BANK OF LITHUANIA
FINANCIAL SERVICES AND MARKETS SUPERVISION DEPARTMENT

Heads of electronic money institutions and payment institutions on the list

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Associations on the list

ON THE PRINCIPLES OF GOOD GOVERNANCE PRACTICES FOR ELECTRONIC MONEY AND PAYMENT INSTITUTIONS

Dear Head of the Electronic Money Institution or Payment Institution,

We are writing to you with a view to strengthening the governance of the electronic money/payment institution (hereinafter also – the institutions) managed by you.

Good corporate governance is considered to be one of the cornerstones of a sustainable company. Observing the annual growth of the payments market, taking into account the challenges related to governance that most often arise during the licensing process of new electronic money and payment institutions and subsequently in the operation of these institutions, inadequate examples of governance[1] and the resulting risks, taking into account the need for clear guidelines expressed by the financial market participants and seeking to increase the maturity of the financial technology sector, the Bank of Lithuania has developed the Principles of Good Governance Practices for Electronic Money and Payment Institutions.

These principles are designed to guide new entrants in establishing good governance at an early stage and to help institutions with long-standing experience in the payments market to look with fresh eyes at their established governance practices and to improve them efficiently.

It should be noted that good governance of an institution is not only important to ensure compliance with the requirements of the legislation governing its activities, transparency and soundness of the financial market, but also to realise the company's potential for success as a business entity, to increase stakeholder satisfaction and trust, to attract additional investment and to enhance market competitiveness. The Bank of Lithuania, considering the diversity of activities of electronic money and payment institutions and exercising risk-based supervision, draws attention to the fact that the principles of Good Governance Practices for Electronic Money and Payment Institutions should be implemented in the activities of the institutions in a proportionate manner, i.e. taking into account the size of the specific institution, the nature and scale of its activities, the risks arising and other relevant factors.

The Principles of Good Governance Practices for Electronic Money and Payment Institutions summarise the requirements of the legal acts regulating the financial market in general as well as national and international corporate governance principles and are of a recommendatory nature. Where the legal acts provide for the requirements (obligations) applicable to a particular financial market participant, the legal acts are applied.

ENCLOSED: Principles of Good Governance Practices for Electronic Money and Payment Institutions, 4 pages.

Director — Vaidas Cibas

[1] For a summary of bad governance practices, which are available on the Bank of Lithuania website, see Recommendations on the operational requirements and governance of EMIs and PIs | Bank of Lithuania (lb.lt).

PRINCIPLES OF GOOD GOVERNANCE PRACTICES FOR ELECTRONIC MONEY AND PAYMENT INSTITUTIONS

1. GOVERNANCE SYSTEM AND STRUCTURE

1.1. An institution should establish a governance system appropriate to its activities, i.e. a single-tier system with a management board only, or a two-tier system with a management board and a supervisory board.
1.2. The institution with a single-tier system of governance should have a sufficient number of non-executive members on its board to ensure the objectivity of decisions taken by the members of this collegial body.
1.3. When forming the collegial bodies, the institution should determine their size and composition in a way that correlates with the size and strategy of the institution at a given stage of its operation, ensure the necessary competences and a diverse balance and allow for an efficient organisation of work.
1.4. The institution should ensure effective turnover of managers, i.e. by appointing a deputy head of the administration who meets the statutory requirements, and by establishing procedures for the substitution of the heads of the institution's departments, in particular those performing control functions.
1.5. The institution should have a management remuneration policy that is specific to the institution and which sets out clear and reasonable principles for the remuneration of managers, ensuring that conflicts of interest are prevented on an ongoing and appropriate basis.
1.6. The institution should establish an appropriate governance structure, i.e. the rules and procedures for decision-making and control. An effective governance structure of the institution should combine all the processes of the institution and ensure that it is properly informed about any decisions taken. The governance structure of the institution should not be formal, and it should help implement the strategy of the institution in a sustainable manner.
1.7. The governance of the institution should be based on professionalism, accountability, fairness, transparency, responsibility and other principles of good governance practices.
1.8. In its activities, the institution should be guided by national and international corporate governance principles, guidelines and good practices.[2]

2. COMPETENCE AND EXPERIENCE OF MANAGERS AND SHAREHOLDERS

2.1. The institution should have a clear and documented process for assessing the suitability of managers[3] for their positions and comply with it.
2.2. The institution, before electing or appointing a person as a manager, should responsibly assess whether the candidate meets the requirements laid down in the applicable legal acts.[4] The institution should apply sufficiently high standards of qualification and experience, commensurate with the activities of the institution, to the person to be elected or appointed as a manager. The assessment of the person to be elected or appointed as a manager should not be formal, but should help the institution itself to objectively assess the suitability of the person for the position before submitting the candidature to the Bank of Lithuania for assessment.
2.3. Before electing or appointing a person as a member of a collegiate body, the institution should responsibly assess whether the candidate's knowledge, skills, competence and experience are appropriate for the effective performance of the functions of that body, taking into account the competence of all members of that body and the added value of the candidate's competence, i.e. to ensure the collective suitability of the members of that collegiate body.
2.4. The institution should reassess the suitability of the manager in the case of events that may affect the outcome of the assessment of the manager's performance and, if necessary,

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[2] See, for example, the Corporate Governance Code for the Companies Listed on *Nasdaq Vilnius*, G20/OECD Principles of Corporate Governance, etc.
[3] Here and hereinafter, as defined in Article 9(2) of the Law on Payment Institutions of the Republic of Lithuania and Article 16(2) of the Law on Electronic Money and Electronic Money Institutions of the Republic of Lithuania.
[4] See the Guidelines for the Assessment of Members of the Management Body and Key Function Holders of Financial Market Participants Supervised by the Bank of Lithuania approved by Resolution No 03-181 of the Board of the Bank of Lithuania of 14 November 2013 on the Approval of the Guidelines for the Assessment of Members of the Management Body and Key Function Holders of Financial Market Participants Supervised by the Bank of Lithuania.

take appropriate measures, such as inform the Bank of Lithuania about the change in circumstances and initiate a replacement of the manager.

2.5. Shareholders intending to acquire a qualifying interest in the authorised capital and voting rights of the institution[5] should have professional competence commensurate with the activities of the institution and the interest they intend to acquire, i.e. corporate governance skills and experience in the financial sector.

2.6. The institution should ensure the continuing professional development of managers and shareholders, for example, by organising regular internal and external training, and by encouraging a proactive self-interest in financial market innovations.

3. ABILITY OF MANAGERS TO DEVOTE SUFFICIENT TIME TO THEIR DUTIES

3.1. Each head of an institution should devote as much time to his/her duties as is necessary to enable him/her to carry out effectively the functions assigned to him/her under the applicable legal requirements.

3.2. Heads of the institution should responsibly assess the number, nature, size and activities of companies, location and other professional or personal commitments of other duties/activities they already have or plan to undertake before and during their term of office as head of institution.

3.3. The institution belonging to a group of companies should ensure that managers holding positions in other companies within the same group devote sufficient time to their duties within the institution.

4. MANAGEMENT OF CONFLICTS OF INTERESTS AND INDEPENDENCE OF MANAGERS AND SHAREHOLDERS

4.1. The institution should properly manage conflicts of interests. The institution's conflict of interest management process should ensure the effective identification, disclosure, prevention, mitigation and management of conflicts of interest and be an effective part of the institution's internal control.

4.2. An institution should not appoint the same person to carry out a function and at the same time exercise control or supervision over the performance of that function. Members of the body exercising the supervisory functions of the institution should not be members of the management bodies. The governance system of the institution should allow for effective interaction between the supervisory body and the management body.

4.3. The institution should assess and distinguish between conflicts of interest of a one-off nature in a given situation, which can be managed by measures aimed at managing conflicts of interest (e.g. by means of disqualification), and those of a recurring nature, which have a negative impact not only on the specific situation, but also on the objective and impartial exercise of the assigned function, and in which measures for management of conflicts of interest may be largely ineffective, and take effective measures to deal with such situations (e.g. by adopting a decision to allocate the task to a person or a body to perform the function).

4.4. Heads of the institution should be independent and have the ability to perform the duties independently without undue influence from other persons. Managers should be able to make informed, objective and independent decisions, be prepared to ask relevant questions, question and challenge the decisions of others, engage constructively in debate and make informed decisions/votes on the basis of the information provided to them. The institution must establish a system of information exchange that provides managers with all the information they need to make timely decisions.

4.5. The institution should strengthen the composition and influence of the collegiate bodies, thereby reducing the potential influence of the sole person (head of the administration, sole shareholder), in order to ensure the objectivity of the decisions taken by its bodies, e.g. by ensuring a sufficient number of independent members in the governance structure, who do not have any duties to a financial market participant and who are not part of the group of companies (in the case of an institution belonging to a group of companies).

4.6. The financial and non-financial interests and relationships of a shareholder of the institution should not interfere with safe and reliable activities of the institution. The transactions of a shareholder or related parties of the institution with the institution, the risks

[5] As defined in Article 2(25) of the Law on Financial Institutions of the Republic of Lithuania.

and the impact of such transactions on the activities of the institution should be objectively and impartially assessed and confirmed. This means that such transactions should not give rise to unjustified exceptions and should not be considered as exempting from some of the controls that are set out in the specifications of the internal procedure of the institution and that would otherwise apply in similar cases (such as controls relating to the enforcement of anti-money laundering and anti-terrorist financing requirements).

5. INTERNAL CONTROL

5.1. The internal controls[6] of the institution should ensure sound and prudent management.
5.2. An institution which has opted for a single-tier system of governance should not appoint the head of the institution as chairman of the board in order to ensure adequate internal control and objectivity of the board's decisions and independence from the head of the institution.
5.3. The institution's internal policies, procedures and practices designed to ensure effective internal control should be clear and documented, consistent with the nature of the institution's activities and management system, and their descriptions should be regularly reviewed and updated.
5.4. The persons performing the control functions of the institution should have the appropriate qualifications and experience and be able to devote sufficient time for the performance of their duties in the institution.
5.5. Persons exercising control functions over an institution should be independent and able to perform their duties independently and avoid undue influence from others and conflicts of interest.
5.6. The institution should ensure that the implementation of the control functions is effectively supervised.
5.7. The institution is responsible for the proper design and implementation of internal control measures, including where operational functions are delegated to third parties.

6. RISK CULTURE

6.1. Effective risk management is an integral part of good governance in the institution. The institution should responsibly determine its risk appetite, i.e. the risks it takes in implementing its operational strategy, and tolerance, i.e. the degree of deviation from its risk appetite.
6.2. The institution should responsibly determine, assess, manage and monitor any risks arising in its activities.
6.3. The risks identified by the institution should correlate with the operational strategy and the established internal control system.
6.4. The risks identified by the institution and the measures taken to manage them should be regularly reviewed and revised.
6.5. A risk culture must be implemented at the level of the whole institution.

7. MATURITY AND CULTURE

7.1. Maturity and corporate culture are inseparable from high-quality governance of the institution. Maturity is understood as the ability to properly assess and effectively prevent operational risks. An institution should have reached a level of maturity sufficient for the launch of activities of the institution at the time of the licensing process and should strive to increase this level of maturity throughout the entire period of its activity in the financial market, starting from compliance with the essential requirements laid down in the legislation for the institution's activities, timely submission of supervisory reports, etc.
7.2. The institution should ensure that it has an appropriate compliance culture in place.[7] An effective compliance culture in the institution should include an appropriate management approach and the establishment of core values and principles, including fairness, transparency, responsibility and accountability, the involvement and empowerment of its staff, and clarity of the institution's compliance processes.

[6] As defined in Article 23(2) of the Law on Financial Institutions of the Republic of Lithuania.
[7] See the Guidelines for the Compliance Function approved by Decision No V 2022/(1.160.E-9004)-441-201 of 11 October 2022 of the Financial Market Supervision Committee.

7.3. The institution should ensure sufficient knowledge of the legal system of the Republic of Lithuania as the country in which it is established.
7.4. The institution should not meet the characteristics of shell companies.[8]
7.5. The institution should foster a proactive and open relationship with the authorities supervising its activities.
7.6. The institution should ensure that its supervisory authorities are informed in a timely manner of significant changes in the institution's activities, such as plans to change the operational terms specified at the time of licensing, significant changes in the organisational structure (supervisory and management bodies, including the establishment of committees involved in the risk management process), and changes in the contact details of the managers, shareholders, and employees exercising control functions.
7.7. The institution should responsibly assess the sustainability of its activities, including its environmental impact and contribution to environmental protection as well as its impact on society, i.e. social responsibility. The integration of sustainability elements into the operational strategy of the institution should be understood as a strategic advantage of the institution.

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[8] See the Guidelines on the Establishment of Fictitious Companies of the Financial Crime Investigation Service under the Ministry of the Interior of the Republic of Lithuania.