BOARD OF LIETUVOS BANKAS

RESOLUTION
AMENDING RESOLUTION NO 03-27 OF THE BOARD OF LIETUVOS BANKAS OF 14 FEBRUARY 2017 ON THE APPROVAL OF THE FINANCIAL MARKET SUPERVISION POLICY OF LIETUVOS BANKAS

21 November 2024 No 03-142
Vilnius

The Board of Lietuvos bankas has r e s o l v e d:

1. To amend the Financial Market Supervision Policy of Lietuvos Bankas, approved by Resolution No 03-27 of the Board of Lietuvos bankas of 14 February 2017 on the approval of the financial market supervision policy of Lietuvos bankas, to read as follows (attached).

2. To establish that this Resolution comes into force on 1 January 2025.

3. To repeal:

3.1. Resolution No 224 of the Board of Lietuvos bankas of 17 December 1998 on Implementing the Core Principles for Effective Banking Supervision approved by the Basel Committee on Banking Supervision as last amended and supplemented;

3.2. Resolution No 03-354 of the Board of Lietuvos bankas of 30 December 2014 on Implementing the Insurance Core Principles approved by the International Association of Insurance Supervisors.

Chair of the Board Gediminas Šimkus

APPROVED
by Resolution No 03-27
of the Board of Lietuvos bankas
of 14 February 2017
(as amended by Resolution No 03-142 of the Board of Lietuvos bankas of 21 November 2024)

FINANCIAL MARKET SUPERVISION POLICY OF LIETUVOS BANKAS

CHAPTER I
GENERAL PROVISIONS

1. The Financial Market Supervision Policy of Lietuvos bankas (hereinafter, the Policy) shall implement the obligation to establish the financial market supervision policy imposed on the Board of Lietuvos bankas under Article 11(1)(6) of the Republic of Lithuania Law on the Bank of Lithuania (hereinafter, the Law on the Bank of Lithuania).

2. The Policy sets the objectives and functions of Lietuvos bankas in supervising the financial market, and the principles of financial market supervision.

3. The provisions of the Policy include three areas of the financial market supervision: prudential supervision, financial services supervision and supervision of the prevention of money laundering and terrorist financing.

4. The Policy does not apply to other functions that are related to the financial market supervision but are the separate functions of Lietuvos bankas: in the settlement of disputes between the consumers and financial market participants out of court (Article 8(2)(3) of the Law on the Bank of Lithuania), in implementing the macroprudential policy (Article 8(2)(7) of the Law on the Bank of Lithuania), in performing the functions assigned to the resolution authority (Article 8(2)(8) of the Law on the Bank of Lithuania), in performing the supervision of the payment and securities settlement systems (Article 42(2)(8) of the Law on the Bank of Lithuania).

5. The provisions of the Policy apply in accordance with the requirements set by the legislation, also, by taking into account the requirements of the Single Supervisory Mechanism and the documents establishing financial market regulatory and supervisory principles and practices of the European Banking Authority, the European Insurance and Occupational Pensions Authority, the European Securities and Markets Authority, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the International Organisation of Securities Commissions, the International Organisation of Pension Supervisors, the International Credit Union Regulators' Network, the Financial Action Task Force, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) and other institutions and organisations.

CHAPTER II
OBJECTIVES AND FUNCTIONS OF LIETUVOS BANKAS IN SUPERVISING THE FINANCIAL MARKET

6. The mission of Lietuvos bankas is to benefit the society through building a sound financial system and sustainable economic development.

7. To accomplish its mission Lietuvos bankas seeks to contribute in the field of financial market supervision to maintaining and strengthening a stable, sound, competitive and efficient economy and a financial market working towards the well-being of the society as a whole.

8. The legislation in the area of financial market supervision is issued and other major decisions are adopted by the Board of Lietuvos bankas. The recommendations are issued and other issues of financial market supervision set out in legal acts are considered and resolved by the Financial Market Supervision Committee. The financial market supervision function are directly carried out by the Prudential Supervision Department, the Financial Market Supervision Department and the Legal and Licensing Department (hereinafter, the Supervision Departments).

9. Lietuvos bankas seeks to implement proportionate and effective measures for the financial market regulation, timely identify the problems arising for supervised financial market participants, and effectively solve them through advanced supervisory arrangements, ensure that the financial market operates reliably and effectively, is developed sustainably, market participants act responsibly, and consumers adopt sound financial decisions. Supervision is implemented across three pillars:

9.1. prudential supervision: the supervision of the financial market participants aims to ensure that they have sufficient capital and are liquid, effectively managed and properly manage the risk they assume thereby contributing to the stability and credibility of the financial system as a whole;

9.2. oversight of services provision: the supervision and dissemination of the information on financial services and markets are exercised seeking to ensure that the financial market participants act responsibly, and the consumers adopt sound financial decisions;

9.3. supervision of the prevention of money laundering and terrorist financing: the supervision of financial market participants is aimed at ensuring that the supervised entities properly manage any money laundering and terrorist financing risks, and ensuring that international sanctions and restrictive measures are properly enforced.

10. Lietuvos bankas seeks to minimise any potential conflict of interest between the objectives of supervision of service provision, the objectives of prudential supervision of financial market participants and the objectives of supervision of prevention of money laundering and terrorist financing. Any conflict of interest that may arise is settled at the Financial Market Supervision Committee, or, if the decisions to be adopted can have a significant impact on the entire financial system, the conflict of interest is resolved by the Board of Lietuvos bankas. Any conflict of interest is resolved on a case-by-case basis, with decisions made in a manner that, to the greatest extent possible, aligns with the public interest.

11. Starting with the licensing process, Lietuvos bankas seeks to ensure that any market participants entering the market are reliable, transparent, financially viable and prepared market participants that are well aware of the risks surrounding the business to be engaged in, and have leaders who are competent and of sufficiently good repute.

CHAPTER III
PRINCIPLES OF THE FINANCIAL MARKET SUPERVISION

12. In carrying out the financial market supervision function assigned to it, Lietuvos bankas is guided by the following principles:

12.1. efficiency: the principle of efficiency requires that Lietuvos bankas uses the available limited human and organisational resources in a manner ensuring that its mission is implemented and the objectives set are achieved to the highest possible standard. To improve the operational efficiency, Lietuvos bankas also implements advance digital solutions;

12.2. proportionality: the principle of proportionality requires that supervision actions are in line with the supervision objectives, the systemic importance and the risk level of the supervised financial market participants, while recognising the differences between various operating models of market participants, the nature and complexity of the provided services. The objective that underpins this principle is to ensure that financial market participants are not exposed to excessive administrative burdens;

12.3. risk-based supervision: the principle of risk-based supervision requires that the principles of efficiency and proportionality are taken into account, focusing on and allocating resources to the areas that are exposed to highest risks and that can cause the greatest negative impact, i.e. on the financial market participants and their provided financial services the failure or activities (activity model) of which could have a negative effect on the system’s stability and credibility or would infringe the interests of the consumers of financial services:

12.3.1. such supervision model is based on the assumption that not all financial market participants or their services have the same impact on the financial system stability and credibility, consumers, and other public interests. Therefore, Lietuvos bankas focuses its resources on the supervision of financial market participants with greater systemic importance, whose misconduct or potential failure would have significant consequences for the country’s financial system stability and credibility, consumers, and other public interests. The intensity and extent of supervision increase in line with the growth of the risk posed by the financial

market participant. Where a financial market participant is found to pose a higher risk, such participant is subject to a more intensive supervision until the relevant risk is decreased to an acceptable level. This principle is based on the notion that in the absence of problems known to Lietuvos bankas, certain acceptable risks related to the supervision of financial market participants with lower risk are tolerated;

12.3.2. for the purpose of such supervision, account is taken of both the scale of the damage that a misconduct or failure of the financial market participant could cause to the stability and credibility of the financial system, to consumers, and to other public interests, and the likelihood of potential misconduct or failure. The significance of a particular financial market participant and the risk posed depends on its size, business model and its complexity, the links to other financial market participants, the provision of the critically important financial services to the public. The critically important financial services to the public are considered to include the payment and settlement, retail banking services, the services provided by the financial market participant to each other;

12.3.3. to ensure that such supervision remains effective and timely, not only the strategic or annual plans, priorities are important in the day-to-day activities of Lietuvos bankas, but also the appropriate response to the changing environment, i.e. unscheduled inspections, if necessary, or even the change of approved plans;

12.3.4. the risk-based supervision principle is applied to all activities of financial market supervision, i.e. the principle applies to the supervision of all financial market participants and all financial services, any supervisory function or supervisory process;

12.4. the prevention and future-oriented supervision principle requires that Lietuvos bankas aims at identifying as early as possible any likely risk of the financial services to consumers and the potential threats to the going concern of a financial market participant, enabling a timely dialogue with a financial market participant and taking appropriate supervisory actions to protect the interests of consumers and to ensure the smooth activity of the financial market participant. Lietuvos bankas assesses not only the existing risks but also the risks that could arise in the future. Mutual trust, openness and cooperation between Lietuvos bankas and the supervised financial market participants are essential to achieve these objectives. Lietuvos bankas expects that the supervised financial market participants themselves notify Lietuvos bankas as soon as possible on existing or potential risks and problems, so that they could be jointly resolved with minimal negative impact on the financial market participant, consumers and the entire society;

12.5. segregation of responsibilities of the financial market participants, their customers and the supervisory authority:

12.5.1. the principle of segregation sets that the responsibility for sound and secure activities of the financial market participant lies with the financial market participant (its leaders, shareholders or other members). The financial market participant’s intentions in developing the business to assume more risk, although this may cause a greater threat to the stability and credibility of the financial system, may be not in line with the public interest. Therefore, Lietuvos bankas expects that each financial market participant will act more prudently than the legal norms require, thus ensuring the safety and soundness of the company and contributing to the maintenance and strengthening of the stability and credibility of the financial system;

12.5.2. the principle provides that financial market supervision cannot and is not expected to ensure that none of the financial market participants go bankrupt or that its activity is not disturbed. Financial market participants, like any other business, can fail; however, this process has to be managed. In performing the financial market supervision, Lietuvos bankas aims to ensure that a financial market participant failing to comply with the essential legislation requirements, starts to comply, or is excluded from the financial market in due time in the opposite case. Lietuvos bankas aims to ensure that the exclusion of a financial market participant from the market has the least possible negative impact on the society;

12.5.3. in accordance with this principle, the regulation and supervision of financial services and consumer awareness are pursued seeking to form a clear understanding of consumers that the responsibility for their financial decisions shall fall on them as well;

12.6. the importance of a consumer-centred culture: the principle requires that Lietuvos bankas seeks to ensure that when providing financial services financial market participants treat consumers fairly, both prior to entering into agreements on the provision of financial services and until all obligations under such agreements are fully discharged. Lietuvos bankas focuses on

supervision of the process of maintenance and management of financial products by financial market participants, so as to ensure that the interests of consumers, the aims and features are duly taken into account in developing, distributing or reviewing financial products;

12.7. the content over the form:

12.7.1. the content over the form principle requires that Lietuvos bankas aims, in particular, to ensure that financial market participants understand the objectives of regulation and supervision of the financial market, and find the most appropriate solutions to achieve those goals. Lietuvos bankas understands the variety of the financial market participants and their business models, therefore, it is be guided by the principle that not everything works for everyone. On the contrary, the same requirements, due to objective grounds, sometimes can be implemented in different ways, by taking into account the rapidly changing financial market and its innovations. Lietuvos bankas welcomes innovation and takes the view that regulation and supervision should be neutral towards the technologies used. This means that the application of financial market legislation does not depend on the technology used and similar activities and services that pose identical risks should be subject to identical requirements and supervision;

12.7.2. this principle requires guidance by not only the formal rules, but also by the regulatory purposes and principles of operation. The legal instruments establish only certain requirements which must be followed by a financial market participant so that its activity is carried out safely and credibly; yet the financial market regulation in many cases is based on principles rather than on detailed rules. Therefore, Lietuvos bankas aims to ensure that financial market participants comply with not only the requirements laid down directly by legal acts, but also make efforts to take into account the regulatory objectives and principles of operation. Lietuvos bankas expects that the supervised financial market participants refrain from engaging in a creative game intended to disguise the risk exposure of the activities or business models;

12.8. the expert assessment importance: the objective of the expert assessment is to determine whether the financial market participants operate safely and credibly, whether they comply and whether they will be capable in the future to comply with prudential and other operational requirements. The expert assessment is inevitable in carrying out the supervision focused on the prevention and the future of the financial market that changes rapidly, the regulation of the activity of which in most cases is based on principles rather than the detailed rules. Therefore, the supervision is based on not only the rules and the processes described, but also on the opinion of the employees of Lietuvos bankas, based on the evidence and analysis. Lietuvos bankas takes care of the maintaining and improving the professional qualifications and development of employees of Lietuvos bankas;

2.9. advisory: the advisory principle requires that Lietuvos bankas provides and publishes consultations on issues within the competence of the supervisory authority, organise advisory events for financial market participants and implement other measures of a preventive nature that help financial market participants to comply with the requirements of legal acts (for example, by carrying out inspections/assessment visits, the purpose of which is to collect information about a financial market participant and assess its activities, to provide advice and methodological assistance to improve the activities of that financial market participant). Lietuvos bankas expects that every financial market participant, before seeking advice, will carry out analysis of the legislation by itself, as the responsibility for knowing of and ensuring compliance with the legislation governing its activities primarily rests with the participant itself. If the legal requirements are not clear, the financial market participant should, when applying to Lietuvos bankas, specify as precisely as possible the circumstances of the legal uncertainty and present the financial market participant's own view;

12.10. dialogue: in accordance with the dialogue principle, Lietuvos bankas pursues a continuous, open and effective dialogue with the financial market participant, both during its inspection and evaluation of operations, in the decision-making on supervisory actions, and on methodological and regulatory development issues, by ensuring that all relevant information is taken into account and that clear substantiation of the decisions are provided. Lietuvos bankas publishes legislative initiatives, draft legislation and draft guidelines being developed, so as to seek the views of the public and financial market participants and to enable them to make proposals, and is open to proposals for new legislative initiatives and allows sufficient time for a dialogue in finding the best solutions;

12.11. proportionality and effectiveness of the applicable sanctions: the proportionality and effectiveness of the applicable sanctions requires that sanctions are imposed on a financial

market participant only when the supervision objectives cannot be achieved in another way (*ultima ratio*), and the applicable sanctions must conform to the nature of the violation:

12.11.1. the aim is to ensure that the applicable sanctions deter the offender and other financial market participants from violations, that the imposed fines would exceed the revenues obtained due to violations, other material benefits, avoided loss or damage and otherwise be effective. It is accepted that the nature of violations made by the financial market participants, supervisory objectives and methods are different in the financial services supervision, the prudential supervision and the supervision of the prevention of money laundering and terrorist financing, therefore, accordingly, to the extent permitted by the legislation regulating the imposition of sanctions, the principles of the imposition of sanctions can also be different. To ensure a secure and credible financial system and to protect the public interest, Lietuvos bankas has the right and duty to react expeditiously in exceptional cases, by immediately imposing the strongest sanctions where particularly significant breaches are identified;

12.11.2. the effectiveness of the sanctions applied under this principle are also sought through the institution of administrative arrangements, which will enable Lietuvos bankas and financial market participants to come to a common approach, through dialogue, on the imposition of liability on the financial market participant, with a view to shortening the time of sanctions application processes, ensuring quicker legal certainty and further cooperation on the financial market in good faith. Lietuvos bankas expects that financial market participants are open and honest in the dialogue;

12.12. supervisory quality control: the supervisory quality principle requires that Lietuvos bankas applies the supervisory quality control and assurance measures, assesses the impact of the applied supervisory arrangements on the risks and the supervisory objectives, with a view to ensuring consistent, objective, reasonable and efficient supervisory practices;

12.13. transparency: the transparency principle provides that, in order to ensure that financial market participants understand the objectives of regulation and supervision and find the most appropriate solutions for implementation of those objectives, Lietuvos bankas, to the extent that it is without prejudice to the effective conduct of supervision and compliance with the confidentiality requirements laid down in legislation, publishes the supervisory policy, strategy, information on applicable requirements, principles, procedures, results and plans for the conduct of supervision, the supervisory authority's expectations, priorities and examples of good and bad practices;

12.14. efficiency: the efficiency principle requires that, in adopting and implementing decisions, Lietuvos bankas uses the resources allocated to it at the lowest possible cost and for the best possible result.

CHAPTER IV
FINAL PROVISIONS

13. In carrying out their functions, the Supervision Departments, closely cooperate among themselves and with other divisions of Lietuvos bankas, in particular, with the macroprudential policy authority and resolution authority, to assess the risks of financial market participants and financial services posed to the stability and credibility of the financial system, and to ensure the continuity of the provision of financial services that are important to consumers.

14. Lietuvos bankas cooperates with other institutions of the Republic of Lithuania to help find added-value solutions and reduce cross-sectoral risks.

15. Lietuvos bankas together with international partners, such as the European Central Bank, the European Banking Authority, the European Insurance and Occupational Pensions Authority, the European Securities and Markets Authority, the Authority for Anti-Money Laundering and Countering the Financing of Terrorism and with other national central banks and supervisory authorities, take active steps in the development and implementation of the requirements applicable in the European Union, by improving the supervisory policy and practices to ensure that regulation takes due account of the specifics of Lithuania's financial market, and by conducting the supervision of financial market participants operating in several countries and overall supervision of financial services.

16. The implementation of the Policy and the supervisory activities of Lietuvos bankas are regularly assessed by international and Lithuanian authorities. Lietuvos bankas carries out public surveys on consumer satisfaction with financial services and feedback surveys of supervised

financial market participants and discusses the results with the financial market participants. Lietuvos bankas reports to the public on the implementation of the Policy and takes into account the feedback received, with a view to improving the financial market supervision.

17. The Policy is reviewed and updated, if necessary, at least every three years. The member of the Board of Lietuvos bankas, who is in charge of supervision of the financial market, is responsible for the update of the Policy.

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