

## Comment coordination report

Comment coordination table:

No	Comment/Proposal	Assessment of comments/Proposals
1.	A well-functioning money market plays an important role in enhancing the capacity of different market participants to manage liquidity and is therefore the starting point for the existence of longer-term fixed-income markets. The Action Plan identifies a lack of secure short-term financial instruments to ensure liquidity. We would suggest that some work be done in this area, but this is not foreseen in the Action Plan.	Take into account partially. Revised in the Action Plan. No new specific projects have been launched lately but this is an area where companies that have never offered securities or money market instruments have to be enabled to try it out.
2.	Apart from being broken down by priority, topics or recommendations could be aligned with short-, medium- and long-term measures in the Action Plan.	Take into account partially. The Priorities in the Action Plan have been set based on the significant number of respondents who have mentioned them and/or the assessment by the LB that these measures could make a significant contribution to the stable development of the Lithuanian capital market. The Action Plan has been supplemented by the provision that the time limits for the implementation of the measures should be set by the Capital Market Council taking into account the impact of the measure on the market, status of the measures already in progress and other relevant circumstances.
3.	The structural weakness of the LB's consultative document is that it attempts to cover the problems and measures of different segments of the capital market. Separating the equity, bond, fund and other segments and presenting the LB's vision and strategy individually for each segment would help to clarify the objectives to be pursued and the contribution of individual measures to the achievement of those objectives.	Take into account partially. The Action Plan has been supplemented with more detailed information on the establishment of the Capital Market Council, including that the Council may, if necessary, set additional indicators to measure progress of implementation of the Capital Market Development Action Plan. It should be noted that the objective can only be achieved if all measures are implemented in an integrated manner. The implementation of individual measures would not necessarily achieve the objective.
4.	It should be noted that the plan for the amendment of legislation is approved by Resolution No 155 of the Government of the Republic of Lithuania of 10 March 2021 approving the Implementation Plan for the Provisions of the Programme of the Eighteenth Government of the Republic of Lithuania (hereinafter – the Government Resolution). The measures proposed in the draft are not in line with the Government Resolution, including the obligations of institutions to implement EU legislation in a timely manner. The time limits for the implementation of new measures proposed in the Plan high-priority measures to be implemented as soon as possible, medium-priority measures to be implemented in the medium term (1 to 2 years) should be linked to the priorities approved by the Government of the Republic of Lithuania and the schedule of implementation of EU legislation.	Take into account partially. The Action Plan specifies that the time limits for the implementation of the measures will be set by the Capital Market Council taking into account the impact of the measure on the market, status of the measures already in progress and other relevant circumstances.

5.	<p>According to the draft: “one of the most important measures for the development of the Lithuanian capital market is to increase the number of shares of state-owned enterprises (SOEs) floated on the stock exchange”. However, it should be noted that although this measure is listed as one of the most important ones, no realistic valid calculations, cost-benefit analyses or evaluations have been carried out in this regard. If it is claimed that the proceeds from the placing of the SOEs would generate greater benefits for the State and these proceeds could be used for the implementation of strategic projects of the State, it should be specified which SOEs and which size of the shareholdings are to be privatised, benefits to be derived should be calculated, strategic projects that could be financed should be identified, etc.</p>	<p>Take into account partially. The benefits to the State have not been considered and analyses of the EBRD and World Bank have been used. The benefits to the State are assessed on a case-by-case basis, listing is not an end in itself as it has to be beneficial to the shareholder and the company, i.e. it has to improve corporate governance and the funds raised through the IPO must be used for investment, development and refinancing.</p>
6.	<p>On ‘orphan source’ and ‘worthless’ shares  In 2018, on the initiative of the Lithuanian Central Securities Depository and the LB, the possibility of accounting by an issuer’s proxy (or activity type 30) was abolished. The key principle of this type of accounting was that accounts were opened for all owners of FIs (without concluding separate agreements on personal account management) who did not have/want a personal account for active trading on the basis of an accounting agreement concluded by the issuer (AB, UAB). The abolition of the possibility of such accounting (AT30) has led to the compulsory opening of personal FI accounts for all FI holders allegedly for the purposes of transparency and anti-money laundering and counter-terrorist financing (AML/CTF), which entailed additional costs for FI account managers administering these accounts. In order to achieve the objectives laid down in the Action Plan, we propose to consider the ‘reintroduction/restoration’ of the possibility of accounting by an issuer’s proxy (AT30) which would enable minority shareholders to move their ‘worthless’ and ‘orphan source’ shares to the accounting managed by the issuer’s proxy and the FI issuer would pay for such accounting. It should also be noted that Nasdaq CSD charges have a significant impact on the cost structure of ‘orphan source’ and ‘worthless’ shares. Therefore, in order to achieve the objectives laid down in the Plan, it is also necessary to consider the impact of charges levied by Nasdaq CSD.</p>	<p>Disregard. The necessity and ‘abolition’ of activity type 30, which was included in the legislation at the time of the privatisation of companies, has been discussed on numerous occasions and, in order to have uniform securities accounting requirements with Latvians and Estonians and in order to avoid discriminating between market participants due to the differences in taxes applicable to the opening and management of securities accounts, it has been decided to phase out this activity type. In this context, on 5 June 2018, Law No XIII-1234 amending Republic of Lithuania Law on Markets in Financial Instruments No X-1024 was adopted and its provisions apply to all persons intending to enter into transactions for the acquisition and transfer of financial instruments. The Bank of Lithuania does not think it is feasible and does not intend to reintroduce activity type 30; however, financial market participants may make proposals for an easier/more convenient complete abandonment of this activity type which could be considered in the context of the Capital Market Development Plan.</p>

7.	<p>Prioritisation of measures</p> <p>We propose to move the measures listed below from medium to high priority:</p> <ul style="list-style-type: none"> <li>• To identify the most relevant EU legislation to be amended in the area of capital markets and to prepare positions and reasoning on it (p. 39).</li> <li>• Assessment of national requirements and preparation of proposals regarding possible amendments (p. 39).</li> <li>• Preparation of a clarification or adjustment of the concept of investment advice (39 p.).</li> <li>• Proposals for amending legislation regulating the requirements for retail investors (p. 40).</li> <li>• To identify potential products that can provide an alternative to deposits, to encourage the emergence of such products (p. 44).</li> <li>• To continue the dialogue already initiated with the index compilers to include the Lithuanian market in the Emerging Markets indices (p. 46).</li> <li>• Financial education measures (p. 47–48).</li> </ul>	<p>Disregard. The Action Plan states that the priorities have been set based on the significant number of respondents who have mentioned them and/or the assessment by the LB that these measures could make a significant contribution to the stable development of the Lithuanian capital market. The Action Plan also clarifies that the time limits for the implementation of the measures should be set by the Capital Market Council taking into account the impact of the measure on the market, status of the measures already in progress and other relevant circumstances.</p>
8.	<p>Debt management and government bond issuance policies should help create a risk-free yield curve by facilitating the formation of reference interest rates for the corporate sector. The Action Plan points out that the Lithuanian capital market lacks simple financial instruments issued by the Government such as local government securities. In most countries, the federal government bond issuance programme acts as a catalyst for other market participants to issue securities by providing a reference price and basic infrastructure for other potential issuers. The Bank of Lithuania and the Government could look into these matters and identify possible policy improvements to further develop the capital market in the country.</p>	<p>Disregard. Market participants (intermediaries advising and representing them), as far as is known from practice, usually have their own borrowing cost methodologies and pricing schemes. Given that the results of assessment of whether the cost of Government borrowing affects the cost of borrowing of market participants would not have a direct impact on the cost of borrowing of market participants, this is not included in the Action Plan.</p>
9.	<p>The Action Plan lacks analysis related to the development of the local corporate bond market.</p>	<p>Disregard. The Action Plan discusses this issue, but a detailed and time-consuming assessment is needed to have more detailed information. This could be done, if necessary, through the implementation of related measures.</p>

10.	<p>The Action Plan contains statistics indicating that the Lithuanian capital market lags behind other countries which do not make it clear which country was used as a benchmark and why as well as why there are also significant differences in capital market development among those other countries that have strong economies (e.g. Germany vs. Sweden). It is important to note here that a high ratio of the national capital market to GDP is not an end in itself and does not necessarily reflect the country's economic development, e.g. it may seem that Germany's capital market is lagging behind but the companies there simply have had traditional attractive sources of funding from banks and internal resources and therefore do not look for funding on the capital market, so their relatively small capital market is not a problem in itself. Therefore, the central question about the Lithuanian capital market should be what it is supposed to serve in the first place: if it is corporate finance, then the question is whether Lithuanian companies have a financing problem (as shown by e.g. the Global Competitiveness Report of the WEF) and how can the Lithuanian capital market resolve these problems, e.g. through lower costs of capital raising. This information on corporate finance in Lithuania is currently insufficient and therefore it is not clear which problem is targeted by the LB measures in the corporate sector.</p>	<p>Disregard. The Action Plan contains measures designed to foster stable and competitive capital market development in Lithuania, facilitate the use of the existing financial market instruments for the individuals and economic entities (for companies to raise capital from a wider range of sources, for individuals to make their money 'work', etc.).</p>
11.	<p>The Action Plan of the LB provides survey-based information that the preparation of issues for companies costs too much and requires excessive documentation. However, it remains unclear why they do not choose the capital market as a source of funding and which particular processes related to the issue they find too costly and what are the cost differences compared to traditional sources of funding. For the purposes of comparison, it would also be important to know whether there are Lithuanian companies that simply opt for capital markets in other countries and why. Without knowing all this, there is a risk that the implementation of certain LB measures will not bring about the desired results.</p>	<p>Disregard. To the knowledge of the Bank of Lithuania, companies choose other jurisdictions due to unfavourable corporate legislation (no FI option, etc.). This problem has been identified in surveys and is referred to in the Action Plan.</p>

12.	<p>The LB envisages the involvement of SOEs as one of the measures to stimulate the capital market in Lithuania. At this point, a distinction should be made between debt securities and equity issues. In the first case, SOEs have the potential. Equity issues are further complicated by the fact that most SOEs have a public function in addition to their commercial activities, which means that the budget is a source of financing which is dependent on political processes, while the activities and ownership rights of companies themselves are restricted by various laws, e.g. national security laws. Therefore, strong arguments will be necessary to convince policymakers to direct SOEs towards the capital market. One argument could be an area where SOEs are still underdeveloped and where the LB can generate added value: corporate governance and supervision. Currently, governance and supervision of SOEs is process-oriented, i.e. the implementation of various regulations that are passed down by parent ministries. By contrast, the capital market (at least in the West) is dominated by corporate governance based on the responsibility and accountability of management, with supervision by a body which is legally independent and has powers of control and sanction (the LB in Lithuania), which is more effective than the current practice of supervision of SOEs. Therefore, the first step towards more effective governance of SOEs would be putting SOEs (and SMEs in the future) on a par with capital market issuers, without even entering the capital market to begin with, but subject to the same accountability and responsibility requirements and transferring their supervision to the LB. Perhaps this would increase the incentive to review the business models of SOEs, separating commercial activities from public functions and thereby preparing candidates for the capital markets.</p>	Disregard. The proposal does not concern this document.
13.	<p>In order to increase competition on the Lithuanian market for 2nd and 3rd pillar pension funds and to promote low-cost index-based investment options that are gaining popularity worldwide, we propose to harmonise the diversification requirements for pension funds (2nd and 3rd pillars) between Lithuania and Estonia by increasing the cap per financial instrument in a pension fund (Article 49(2) of the Republic of Lithuania Law on the Supplementary Voluntary Accumulation of Pensions from 20% to 30% (currently 20% in Lithuania and 30% in Estonia although there is no reason to believe that pension funds are not sufficiently diversified in Estonia). This change could be clarified by requiring that the 30% cap applies when PFs invest in broadly (globally) diversified financial instruments.</p>	Disregard. The regulation of pension funds is linked to UCITS. This proposal would increase concentration/risks and would also distort other provisions of the Republic of Lithuania Law on the Supplementary Voluntary Accumulation of Pensions requiring a detailed review of the law's articles. To harmonise pension accumulation options across the EU, the PEPP regulation is currently being developed.

14.	<p>To promote competition on the Lithuanian market for 2nd and 3rd pillar pension funds and the creation of new pension companies, the requirement for 2nd and 3rd pillar pension funds should be harmonised. In the 3rd pillar, new pension funds are exempted from the diversification requirements for a period of six months without limiting the size of the fund's assets (Article 50(2) of the Republic of Lithuania Law on the Supplementary Voluntary Accumulation of Pensions), while 2nd pillar PFs are subject to the 6-month period and a limit on the fund's assets up to €100,000 (Article 15(5) of the Republic of Lithuania Law on the Supplementary Voluntary Accumulation of Pensions). We propose to harmonise regulation and not to apply the limit on the size of the fund in the 2nd pillar and apply only the period applicable to 3rd pillar PFs.</p>	<p>Disregard. The €100,000 threshold was introduced to protect consumers since portfolio diversification is already possible above this threshold.</p>
15.	<p>We propose to increase competition in the 3rd pillar and to level the playing field between 3rd pillar pension funds and unit-linked life insurance solutions which are considered the equivalent to 3rd pillar pension accumulation:</p> <p>a. Allowing pension companies managing 3rd pillar pension funds to collect contributions of pension fund members into 'pooled' accounts (rather than into the account of the specific pension fund) from which the contribution could be allocated to a number of pension funds chosen by one participant. This option is available to the providers of unit-linked life insurance but for some reason it is not foreseen in the current regulation of 3rd pillar pension funds. Again, in this respect, we propose to harmonise Lithuanian regulation with that of Latvia, where such option already exists;</p> <p>b. Allowing the possibility, where a 3rd pillar pension fund is launched by an employer for the benefit of its employees, to set conditions (number of years of service with that employer or otherwise) under which the amount accumulated in the 3rd pillar pension fund would pass to the employee. Currently, the playing field is not level as providers of unit-linked life insurance can offer employers this option of pension accumulation while the providers of 3rd pillar pension funds cannot. This must be rectified and regulation harmonised.</p>	<p>Disregard.</p> <p>As for paragraph (a), it is already possible to save in several pension funds. This option was considered during the reform and the Target Date concept was chosen. In the 3rd pillar, PFs are designed for a specific age group (e.g. 18+, 50+, 60+, etc.) and participants can direct their investments to several different PFs (with different risk levels), thereby ensuring an appropriate level of risk for their savings.</p> <p>As for paragraph (b), this issue is regulated by the Republic of Lithuania Law on Accumulation of Occupational Pensions and not at the level of the 3rd pillar. While the funds in the 3rd pillar PFs are the property of participants, limitations can be imposed in the case of occupational pensions.</p>