other things, the Bank of Lithuania publishes information on the planned inspections in advance: the list of inspections, dates and areas to be inspected are published on the Bank of Lithuania website.<sup>9</sup> This solution has proved to be effective, as it encourages a dialogue with FMPs; they can prepare for inspections, evaluate possible operational weaknesses and eliminate them on their own initiative. When FMPs are prepared, inspections are faster and smoother.

Furthermore, in order to create an innovative and attractive supervisory environment in the financial market, a new form of inspections, i.e. visits, was introduced. It is part of the supportive supervision approach taken by the SS of the Bank of Lithuania. We expect that it will help to assess the situation in the country's financial market more effectively. We

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<sup>7</sup> Targeted inspections are aimed at assessing the management of individual types of risk, certain fields of activity or other issues.

<sup>8</sup> During general inspection, taking into account the requirements set out in legislation as well as the content and scope of the operations, a complex examination of the entity's activities, management, financial status, internal control and risk management systems is carried out.

<sup>9</sup> Inspection plans are published on the Bank of Lithuania website under "Supervisory activities" (<https://www.lb.lt/en/supervisory-activities>).

**believe that this form, where the FMPs see supervision specialists as consultants, will promote closer cooperation which would be beneficial to both parties. Such visits were organised twice in 2018.**

## **RESOLUTION OF DISPUTES AND COMPLAINTS**

When assessing the resolution of disputes and complaints, respondents pointed out that complaints are often the means of exerting pressure on FMPs by dishonest consumers. Therefore, they had the following suggestions and requests:

- FMPs expect more understanding from the supervision specialists and the ability to look at the situation from the perspective of financial service providers. Representatives of FMPs noted that in the competitive financial sector they strive to maintain the best possible relationship with customers. Therefore, they seek to resolve different situations in good faith and find a compromise even in cases without the company's fault. However, they sometimes encounter problematic customers who, being aware of the company's unwillingness to have their disputes reach the Bank of Lithuania, take all possible steps to gain unjustified benefit;
- FMPs would like to receive more feedback: more detailed explanation of the assessment of their enquiries, less formal procedure and more discussion on the practice formed through the resolution of disputes.

## **COMMENT BY THE SUPERVISION SERVICE**

**The Bank of Lithuania investigates consumer disputes in accordance with the adversarial principle (audi alteram partem) and the principles of timeliness, concentration and cost effectiveness of dispute resolution and cooperation. Therefore, both consumers and the FMPs must prove the facts used as grounds for claims or objections (except for the cases where the facts do not require proof). It is important to note that both parties to the dispute have the right to present evidence, explanations and objections to the arguments of the other party to the Bank of Lithuania. When taking a decision (recommendation), the Bank of Lithuania considers the entirety of data presented in the case. Therefore, when making the objection, it is essential to provide all known facts of the dispute and all evidence supporting the position.**

**In order to prevent consumer disputes, all decisions on disputes are made public.<sup>10</sup> At the same time, by publishing the reasoning behind its decisions, the Bank of Lithuania seeks to ensure the transparency of dispute resolution.**

**Furthermore, we have updated the Report on the Out-of-Court Settlement of Consumer Disputes. The Bank of Lithuania seeks to draw the attention of consumers and FMPs to dispute resolution tendencies, the most common causes of disputes and most efficient practice for dispute resolution.<sup>11</sup>**

**In 2018, the SS organised individual meetings with those FMPs that are involved in a high number of consumer disputes. During the meetings, general tendencies, identified problems related to the specific FMP and consumer dispute prevention issues were discussed. This initiative will be continued in the future.**

**Currently, consumers have the opportunity to submit a request to consider a consumer dispute by electronic means. In the future, the Bank of Lithuania will seek to develop a tool that would allow both parties to access case documents and submit additional documentation and explanations by electronic means.**

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<sup>10</sup> Decisions on disputes are published on the Bank of Lithuania website ([https://www.lb.lt/en/frd/listing\\_disputes](https://www.lb.lt/en/frd/listing_disputes)).

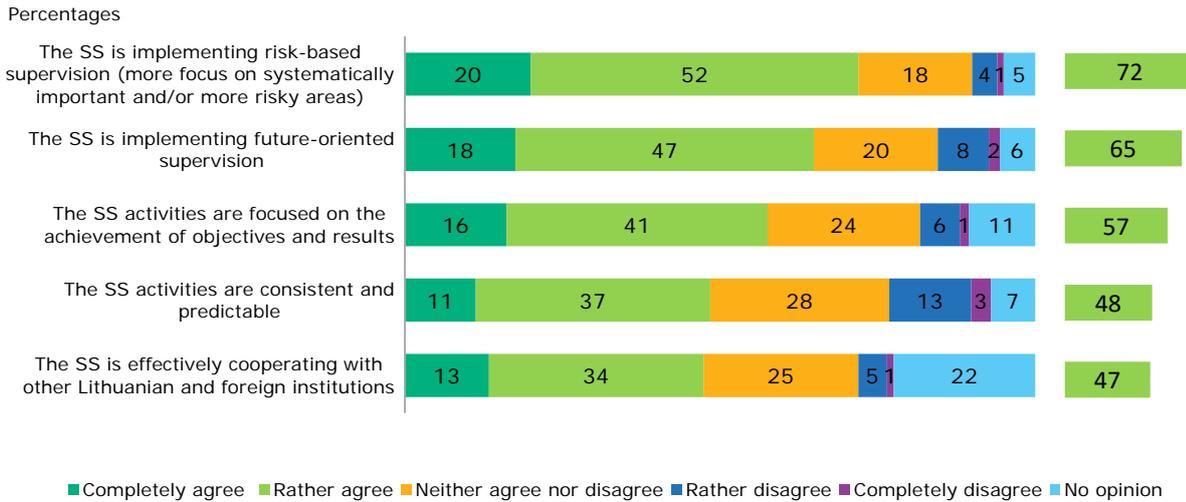
<sup>11</sup> Reports are published on the Bank of Lithuania website (<https://www.lb.lt/lt/gincu-nagrinejimo-ataskaitos-statistika-ir-apzvalgos-1>).

### III. EVALUATION OF THE DAY-TO-DAY ACTIVITY OF THE SS

Respondents evaluated the following aspects of the day-to-day operation of the SS, e.g. compliance with the main principles of supervision, the SS specialists' knowledge of activities carried out by the supervised entities and appropriateness of sanction imposition.

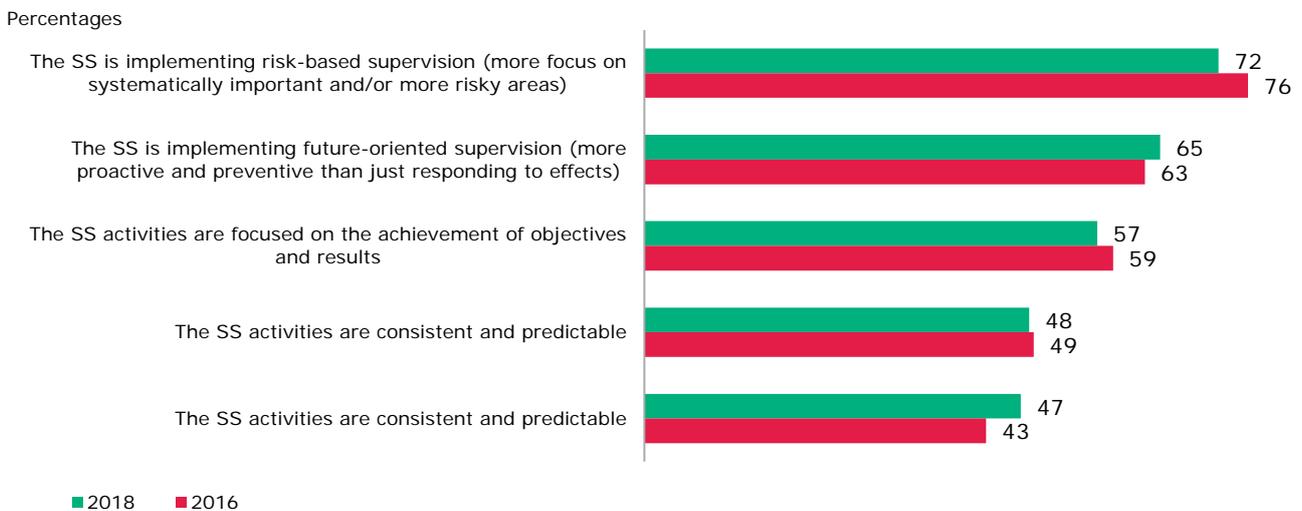
The survey allowed to identify the areas where FMPs (the main stakeholders) saw limitations or inadequacy of the SS activity. This data allows either improving the operations in respective fields by changing the method or means, or focusing more on smoother communication in order to explain the principles of the supervisory activity.

Chart 10. Compliance with the fundamental principles



As shown in Chart 10, respondents believe that the SS is most competent in implementing risk-based supervision: 72% of the surveyed pointed out that they completely or rather agreed with this statement. Two other principles (future-oriented supervision and focus on the objectives and the results) and their compliance in the SS activities were seen slightly less favourably, yet still positively. Relatively the poorest rate was given to the consistence and predictability of the SS activity and cooperation with other Lithuanian and foreign institutions.

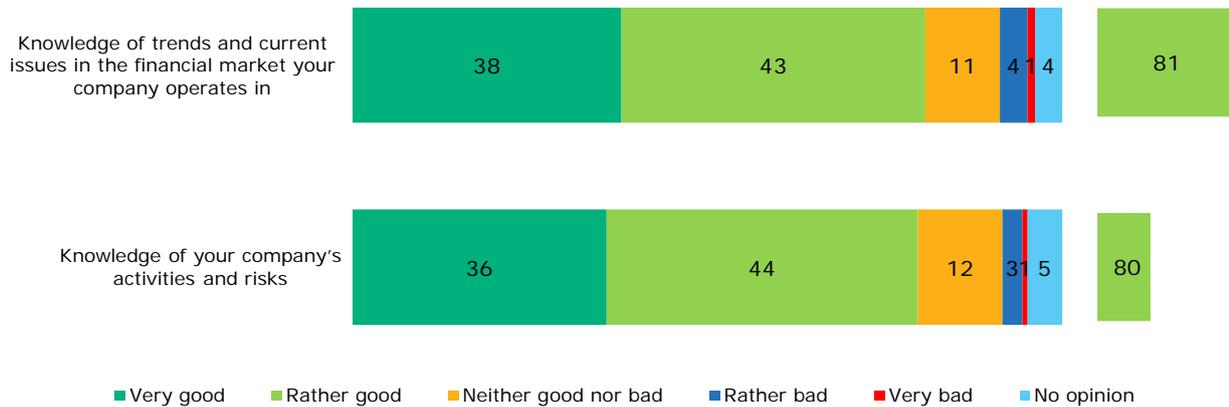
Chart 11. Compliance with the fundamental principles (compared to the previous survey)



Compared to the previous survey, the proportion of positive evaluations decreased in almost all areas, except for prevention and cooperation. Among those who agree that the SS is implementing risk-based supervision are representatives of credit unions (78%), insurers (75%) and banks (73%). The largest share of respondents who believe that the SS is implementing future-oriented supervision was among payment and electronic money institutions (73%) and credit unions and banks (68%).

Chart 12. Understanding of the activities carried out by the supervised entities

Percentages



The absolute majority of respondents claimed that the SS had a good or very good understanding of the financial markets the supervised FMPs are operating in, as well as specific activities and risks of the supervised FMPs (see Chart 12). Respondents were pleased with the way the SS supervises their companies (see Chart 13).

Chart 13. Understanding of business trends of the supervised companies in the financial market, distribution by market participants

(market (brighter colours) versus specific company risks (lighter colours))

Percentages

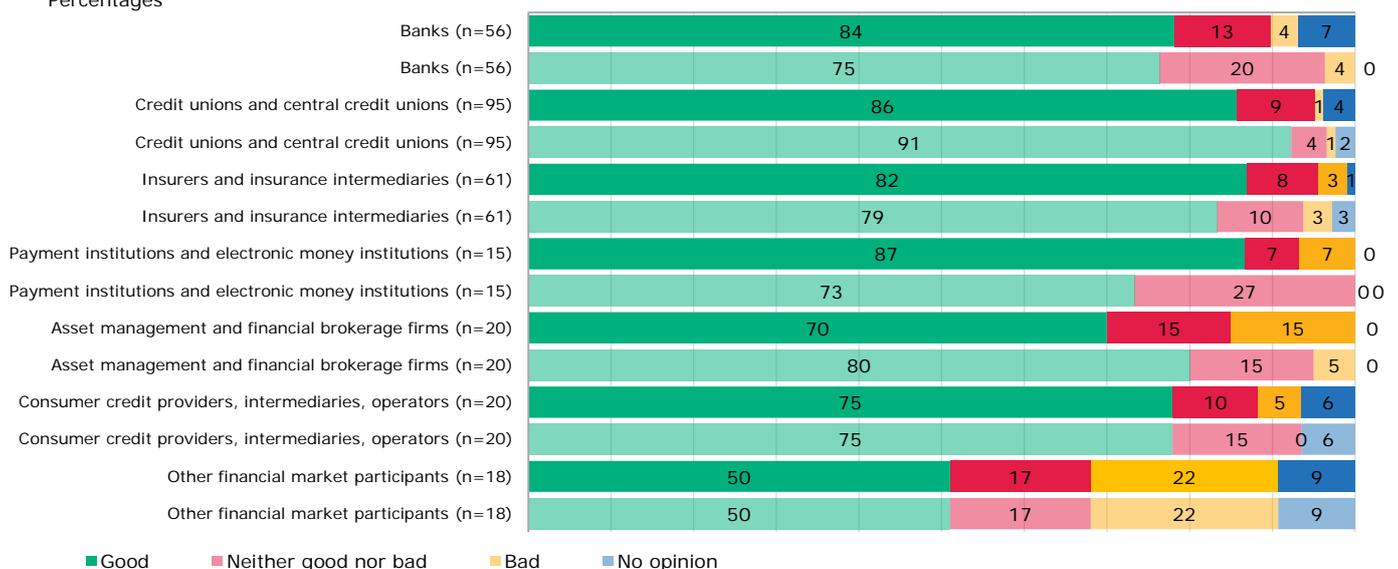
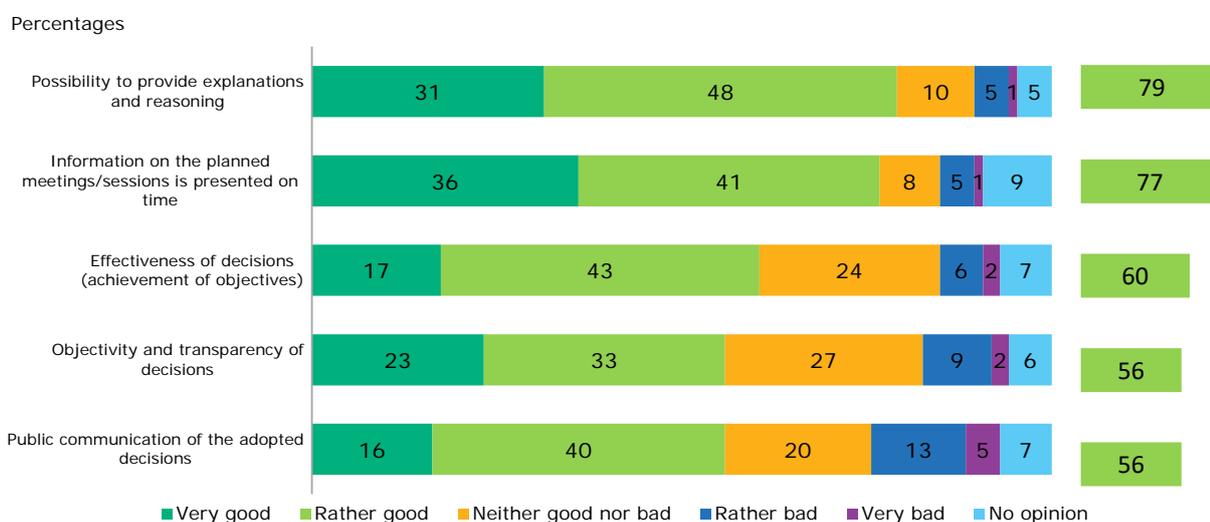


Chart 13 shows that the assessments vary quite widely between different types of FMPs. Most positive responses were given by credit unions, banks, insurance companies and payment and electronic money institutions; yet it should be noted that their assessments vary. Representatives of banks, insurance companies, payment and electronic money institutions believed that the supervision specialists had a better understanding of the general market realities and trends than the processes and risks of the company they represent, while representatives of asset management companies and credit unions believed that the supervision staff had a better understanding of their business specifics than general market trends.

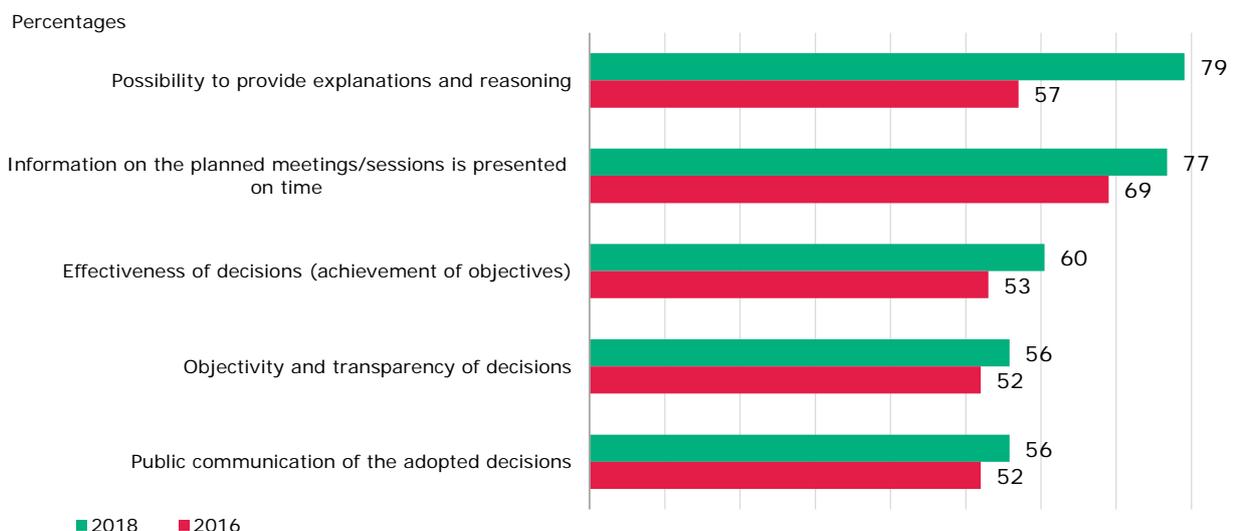
With regard to the aspects and phases of decisions taken by the SS, FMPs believe that this field has greatly improved in general. The most favourable evaluation was given to the opportunity to present their explanations and arguments: the proportion of positive ratings increased from 57% in 2016 to 79% in 2018. The decision-making phase received the most positive assessment which is particularly important for the Bank of Lithuania, as it seeks to become a reliable partner for FMPs.

Chart 14. Decision-making process



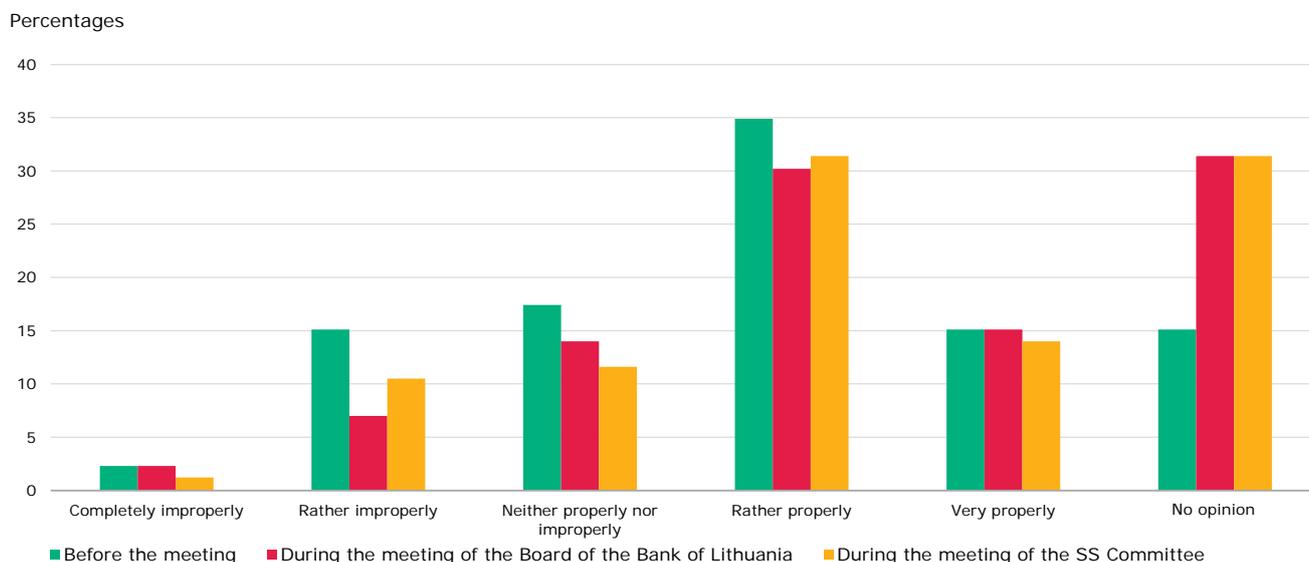
Timely provision of information on the planned meetings/discussions was assessed positively as well. Compared to the results of the previous survey, the assessment of efficiency, objectivity and transparency of decisions as well as communication of the adopted decisions has slightly improved. However, the latter area (communication of decisions) received the lowest rating. In addition, a significant number of respondents (amounting to 18 percentage points) see the communication as poor or very poor.

Chart 15. Decision-making process  
(compared to the previous survey)



According to FMPs, a public warning seems to be a very 'painful' measure, especially for smaller FMPs, as it scares less knowledgeable users of financial services. Therefore, communication of minor offences should be adapted to less informed consumers.

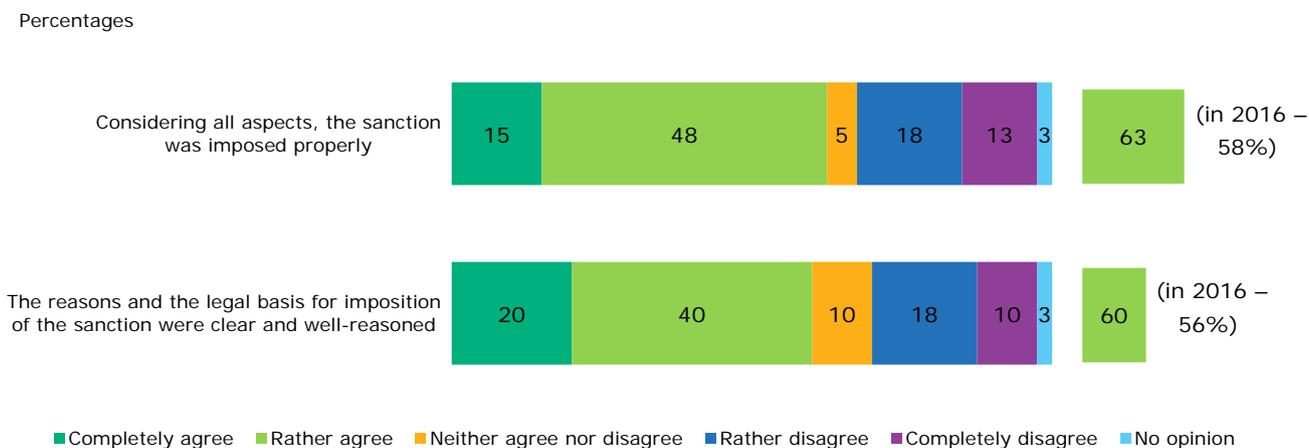
Chart 16. Assessment of market participants' arguments before and during meetings



Respondents believe that the arguments and explanations presented before the meeting are properly evaluated. The proportion of respondents sharing this opinion stands at 50%. However, only 45% of the surveyed believe that the arguments of FMPs made during the meetings are being properly evaluated. With respect to the fact that a large share (almost one third) of respondents had no opinion, such proportion of favourable ratings is seen positively.

On the other hand, the SS of the Bank of Lithuania is pleased to see a decrease in negative assessments of the acceptance of arguments before and during meetings: by 11% during the SS committee meetings and by 9% during the meetings of the Board of the Bank of Lithuania.

Chart 17. Imposition of sanctions



Compared to 2016, the results of the most recent survey show that the assessment of imposition of sanctions has improved. 14% of survey respondents have been subject to sanctions within the 12 months preceding the survey. The proportion of those who believe that the sanctions were imposed appropriately increased from 58% to 63% of all respondents that were imposed with sanctions. The proportion of respondents who believe that the grounds and the legal basis of the sanctions were clear and reasoned increased from 56% to 60%.

The share of respondents negatively assessing the imposition of sanctions remained relatively high: 31% of the surveyed had a negative opinion on the appropriateness of sanctions, while 28% negatively assessed the clarity of the grounds and legal basis of the sanctions imposed. This means that part of those whose opinion of the sanctions was negative believed that the motives were clear and reasoned. Respondents who negatively assessed the imposition of sanctions pointed out that they felt a lack of consistency in the application of sanctions at the market level: FMPs were not treated equally, the SS tended to assess the form of the offence rather than its content, while several investigations conducted in the same area resulted in different evaluations and decisions. One of the respondents indicated that their arguments had not been taken into account and, eventually, the grounds on which the sanctions had been imposed were proven false and have been dismissed.

It should be noted that in this survey, FMPs were more open and gave more suggestions on how to change and improve daily activities of the SS. Respondents pointed out that their evaluation of the employees of the SS was very positive, but they noted the need of additional staff in the context of the growing financial market. They felt that the workload and busyness of the employees supervising their companies and the financial market sector they operate in were constantly increasing. According to the surveyed, the SS staff they communicate with are competent and willing to help to efficiently resolve the emerging issues and find possible solutions together. However, the need of additional human resources is noted more and more often because the ever-growing market (both in number of participants and its scale) is supervised by a limited number of persons; respondents suggested that the Bank of Lithuania should consider increasing the number of the supervision employees.

In general, respondents stated that the SS was operating effectively; however, they would appreciate closer dialogue between FMPs and supervision specialists on a variety of regulatory and legislative issues. They acknowledged that this survey is another positive step in this direction and indicated the following areas for improvement:

- More active response to notifications of FMPs on violations of legislation by other FMPs. First of all, the SS should be providing benevolent assistance and advice, and become a punitive authority only for those who are deliberately breaking the law.
- More informal communication, advice and early warnings on what is expected in the future.
- More openness and predictable actions, balance between punitive and advisory activities: improving the area of consulting, providing more objective responses to enquiries, and more detailed looking into the matters. The SS should be an adviser, especially when FMPs are asking for its opinion and showing their initiative to cooperate.
- More detailed analysis of specific market details, interest in innovations within other markets, participation in the EU activities, and application of modern research methods. Organisation of discussions on new and relevant issues.
- To the extent possible, not to burden FMPs with collection of information and to reduce the number of reports.

## COMMENT BY THE SUPERVISION SERVICE

**In response to the changing financial sector and its growing risks, the Bank of Lithuania has reallocated its resources accordingly. In light of the new challenges, in 2018 the SS of the Bank of Lithuania established the Anti-Money Laundering Department and increased the number of specialists working in it. In 2019, the Bank of Lithuania will continue to strengthen this area. Furthermore, due to the growing number of electronic money and payment institutions, a separate Electronic Money and Payment Institution Supervision Division was established.**

**The Bank of Lithuania started developing a data management strategy. One of the fundamental objectives of this strategy is to reduce the burden on FMPs through more efficient data management in the Bank of Lithuania, i.e. without prejudice to the objectives of the supervision of FMPs, financial stability, monetary policy, statistics and other objectives delegated to the Bank of Lithuania, to collect from FMPs as little data as possible and to eliminate the repeated collection of the same information. Once the data management strategy is implemented, FMPs should feel a reduction in the administrative burden.**

**Encouraging the public to contribute to effective supervision of the financial market by identifying violations of legislation regulating the activity of the supervised FMPs, the Bank of Lithuania introduced a reporting system on financial market violations<sup>12</sup> with the possibility to report them anonymously. We believe that this measure will make it possible for the Bank of Lithuania to identify and investigate the violations that are generally difficult to identify, e.g. cases of market abuse.**

**In 2018, the Seimas of the Republic of Lithuania adopted amendments to the Law on the Bank of Lithuania and other laws regulating the financial market, which entered into effect on 15 June 2015. The amendments systematically revised and unified legal provisions concerning mandatory instructions and sanctions imposed on FMPs. The Law on the Bank of Lithuania was also supplemented by Article 43<sup>3</sup> regulating the application of sanctions set out in laws governing the financial market. It established the principles for the calculation of fines (which are one type of sanctions) and assigned the Bank of Lithuania to adopt a legal**

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<sup>12</sup> For more information, see <https://www.lb.lt/lt/pranesimai-apie-finansu-rinka-reguliuojanciu-teises-aktu-pazeidimus>.

act defining the rules for the calculation of fines.<sup>13</sup>

While implementing the above laws, the Bank of Lithuania adopted and published a Description of the Calculation of Fines. Following the principles for the calculation of fines set out in Article 43<sup>3</sup>(10) of the Republic of Lithuania Law on the Bank of Lithuania, this Description sets forth the rules detailing the legal acts, which allow imposing individualised, proportionate, effective and dissuasive fines for violations set out in laws governing the financial market.

It should be noted that only a small part of decisions on the imposition of sanctions have been challenged in court. In almost all cases, having considered the complaints and facts, the courts ruled that the Bank of Lithuania had taken lawful and justified decisions. Justified or partially justified complaints accounted for only a minor part of decisions (2%).

Table 1. Decisions on the imposition of sanctions taken by the Bank of Lithuania

	2014	2015	2016	2017	2018
Decisions on the imposition of sanctions	42	52	80	49	38
Decisions or parts thereof challenged in court	7	10	3	3	5
Court decision to grant the applicant's claim	2	–	–	–	–
Court decision to partially grant the applicant's claim	–	2	–	–	1
Court decision to reject the applicant's claim	5	6	1	1	2

<sup>13</sup> Description of the Calculation of Fines (<https://www.e-tar.lt/portal/lt/legalAct/55f7be40843611e8ae2bfd1913d66d57>).

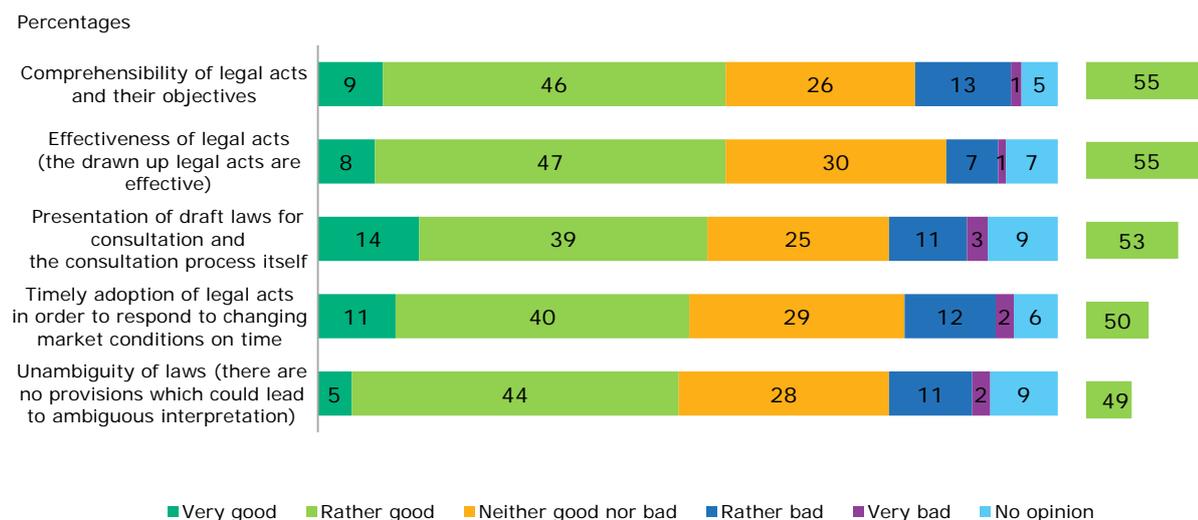
## IV. EVALUATION OF THE LEGISLATIVE PROCESS

The respondents were asked to assess the following aspects of legislation:

- Comprehensibility of legal acts and clarity of their objectives;
- Effectiveness of legal acts;
- Timely adoption of legal acts in order to respond to changing market conditions;
- Submission of draft legal acts for consultation and the process of consultation itself;
- Unambiguity of legal acts (whether there are no provisions which would allow ambiguous interpretation and application of the legal act).

In addition, FMPs were asked what should be changed to make the process of consulting on draft legislation more effective; whether the national legal acts drawn up by the Bank of Lithuania that regulate the financial market supervision does not create an excessive administrative burden to their companies; what should be changed or improved in the process of drawing up the national legislation.

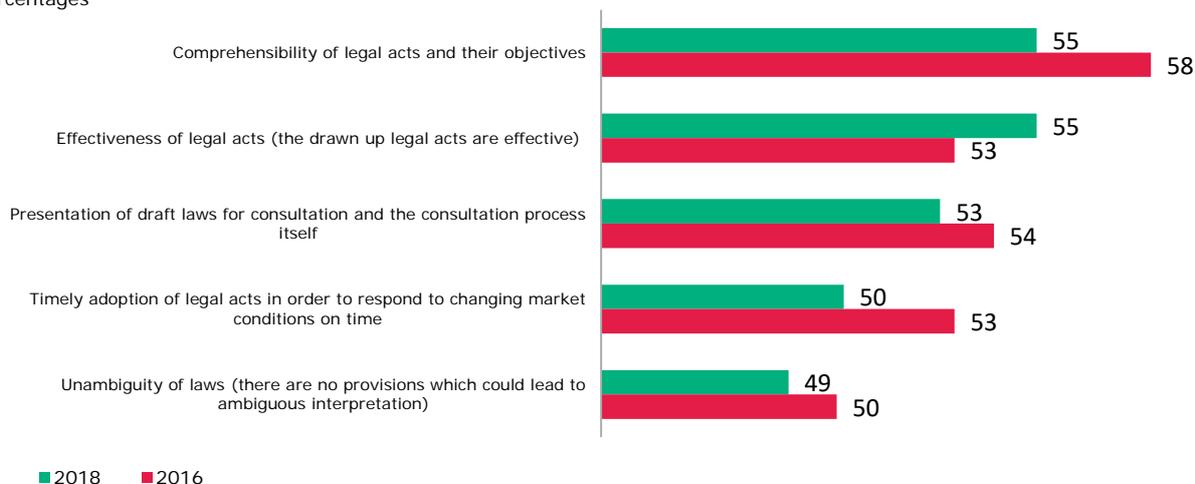
Chart 18. Legislative process



It should be noted that the assessment of the legislative process has not changed significantly since the survey conducted in 2016, yet the proportion of positive assessments of comprehensibility of legal acts and clarity of their objectives has decreased. However, the overall assessment remains one of the lowest among the other evaluated aspects.

Chart 19. Legislative process  
(compared to the previous survey)

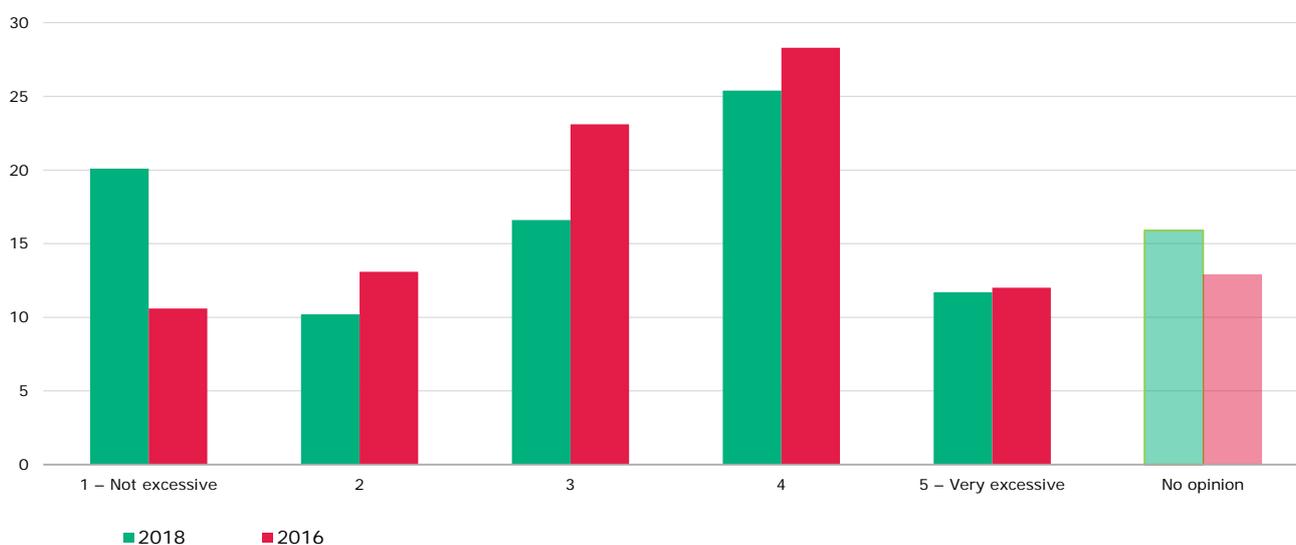
Percentages



Although the legislative process itself and its individual stages (see Chart 19) were not assessed differently from the other aspects of supervision, respondents' opinion on the excessive administrative burden created by legal acts was slightly more varied (see Chart 20).

Chart 20. Excessive administrative burden created by the legislative process

Percentages



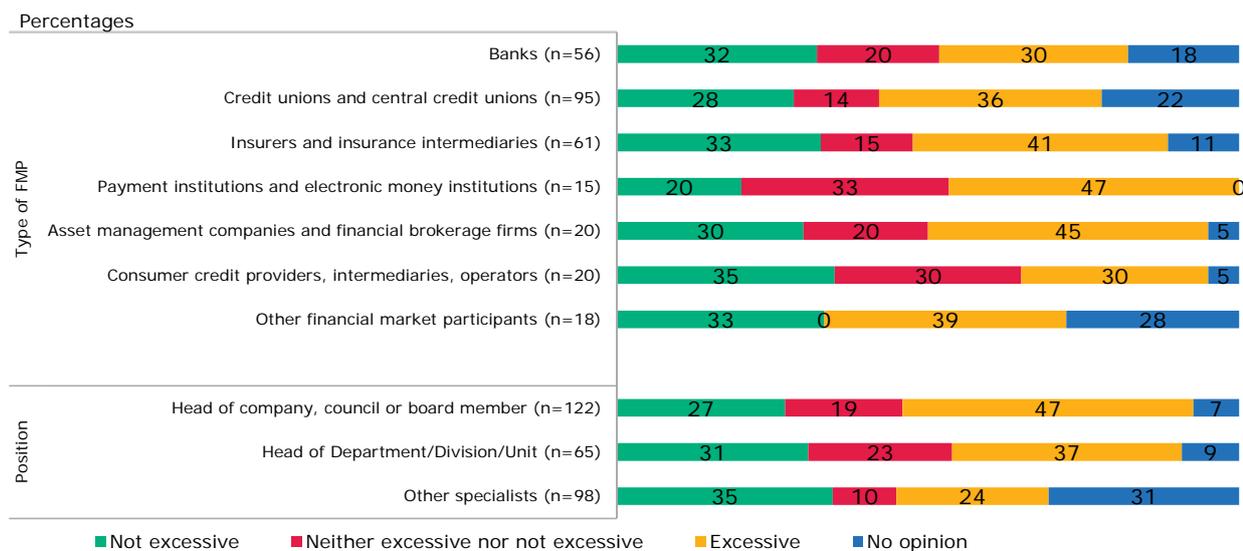
The legislative criterion (>80%) was too underestimated and this year it stands slightly over 60%. However, there was a crucial turning point: the share of FMPs which believe that the national legislation governing the supervision of the financial market is not excessive has doubled and the proportion of those who believe that the national legislation, at least to some extent, creates an excessive burden has decreased respectively.

The most favourable opinion on the administrative burden created by legislation was that of consumer credit providers, intermediaries and platform operators, insurers and insurance intermediaries, banks. The least favourable evaluation of the new legislation was given by payment and electronic money institutions. This represents the greatest negative shift: in the survey carried out two years ago, payment and electronic money institutions evaluated the burden resulting from the national legislation most favourably. This could be related

to the new regulation, i.e. the requirement to submit periodic reports to the Bank of Lithuania for the purpose of anti-money laundering and counter-terrorist financing as well as additional financial and operational reports.

There is a tendency that senior managers were more determined in expressing their opinion on the legislative burden: only 7% of senior managers and 9% of middle managers had no opinion, while 31% of specialists did not give any assessment of the legislative burden. In addition, the opinion of managers was more negative than that of other specialists.

Chart 21. Excessive administrative burden created by the legislative process (distribution by market participants)



On the other hand, those who had a favourable opinion of the legislative process showed an understanding of the current situation, i.e. a significant share of previously adopted legal acts are now being “eased” (adapted to the current market) in order to reduce excessive regulation as well as unnecessary entry and operational barriers. FMPs were pleased with the seminars organised by the Bank of Lithuania on the new legal acts and requested that such seminars should be continued.

FMPs were asked to specify excessive legislation or specific requirements. The responses are being analysed and, where possible, suggestions of FMPs will be taken into account.

FMPs specified the following areas for improvement in the legislative process:

- Each new legal act should have a clear ‘owner’ to discuss it with;
- Draft legislative texts should also be provided in English;
- The SS should provide the objectives and causes of amendments, their cost-benefit and market impact analysis along with the draft legislation presented;
- The SS should organise more comprehensive consultations, both with FMPs individually and their associated structures and third parties. It should allocate more time for discussions, organise more meetings, seminars, seek for greater transparency and publicity. In some cases, FMPs lack more practical approach i.e. not only formulating provisions of legislation but also providing how the legal norms should be applied in practice. Legal norms are usually very general and open to interpretation, thus the interpretation of the Bank of Lithuania employees and the market may differ;
- The SS should take into account the opinion of FMPs or provide arguments for disregarding it. During the legislative process, FMPs should be given a reasonable time period to provide observations. They

should also receive constructive feedback: on what grounds reasonable comments of FMPs have been disregarded during harmonisation of legislation;

- The responsible authorities should look for alternative means of legal regulation: legal acts may sometimes not be equally well suited for all FMPs and certain problems of several FMPs should not be solved by imposing new regulatory measures on the entire market;
- The SS should give up the practice of collecting excessive information and extreme treatment/interpreting of the EU regulations when transposing them into the national legislation. Prior to establishing new requirements, their consequences for economic stability and business development should be evaluated;
- Consulting on new regulation is usually quite slow. European regulation is often burdened by national requirements.

#### **COMMENT BY THE SUPERVISION SERVICE**

**It should be noted that the Bank of Lithuania provides consultations to FMPs only on draft legislation adopted by the Bank of Lithuania. Consulting on, for example, draft laws governing the financial market is generally provided by the Ministry of Finance of the Republic of Lithuania.**

**The Bank of Lithuania's regulation of the legislative process is aimed at ensuring that FMPs are always consulted during the preparation of legal acts, their proposals are taken into account and information on how their suggestions have been implemented or why they have been disregarded is published.**

## V. ASSESSMENT OF COMMUNICATION

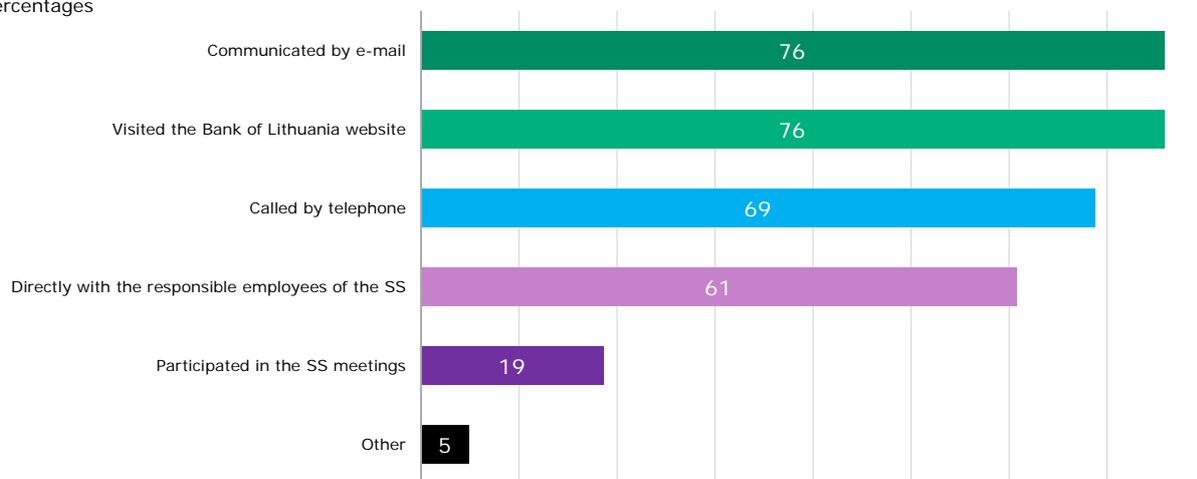
Respondents evaluated the communication process of the Bank of Lithuania and the SS, and provided suggestions by assessing individual areas of supervision (legislative, decision-making, etc.). Among other things, the survey was intended to assess the following aspects of communication with FMPs:

- Are FMPs satisfied with the communication with the SS?
- How well are formal and informal consultations assessed? Are they controversial or not?
- Do requests of the SS provided to FMPs create an excessive administrative burden?

Chart 22 shows that communication between the SS and the supervised FMPs is carried out using all communication channels.

Chart 22. Ways of communication with the SS

Percentages

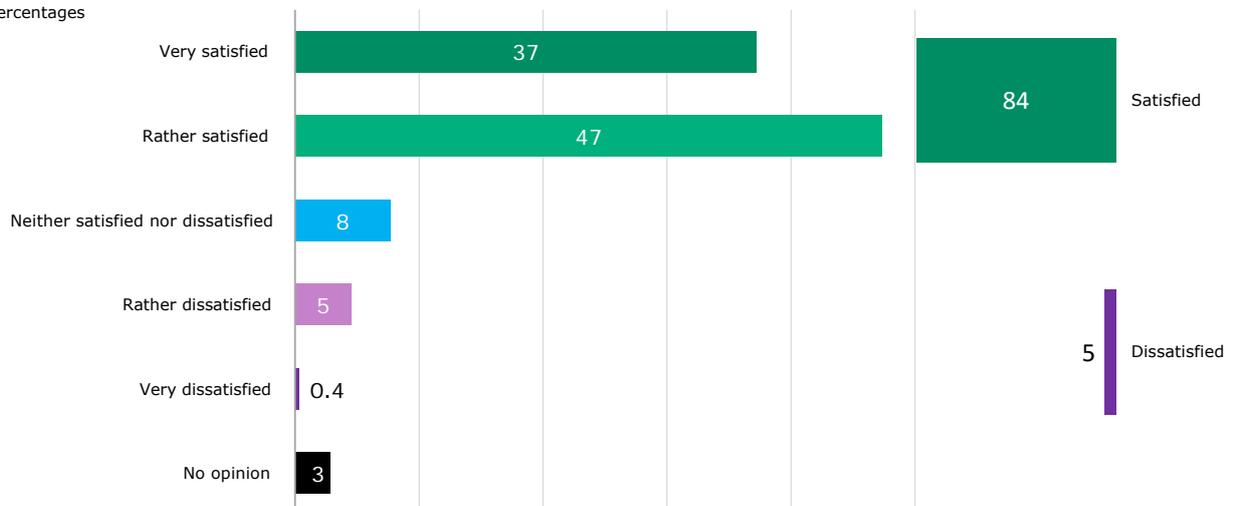


The general evaluation shows that respondents are very satisfied with the quality of communication with the SS (see Chart 23).

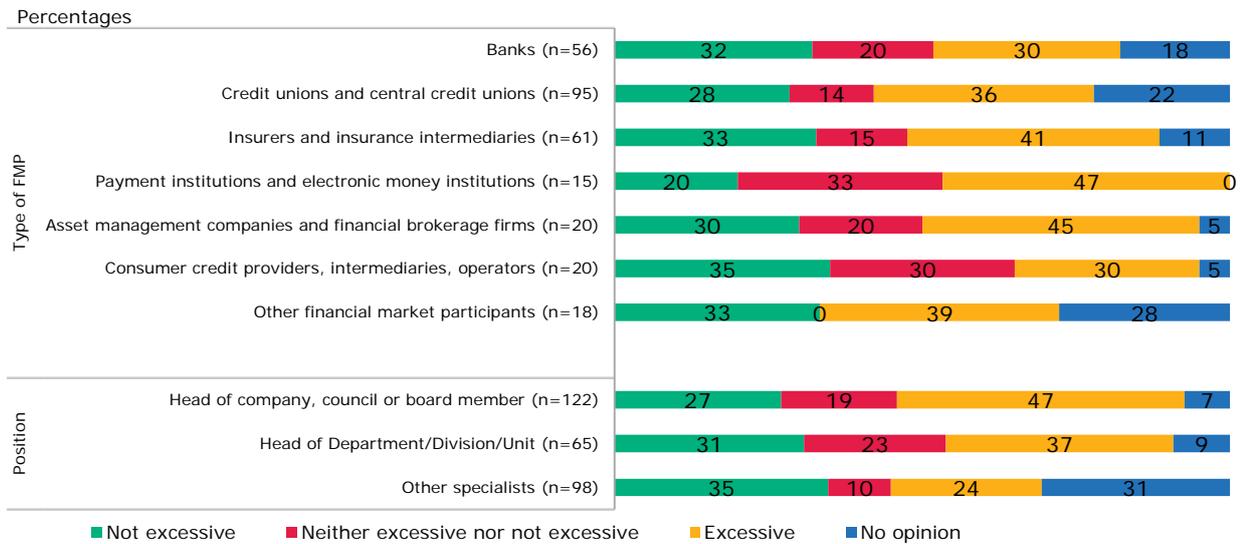
Chart 23. Satisfaction with communication with the SS

Overall distribution

Percentages



## Distribution by market participants and respondents' positions

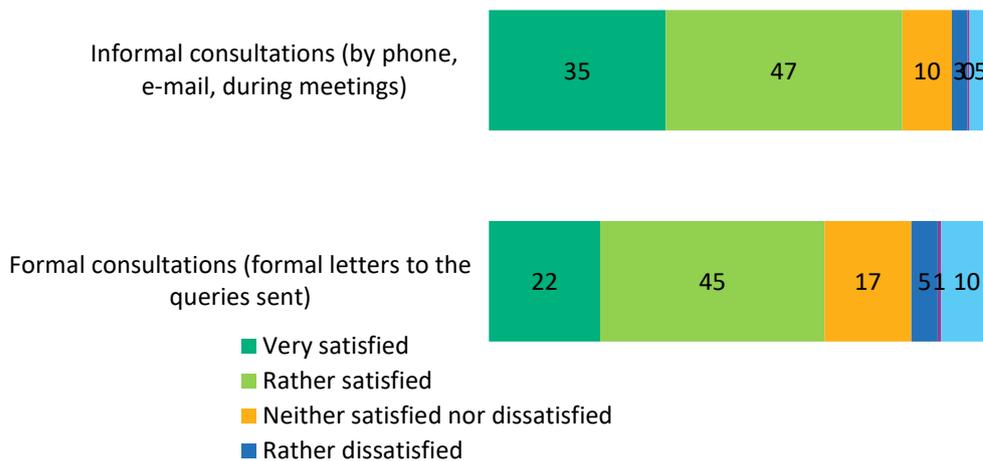


Payment and electronic money institutions and credit unions are most satisfied with communication with the SS. The satisfaction of insurers and insurance intermediaries has decreased.

The least satisfied are other FMPs that gave the most negative assessments.

Chart 24. Satisfaction with formal and informal consultations

Percentages

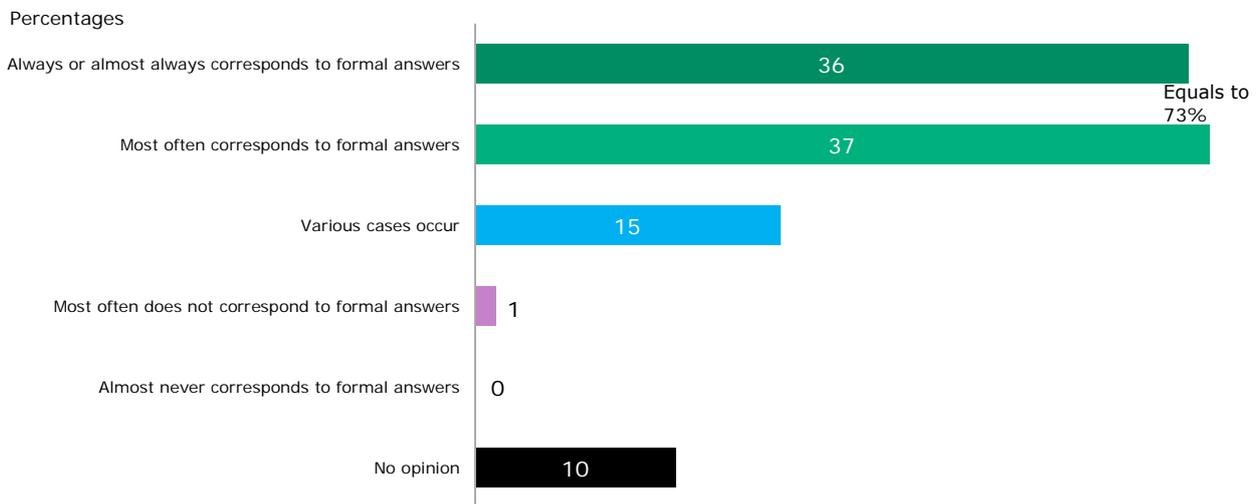


As seen in Chart 24, FMPs are more satisfied with informal consultations provided by the SS than official letters to their enquiries.

Respondents pointed out that the responses of the Bank of Lithuania lack clarity, consistency, firm and reasoned position; the supervision staff are benevolent, yet have no authority and assume no responsibility to give or interpret the answers. During the survey, FMPs expressed their suggestions and comments for the communication process:

- A specialised “Questions and Answers” section: respondents believe that in formal consulting, in order to create clear and uniform practice, it would be useful to have a website section for questions frequently asked by specific market sectors and to publish the clarifications of the Bank of Lithuania as regards the application of specific legislation;
- Quick and informal responses: the surveyed wish to receive responses to their formal enquiries faster than prescribed by legislation; the responses could be less formal and vague. FMPs would like the responses to be given after deeper consideration of their requests, i.e. provision of references to legal acts is not enough because questions often arise due to unclear legislation. FMPs would like to receive more extensive clarifications with respect to their specific situation and be provided with alternatives rather than just one (and often the strictest possible) opinion. FMPs would like solutions to be found through joint discussions;
- Informal responses are always much more effective: FMPs appreciate informal consultations, as they are more useful than formal written communication. Informal consultations should be made more accessible and frequent. FMPs would like to see the clarifications made public.

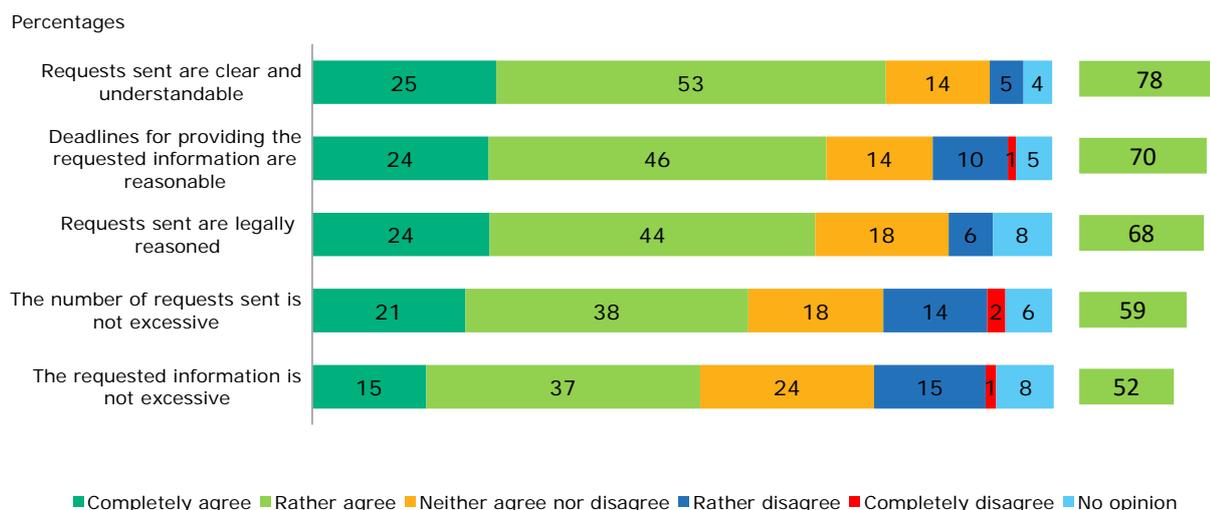
Chart 25. Compliance of informal consultations with the formal position



Note: Assessment on whether the information received during informal consultations (verbally or by e-mail) corresponds to the formal opinion provided by the SS later on (by formal letters).

In the respondents' opinion, in almost 73% of cases, informal consultations are compliant with the formal responses provided later on. Only 15% of the surveyed indicated that there had been different situations.

Chart 26. Quality of requests sent to market participants



Note: Assessment on whether the information received during informal consultations (verbally or by e-mail) corresponds to the formal opinion provided by the SS later on (by formal letters).

Chart 26 shows that the absolute majority of respondents assess the quality of requests provided by the SS and their number positively or neutrally. The clarity of requests received from the SS was assessed most favourably.

Chart 27. Quality of requests sent to market participants (compared to the previous survey)



However, compared to the previous survey, the proportion of positive assessments of requests sent to FMPs has decreased in all aspects. The greatest shift towards negative assessment is seen due to a large number of requests and the need to provide excessive information.

The large number of requests was most negatively assessed by payment and electronic money institutions: 27% of negative and 33% of positive assessments. The share of positive assessments by other institutions ranged from 50% to 66%. Excessive information received similar feedback: the greatest negative shift was seen among payment and electronic money institutions. The proportion of positive assessments decreased from 70% in 2016 to 27% in 2018. However, representatives of payment and electronic money institutions

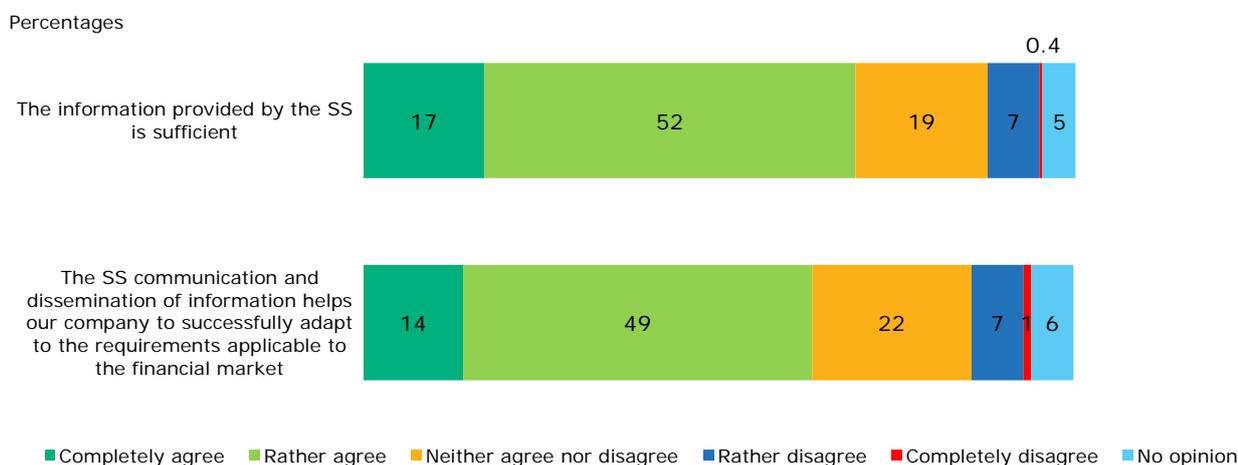
were not forthcoming about the reasons for the change in their assessment and did not take the opportunity to elaborate on their choice.

In general, FMPs noted that there had been cases where the market had not been informed about the changes to regulations in a timely manner; there were cases where some legal acts were not published on the Bank of Lithuania website; and they would like to receive more information on the current activities, objectives and results of the SS of the Bank of Lithuania. FMPs pointed out that the information publicly communicated by the Bank of Lithuania is usually negative and complicates the activity of FMPs; therefore, they would like to receive more positive news and information on the market trends.

One of the respondents believes that communication of the SS more often than not has a disruptive effect and distracts FMPs from their business.

On the other hand, respondents rather positively evaluated the benefit of communication with the SS to the supervisory process and daily activities of individual FMPs (see Chart 28). 69% of the surveyed agreed that the information provided by the SS was sufficient and 63% believed that communication and dissemination of information by the SS helped their companies to successfully comply with the financial market requirements.

Chart 28. Effectiveness of communication while performing the supervisory functions



To sum up, it should be noted that respondents indicated the following areas for improvement in communication:

- Speed of communication: FMPs lack fast response rather than the information itself; they would like to receive the answers faster;
- Creation of a uniform opinion and approach: according to respondents, in some cases, different specialists provide different answers, the opinions of the specialists and managers differ and, therefore, the one-stop-shop principle should be implemented better;
- Publication of current affairs: respondents would like to receive brief notifications on the current affairs in the market and its trends, timely information on structural changes, draft legislation and decisions to be considered. The surveyed FMPs would like to see more positive information;
- Analysis and guidelines: respondents would like to see more frequent publication of the analysis of FMPs' operations, comparison of their activities and publication thereof on the Bank of Lithuania website. Respondents would like to see clarifications of both the EU and the national legislation and preliminary guidelines on the principles of its application. They would like to see a wider range of guidelines and coordination throughout the period of preparation for the implementation of legislation;

- Development of a notification system: FMPs could be notified of upcoming deadlines, such as reporting or fee payment. According to the surveyed, there should be a possibility to subscribe to relevant news, such as current issues of the insurance market;
- Feedback and live consultations: FMPs would like to see more sharing of best practices and clarification of how legal requirements should be applied in practice. They would like to have more live consultation and training in these matters. Respondents would like the SS to publish information on individual clarifications for a specific FMP which could be relevant for the entire market. According to respondents, they sometimes lack information on the conclusions and generalisations made on the basis of information collected from FMPs;
- Simpler website structure: respondents pointed out that the structure of the website was too complicated and it was difficult to find legal acts and draft legislation. The provided information should be more structured, while documents – more easy to find.

## COMMENT BY THE SUPERVISION SERVICE

Taking into account the suggestions of FMPs, we have updated the Bank of Lithuania website which was acknowledged by the Central Banking journal and awarded for innovative and well-structured presentation of information to all stakeholders. When improving the website structure, we have also revised the sections of legal acts and draft legislation. In order to facilitate the search for relevant legislation governing the supervisory activities and requirements for FMPs, and to create a more comprehensive legal database, we have made changes to the legal information search engine on the Bank of Lithuania website. We have placed the main EU legislation in the section of legislation governing the supervisory activities as well as requirements for FMPs and classified them by type (EU legislation, laws, resolutions of the Board of the Bank of Lithuania) and by FMPs. We have also standardised the publication of guidelines, i.e. guidelines approved by the SS are published together with resolutions of the SS, while guidelines of international organisations are published together with decisions of the Director of the SS on the application of specific guidelines with an active link to the website of the international organisation where the specific guidelines are published. Documents in the category “Guidelines and positions” have been classified by type (guidelines, positions, opinions, clarifications) and by FMPs. In order to make the website more interactive, over the next year we plan to introduce a tool which will allow FMPs to provide suggestions on the improvement of legislation and to receive feedback on them. Furthermore, in order to improve the speed of communication and provide access to clarifications to all FMPs, we intend to install a ‘Questions and Answers’ tool on our website.

In response to the declining demand for periodic reviews of the Bank of Lithuania, in 2019 we intend to publish fewer general quarterly sectoral reviews and more news and messages on current issues, taking into account the relevant trends in the respective financial sector. Every year, we organise meetings with managers of banks and insurance companies, the management of foreign bank branches and branches of insurance companies established in other EU Member States. During the meetings, we discuss the annual results, introduce the next year plan and outline changes for the regulatory environment.

We provide consultations to FMPs on the issues within the competence of the Bank of Lithuania, aiming to improve the supervisory environment through consultation and discussion with FMPs, and providing them with advance information on the planned changes to the regulatory environment of the financial market by publishing the list of legal acts to

be amended over the respective year.<sup>14</sup> Once draft legal acts are drawn up, we organise presentations to FMPs, where we provide information on the changes, answer the questions and give advice. A large part of the consulting activities are performed through providing individual information to the interested party by phone, e-mail or in writing.

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<sup>14</sup> List of legal acts to be amended (available in Lithuanian)  
(<https://www.lb.lt/uploads/documents/files/Planuojamu%202019%20teises%20aktu%20sarasas.pdf>).

## ANNEX

### SURVEY OF FINANCIAL MARKET PARTICIPANTS ON SUPERVISORY ACTIVITIES CARRIED OUT BY THE BANK OF LITHUANIA

**A1.** How often do you personally have to deal with the Supervision Service (SS) of the Bank of Lithuania?

1. At least once a month or more often.
2. About once in 3 months.
3. About once in 4-6 months.
4. About once in 7-12 months.
5. Never (end of survey).

#### GENERAL ASSESSMENT

**First, please assess the general aspects of the SS activity.**

**B1.** Are you in general satisfied with the activities of the SS? (*one answer*)

Very dissatisfied	Rather dissatisfied	Neither satisfied nor dissatisfied	Rather satisfied	Very satisfied	No opinion
1	2	3	4	5	9

**B2.** Do you find the supervision of the Lithuanian financial market carried out by the SS effective? (*one answer*)

Completely ineffective	Rather ineffective	Neither effective nor ineffective	Rather effective	Very effective	No opinion
1	2	3	4	5	9

[Answer if options 1 or 2 were marked in question B2]

**B2.2.** Why do you think the supervision carried out by the SS is ineffective? (*open-ended question*)

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**B3.** In your opinion, have the activities of the SS in implementing its mission improved, remained unchanged or deteriorated over the last two years? (*one answer*)

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**The mission of the SS** is to supervise the financial market in pursuit of its reliable, effective and sustainable development, responsible actions of market participants and rational financial decisions made by consumers.

Considerably deteriorated	Somewhat deteriorated	Remained unchanged	Somewhat improved	Considerably improved	No opinion
1	2	3	4	5	9

**B4.** Please evaluate how well the SS contributes to public interests by implementing its mission.

	Very poorly	Rather poorly	Neither well nor poorly	Rather well	Very well	No opinion
	1	2	3	4	5	9
1. Reliable and effective functioning of the financial market						
2. Sustainable development of the financial market						
3. Responsible behaviour of financial market participants						
4. Rational financial decisions made by consumers						

**B4.1.** The SS aims to create and maintain an environment conducive to promoting competition and innovation in the financial field and to operate as a partner in the financial sector. How would you rate the following initiatives?

	Very poorly	Rather poorly	Neither well nor poorly	Rather well	Very well	No opinion
	1	2	3	4	5	9
1. Strengthening the partnership with existing financial market participants						
2. Promotion and introduction of innovations in the financial market						
3. Promotion of competition in the financial market by reducing market entry and operational barriers						

**B5.** Please answer whether the following individual functions of the SS are properly fulfilled.

	Completely improperly	Rather improperly	Neither properly nor improperly	Rather properly	Very properly	No opinion
	1	2	3	4	5	9
B5.1. Legislation and regulation						
B5.2. Licensing						
B5.3. Prudential supervision						
B5.4. Market conduct supervision						
B5.5. Inspections and investigations						
B5.6. Resolution of disputes and complaints						

[If B5.2=1–2] B5a.2. Why do you think the licensing is carried out improperly?

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[If B5.5=1–2] B5a.5. Why do you think the inspections and investigations are carried out improperly?

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[If B5.6=1–2] B5a.6. Why do you think the resolution of disputes and complaints is carried out improperly?

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## SUPERVISION

The following questions concern the supervision carried out by the SS.

**P1.** When assessing the supervisory function carried out by the SS, please indicate whether you agree with the following statements.

	Completely disagree	Rather disagree	Neither agree nor disagree	Rather agree	Completely agree	No opinion
	1	2	3	4	5	9
P1.1. The SS is implementing risk-based supervision (more focus on systematically important and/or more risky areas)						
P1.2. The SS is implementing future-oriented supervision (more proactive and preventive than just responding to effects)						
P1.3. The SS activities are focused on the achievement of objectives and results						
P1.4. The SS activities are consistent and predictable						
P1.5. The SS is effectively cooperating with other Lithuanian and foreign institutions						

**P2.** In general, does the SS supervise your company properly?

Completely improperly	Rather improperly	Neither properly nor improperly	Rather properly	Very properly	No opinion
1	2	3	4	5	9

**P3.** Please evaluate the SS employees supervising your company in the following aspects:

	Very bad	Rather bad	Neither good nor bad	Rather good	Very good	No opinion
	1	2	3	4	5	9
P3.1. Knowledge of trends and current issues in the financial market your company operates in						

P3.2. Knowledge of your company's activities and risks						
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The following questions concern the quality of the decision-making process of the SS.

P4. Has the Bank of Lithuania done any of the following in your company over the last 12 months?

	Yes	No	Not sure
	1	2	9
1. Imposed sanctions			
2. Carried out an inspection			

[If P4.1=2–9 and P4.2=2–9, go to T1]

[If P4.1=1] P5.1. When assessing the sanctions imposed by the SS, please indicate whether you agree with the following statements.

	Completely disagree	Rather disagree	Neither agree nor disagree	Rather agree	Completely agree	No opinion
	1	2	3	4	5	9
1. Considering all aspects, the sanction was imposed properly						
2. The reasons and the legal basis for imposition of the sanction were clear and well-reasoned						

[Answer P5A, if P5.1.1=1–3]

P5A. Please specify why do you believe the sanction was imposed improperly (open-ended answer):

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P5.2. How do you see the following aspects of the decision-making process of the SS?

	Very bad	Rather bad	Neither good nor bad	Rather good	Very good	No opinion
	1	2	3	4	5	9
1. Information on the planned meetings/sessions is presented on time						
2. Possibility to provide explanations and reasoning						
3. Objectivity and transparency of decisions						
4. Effectiveness of decisions (achievement of objectives)						
5. Public communication of the adopted decisions						

**P6.** In your opinion, are the arguments and explanations provided by market participants properly considered in the following stages of the decision-making process?

	Completely improperly	Rather improperly	Neither properly nor improperly	Rather properly	Very properly	No opinion
	1	2	3	4	5	9
1. Before the meeting						
2. During the meeting of the Board of the Bank of Lithuania						
3. During the meeting of the SS Committee						

## LEGISLATION

The following questions relate to legislation.

**T1.** Please assess the following aspects:

	Very bad	Rather bad	Neither good nor bad	Rather good	Very good	No opinion
	1	2	3	4	5	9
1. Comprehensibility of legal acts and their objectives						
2. Effectiveness of legal acts (the drawn up legal acts are effective)						
3. Timely adoption of legal acts in order to respond to changing market conditions on time						
4. Presentation of draft laws for consultation and the consultation process itself						
5. Unambiguity of laws (there are no provisions which could lead to ambiguous interpretation)						

[Answer if options 1 to 3 were marked in question T1.4]

**T1A.** What do you think should be changed for the draft legislation consulting process to become more effective? (*open-ended question*)

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**T2.** In your opinion, do local (national) laws drawn up by the Bank of Lithuania that regulate the supervision of the financial market create an excessive administrative burden to your company?

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**NOTE:** Please assess the local legislation and national exceptions from the EU regulations only, disregarding the mandatory legislation of the EU.

Not excessive				Very excessive	No opinion
1	2	3	4	5	9

[Answer if options 2 to 5 were marked in question T2]

**T2A.** In your opinion, which requirements of the local legislation are excessive, unreasonable or disproportionate? (*open-ended question*)

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**T3.** What in your opinion should be changed or improved in the process of drawing up national legislation by the Bank of Lithuania? (*open-ended question*)

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## COMMUNICATION

The following questions concern the SS communication with market participants.

**K1.** Over the last 12 months, have you personally communicated with the SS in any of the following ways? Please indicate the ways of your communication (several answers are possible)

1. Directly with the responsible employees of the SS.
2. Participated in the SS meetings.
3. Communicated by e-mail.
4. Called by telephone.
5. Visited the Bank of Lithuania website.
6. Other (please specify): \_\_\_\_\_.

**K2.** Are you satisfied with the way the SS communicates with your company? (*one answer*)

Very dissatisfied	Rather dissatisfied	Neither satisfied nor dissatisfied	Rather satisfied	Very satisfied	No opinion
1	2	3	4	5	9

[Answer if options 1 to 3 were marked in question K2]

**K2A.** Which aspects of communication with the SS are you dissatisfied with and why? (*open-ended question*)

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**K3.** Are you satisfied with the formal and informal consultations, opinions and answers provided by the SS?

	<b>Very dissatisfied</b>	<b>Rather dissatisfied</b>	<b>Neither satisfied nor dissatisfied</b>	<b>Rather satisfied</b>	<b>Very satisfied</b>	<b>No opinion</b>
	1	2	3	4	5	9
1. Formal consultations (formal letters to the queries sent)						
2. Informal consultations (by phone, e-mail, during meetings)						

**K4.** Please describe your experience: does the information received during informal consultations (verbally or by e-mail) correspond to the formal opinion provided by the SS later on (by formal letters)?

<b>Almost never corresponds to formal answers</b>	<b>Most often does not correspond to formal answers</b>	<b>Various cases occur</b>	<b>Most often corresponds to formal answers</b>	<b>Always or almost always corresponds to formal answers</b>	<b>No opinion</b>
1	2	3	4	5	9

**K5.** In carrying out its functions, the SS sends requests to the supervised companies to submit information or documents on their activities. Please indicate whether you agree with the following statements:

	<b>Completely disagree</b>	<b>Rather disagree</b>	<b>Neither agree nor disagree</b>	<b>Rather agree</b>	<b>Completely agree</b>	<b>No opinion</b>
	1	2	3	4	5	9
1. Requests sent are legally reasoned						
2. Requests sent are clear and understandable						
3. Deadlines for providing the requested information are reasonable						
4. The number of requests sent is not excessive						
5. The requested information is not excessive						

**K7.** Please indicate whether you agree with the following statements on the SS communication and dissemination of information in general:

	<b>Completely disagree</b>	<b>Rather disagree</b>	<b>Neither agree nor disagree</b>	<b>Rather agree</b>	<b>Completely agree</b>	<b>No opinion</b>
	1	2	3	4	5	9
1. The SS communication and dissemination of information helps our company to successfully adapt to the						

requirements applicable to the financial market						
2. The information provided by the SS is sufficient						

[Answer if options 1 to 3 were marked in question K7.2]

**K7.3A.** What information related to the SS activities is missing? (*open-ended question*)

Besides its direct formal functions (regulatory, supervisory, licensing), the SS of the Bank of Lithuania is also engaged in indirect activities: **consulting and advising market participants, assisting in making operational decisions, preparing and presenting market reviews, organising trainings and presentations on current affairs.**

**K8.** How do you see these additional indirect functions of the SS? (*one answer*)

	Very poorly	Rather poorly	Neither good nor bad	Rather good	Very good	No opinion
	1	2	3	4	5	9
Market reviews, informal consultations to financial market participants, assistance in decision-making						
Consultations before issuing licences, the Newcomer programme						

[Answer if options 1 to 3 were marked in question K8]

**K8A.** What weaknesses do you see in these indirect functions of the SS? (*open-ended question*)

**END.** What should be improved in the SS activities so that the supervision of the financial market would become more effective (what changes in the SS activity would you expect)?

## DEMOGRAPHIC QUESTIONS

**D1.** Please indicate which group of companies supervised by the Bank of Lithuania you represent:

1. Banks.
2. Credit unions and central credit unions.
3. Insurers and insurance intermediaries.
4. Payment institutions and electronic money institutions.
5. Asset management companies and financial brokerage firms.
6. Consumer credit providers, intermediaries, operators of peer-to-peer lending platforms.
7. Other financial market participants.

**D2.** Please indicate the duration of your company's operation:

First year of operation.

Second year of operation.

More than two years of operation.

**D3.** Your position:

1. Head of company, council or board member.
2. Head of Department/Division/Unit.
4. Other specialists.