CAPITAL MARKET DEVELOPMENT ACTION PLAN

2022

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www.lb.lt/en/

ABBREVIATIONS

BAS	Business Accounting Standards
CFPO	crowdfunding platform operator
CIU Law	Republic of Lithuania Law on Collective Investment Undertakings
CIU	collective investment undertaking
CIUIII Law	Republic of Lithuania Law on Collective Investment Undertakings Intended for Informed Investors
CMU	Action Plan on Capital Market Union adopted by the European Commission on 24 September 2020
Companies Law	Republic of Lithuania Law on Companies
Description of the Information Document	Description of the procedure for preparation and publication of the information document required for public offerings of medium sized issues and medium sized crowdfunding transactions, approved by Resolution No 03-45 of the Board of the Bank of Lithuania of 28 February 2013
DLT	distributed ledger technology
DS	debt securities
EBRD	European Bank for Reconstruction and Development
ETF	Exchange Traded Fund
EU	European Union
GoRL	Government of the Republic of Lithuania
GSB	government saving bonds
ICVC	investment company with variable capital
IPO	initial public offering
Law on Securitisation and Covered Bonds	Republic of Lithuania Law on Securitisation and Covered Bonds
LB	Bank of Lithuania
LBA	Association of Lithuanian Banks
LFMA	Lithuanian Finance Brokers Association
LIPFA	Lithuanian Investment and Pension Funds Association
LP	limited partnership
MC	management company
MEI	Ministry of the Economy and Innovation of the Republic of Lithuania
MF	Ministry of Finance of the Republic of Lithuania
MIFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU
MJ	Ministry of Justice of the Republic of Lithuania
MTF	multilateral trading facility
OECD	Organisation for Economic Cooperation and Development
PF	pension fund
RM	regulated market
SMB	small and medium-sized business
SME	small and medium-sized enterprises
SOE	state-owned enterprise
SPAC	special purpose acquisition company
STI	State Tax Inspectorate
UAB	private limited liability company

CONTENTS

SUMMARY

Lithuanian capital market is not deep and developed enough, there are not enough market participants and investors, and the financial literacy of the population and enterprises is not high. This leads to a high potential for the capital market development in Lithuania. To foster stable and competitive development of the Lithuanian capital market, attraction of new investors and the activity of the existing ones, as well as the development of new financial products, and to facilitate the access of the country's economic entities to the existing instruments of the financial market and the financing instruments used in other countries, the Bank of Lithuania has prepared the Capital Market Development Action Plan containing the proposals made and the problems identified by market participants and investors, as well as the issues identified by the Bank of Lithuania and the proposed solutions thereto.

The views of market participants and investors on how to improve these areas were gathered during surveys conducted by the Bank of Lithuania. Market participants identified key factors, such as the legal and tax environment, as having an important impact on capital market development. The Companies Law has been distinguished as one of the key legal acts having a decisive impact on the development of the Lithuanian capital market, which is currently no longer in line with the needs of the market. Many respondents identified the importance of tax clarity and certainty, tax incentives and ease of tax return, which could be facilitated by the creation of an investment and savings account institute covering a wide range of financial market participants.

Other important problems have been identified, such as the lack of diversity of financial instruments traded on the Lithuanian capital market, the limited choice of investment services and products caused by the lack of innovative services and the relative high cost of services. Most of the companies listed on the Lithuanian market are large enterprises, which shows that the accessibility of the capital market and its opportunities are difficult to attain for SMEs. In the surveys, market participants also noted the need to classify the Baltic States' capital markets as emerging markets, and lack of financial literacy.

It is important to note that the development of the Lithuanian capital market is currently handled by several public authorities; however, there is no single coordinating institution to take care of the overall strategy for the development of the Lithuanian capital market. In this context, there is a lack of a coherent and long-term approach and action at government level on capital market development. In the view of the Bank of Lithuania, the establishment of the Capital Market Council would ensure a coherent and clear direction for the capital market development. In the first phase, the Capital Market Council would ensure the implementation of the measures set out in the Capital Market Development Action Plan and evaluate the results achieved. Following the implementation of the measures set out in the Capital Market Action Plan, the Capital Market Council should continue its activities and ensure the ongoing coordination of capital market development.

The Capital Market Development Action Plan covers the following areas: the debt and equity securities markets, i.e. regulated and non-regulated securities markets; retail investment in debt and equity securities; investment fund markets, in relation to investment in Lithuanian enterprises and the listing of investment funds on the exchange of Nasdaq Vilnius, AB; and the market for pension funds and crowdfunding, in relation to investment in Lithuanian enterprises.

The Capital Market Development Action Plan consists of seven strands: the establishment of the Capital Market Council; the legal framework; the tax framework; the supply of new financial products; the activity and infrastructure of Nasdaq Vilnius, AB; intermediaries; and financial education. For each of these strands, measures are proposed to support the capital market development in Lithuania.

The following institutions are involved in the implementation of the Capital Market Development Action Plan proposed by the Bank of Lithuania: LB, GoRL, MF, MEI, MJ, STI, Nasdaq Vilnius, AB, LIPFA, LBA, LFMA, Invest Lithuania, and market participants.

The document is comprised of two parts and an annex. The first part of the document provides an overview of the current situation of the Lithuanian capital market, presents key statistical data, highlights problematic aspects of the development of the Lithuanian capital market and

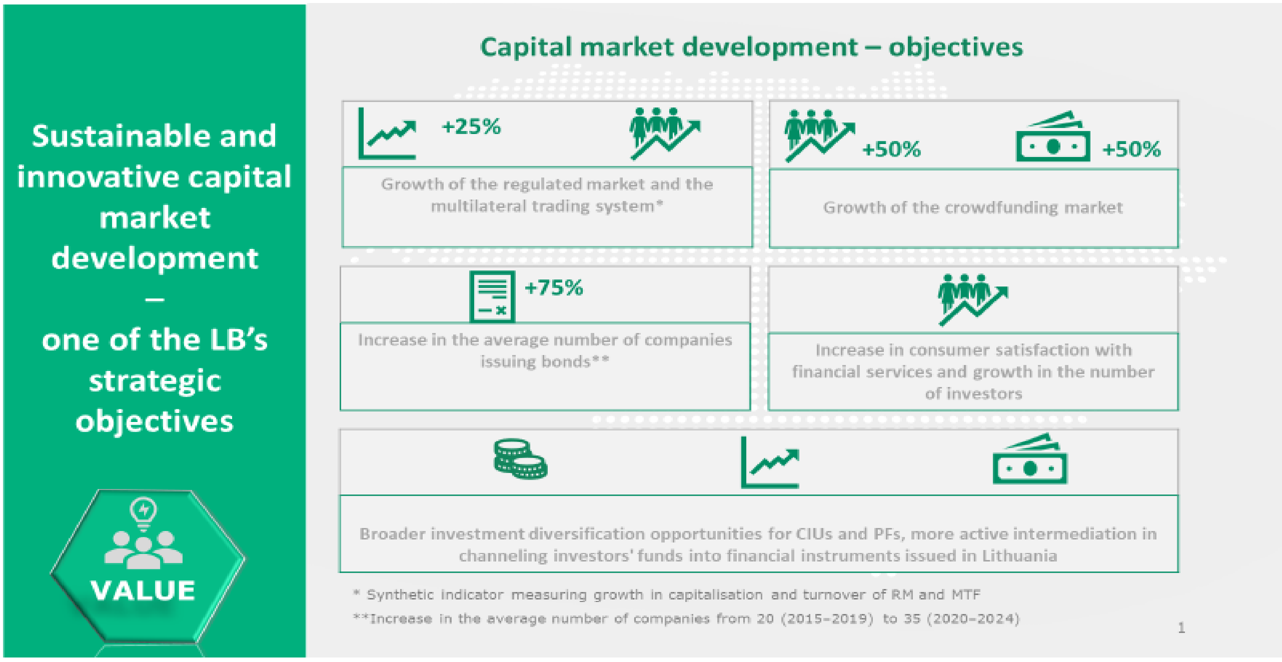
identifies areas for improvement. In the second part, the Capital Market Development Action Plan proposed by the Bank of Lithuania is provided. The annex lists the measures already implemented, as proposed by market participants during the survey year.

1. CURRENT SITUATION AND ANALYSIS OF THE ISSUES

1.1. INTRODUCTION

A well-developed national capital market plays an important role in a country's economy by channelling funds to where they are most beneficial, ensuring stable economic growth, and maintaining financial stability. The capital market improves the accessibility of long-term finance, allowing companies to better manage the cost of raising operational finance, and reduce the risks associated with long-term investments. In addition, the local capital market offers the financing opportunity in the home country. In summary, the capital market allows companies to strengthen their capital base and better withstand financial and economic crises, while allowing citizens to engage their savings and contribute to local economic growth. A strong, developed national capital market would enable foreign investment, and enhance Lithuania's visibility and prestige in the EU and globally. Cooperation between the three Baltic States and the presentation of a common, harmonised market is essential for inclusion in the higher indices and, in general, for greater visibility and recognition abroad. Similar work has already been started at the level of operators of the regulated market with the adoption of common Baltic Exchange membership rules, the harmonisation of listing standards, the establishment of common Baltic market listings, etc.

Figure 1. Objectives of the Bank of Lithuania for 2022–2025 in relation to capital market development



Many countries have undertaken reforms and initiatives to develop their domestic capital markets over the last few decades, but many have struggled to achieve good results. The number of listed companies is not increasing, and neither are the number of investors, either foreign or domestic. Lithuania is no exception: its capital market is small and underdeveloped; despite many attempts to develop it no fundamental changes have been made. As the institution responsible for financial stability and the regulation and supervision of the financial market, one of the strategic directions of the Bank of Lithuania for 2022–2025 is the capital market development in Lithuania. We have set specific objectives (see Figure 1) and actions to release and engage more effectively the capital market, a reserve that has been unexploited so far. We have therefore taken the initiative to develop the Capital Market Development Action Plan to focus on those areas that are essential for the stable and rapid capital market development.

The most important capital market factors are the supply and demand for capital. Both capital market factors need to be stimulated simultaneously. In this context, comprehensive measures are needed to encourage enterprises to get listed on the Nasdaq Vilnius, AB exchange, and to attract domestic and foreign institutional investors (e.g. pension funds, insurance companies) to the Baltic capital markets. Attracting institutional investors, who would direct a significant part of their capital under management to the Baltic capital markets, is likely to increase the small investment confidence. In this context, a systemic approach and solutions are needed. In the LB's opinion, possible solutions include improving the legal regulation, which would legalise the investment and savings account in Lithuania, expand the possibilities for pension funds to invest in a wider range of financial market instruments, and enable market participants to choose from a wider range of possible financing instruments. At the same time, it is necessary to amend or recast the Companies Law that would create a more favourable corporate regulation, which is very important for the capital market, and respond to rapidly changing market needs. In addition, the MF has already prepared possible amendments to the Republic of Lithuania Law on the Supplementary Voluntary Accumulation of Pensions, allowing pension funds to invest their funds in over-the-counter securities, which are important in attracting private investors. A key factor for market development would undoubtedly be the listing of SOEs and the increase in the number of free shares of listed SOEs, as well as the active participation of the Lithuanian state in revising the requirements of MIFID II and AIFMD. Active involvement of all stakeholders (Ministry of Finance, Ministry of Economy and Innovations, Bank of Lithuania, and market participants) in the EU regulatory review procedures and coordination of positions with representatives of Latvia and Estonia can help to ensure that regulation is proportionate, and the requirements are not too high for the participants in the smaller EU markets. These and other measures, in the view of the LB, would foster stable and competitive development of the Lithuanian capital market, and facilitate the access of the country's economic entities to financial market instruments.

Sources of information used in the study

The problems of the Lithuanian capital market and the opportunities for its development have been identified through various surveys and summaries of the capital market situation prepared by the Bank of Lithuania and other institutions. The entirety of these documents allows for a comprehensive assessment of the capital market development issues in Lithuania, and areas for improvement. This document mainly uses data from the following surveys and assessments or summaries from other institutions[1]:

- The Bank of Lithuania's surveys of 2021 on the opportunities for the development of the Lithuanian capital market: these surveys were aimed at finding out the reasons for the less frequent use of other sources of funding for activities than loans from credit institutions, measures that could improve the characteristics of financial products and their liquidity, the need for the emergence of new financial services and products, the reasons for the facilitation of the public issuance of financial instruments and the introduction of new companies to the regulated market and the alternative market, etc. 14 financial intermediaries/management companies, 6 companies, and 4 law firms responded to the capital markets development questionnaires. The questionnaire was also filled in by 81 investors.
- The Bank of Lithuania's survey of 2021 on attracting new investors, encouraging existing investors and developing new products: 17 market participants responded to the survey.
- The Bank of Lithuania's 2021 study on the supply of sustainable investment products[2]: the study surveyed banks, financial brokerage firms, and management companies. A total of 17 financial undertakings responded to the questionnaire, i.e. almost all enterprises offering investment services to retail investors in Lithuania.

[1] Other surveys conducted by the Bank of Lithuania not mentioned in this list were also used.
[2] https://www.lb.lt/lt/naujienos/trecdalis-rinkos-dalyviu-platina-su-tvarumu-siejamus-investicinius-produktus

- In 2021, the Bank of Lithuania and the Competition Council carried out a detailed study on financing opportunities for SMB[3], which included an analysis of SME financing and made recommendations to improve SME financing opportunities in Lithuania.
- The LBA-initiated survey[4] was conducted in 2021, which was used to calculate the overall financial literacy index of the country's population.
- The World Bank's study of 2021 on the listing of SOEs in emerging and developed markets[5].
- Study on the improvement of the investment environment for institutional investors in Lithuania conducted by the EBRD and contracted Lithuanian legal consultants in 2018[6].

1.2. CURRENT SITUATION OF THE LITHUANIAN CAPITAL MARKET

The Lithuanian regulated market has shrunk after the 2009 crisis and has not yet recovered: the number of listed issues fell from 57 in 2008 to 28 in 2017, while the Stock Market Capitalization-to-GDP Ratio, a widely used indicator in the financial markets, decreased by multiple times from 33% in 2005 to 9.3%[7] in 2021. The Stock Market Capitalization-to-GDP Ratio in Estonia and Latvia[8] has also declined over the same period, with the Estonian ratio falling from 27% in 2005 to 16.9% in 2021, and the Latvian ration falling from 13% in 2015 to 2.5% in 2021. From a global market perspective, the Lithuanian stock market is included in the MSCI FRONTIER MARKETS index published by MSCI. This discourages foreign investment and fails to match the current level of market development.

According to the survey conducted by the LB[9](see Figure 2), Lithuanian enterprises do not tend to use the capital market and have identified internal resources as the main or more significant financing arrangements of their operations. 44% of respondents ranked the choice of internal financing as very important because there are sufficient resources or there is no need to borrow, while 20–30% of respondents ranked other reasons as very important (e.g. enterprise owners not wanting to lose management control or take on additional liabilities, insufficient collateral, overcomplicated procedures, etc.).

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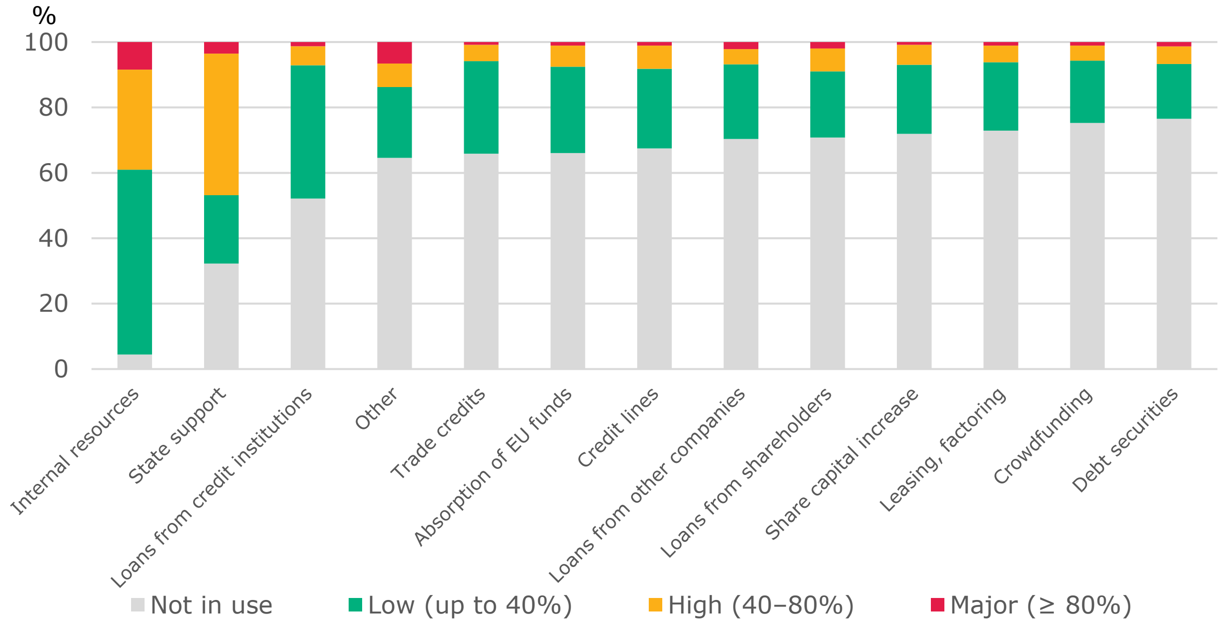
[3] https://www.lb.lt/uploads/publications/docs/34092_c20fb83cb73fe98683369492592a17b4.pdf
[4]https://www.lba.lt/lt/apie-mus/asociacijos-naujienos/lietuvos-finansinio-rastingumo-indeksas-situacija-gereja-taciau-progresas-per-letas
[5] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/984431624443117178/listing-state-owned-enterprises-in-emerging-and-developing-economies-lessons-learned-from-30-years-of-success-and-failure
[6] https://finmin.lrv.lt/uploads/finmin/documents/files/EN_ver/Lithuania%20Institutional%20Environment%20-%20Final%20Report.pdf
[7] I.e. the ratio of regulated stock market capitalisation to GDP, including MTF stock capitalisation, is 9.5.
[8] Source: https://www.ceicdata.com/en
[9] https://www.lb.lt/uploads/publications/docs/33288_1fb88712b970bdadf59cdb6c68158433.pdf

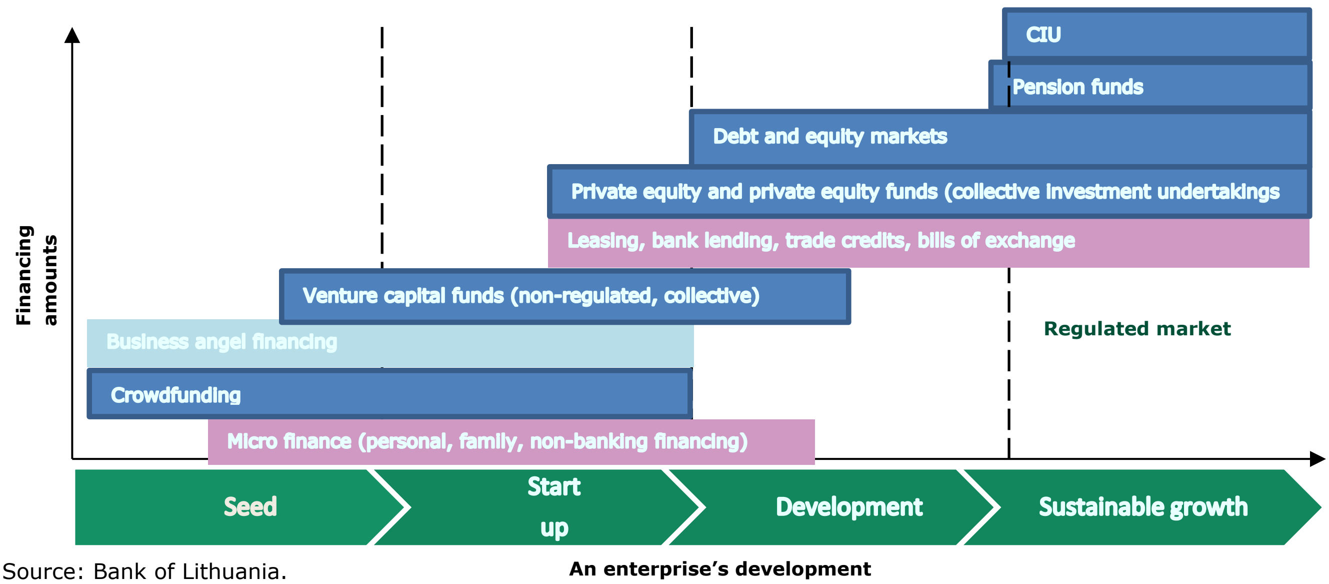
Figure 2. Financing sources of corporate operations



Source: Bank of Lithuania
Note: Some source names have been abbreviated.

The availability of other financing instruments, which are linked to different types of financial market players, is also important for business financing at different time horizons, depending on the size and development of an enterprise. Crowdfunding, private equity funds or pension funds help an enterprise to access finance at different stages of its development and promotes its growth and maturity before it reaches a size suitable for listing (see Figure 3).

Figure 3. Financial facilities suitable for use at different stages of an enterprise's development



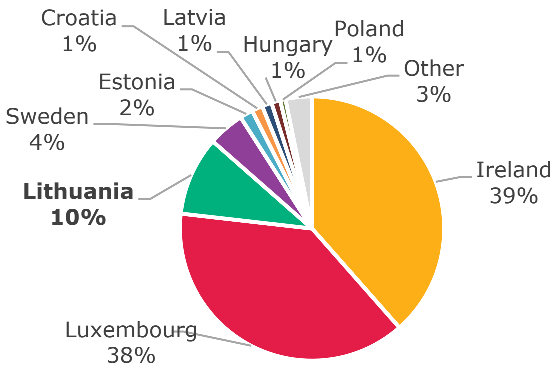
Source: Bank of Lithuania.

Pension funds

As of 30 June 2021, there were 5 pension accumulation companies operating in Lithuania: 4 management companies and 1 life insurance company. They managed 40 2nd pillar pension funds and 17 3rd pillar pension funds. Almost 1.5 million participants accumulated assets in PFs, which amounted to €5.4 billion. Most of the PF investments are in stocks (or stock CIUs): 2nd pillar PFs account for 75%, 3rd pillar PFs for 58%, and the largest share of investments is in CIUs: 83% in 2nd pillar PFs and 78% in 3rd pillar PFs.

Most of the assets managed by PFs are invested in securities issued abroad (see Figure 4); at the end of June 2021, around 6.6% (€349 million) of the total assets managed by PFs were invested directly in stocks and bonds registered in Lithuania. Around 0.8% (€44 million) of the total assets managed by PFs were invested in CIUs registered in Lithuania.

Figure 4. Distribution of PF assets by country of registration of financial instruments (June 2021)



Source: Bank of Lithuania.

In 2019, following the implementation of the pension system's reform the number of 2nd pillar PFs has increased (from 26 PFs at the end of 2018 to 40 PFs in June 2019). Moreover, as a part of the reform the maximum asset management fee was reduced therefore the amount of fees paid by participants was also decreased.

Collective investment undertakings

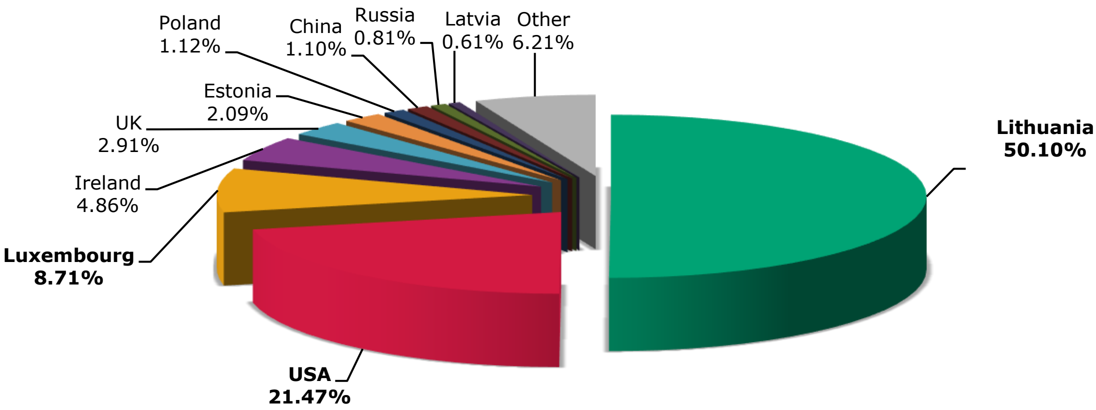
On 31 December 2021, in Lithuania, 6 MCs supervised by the LB had established 14 CIUs operating under the CIU Law (13 investment funds and 1 ICVC): 5 stock, 5 mixed investment, 2 real estate, 1 DS, and 1 private equity CIUs. Of these funds, 2 umbrella CIUs can be distinguished, both of which are classified as mixed investment funds. These umbrella funds had 5 sub-funds: 1 stock, 2 mixed investment, and 2bonds. The market for CIUs operating under the CIU Law grew for the first time in the last five years, with an increase in the number of assets managed by CIUs, and the number of CIUs. According to the data for 2021, compared to the end of 2020, the assets under management of CIUs have increased by 10.3% or €14.4 million, and the number of CIUs has increased by two. Looking at the distribution of CIU investments by country, it can be seen (see Figure 5) that more than 50% of CIU assets are invested in Lithuania. It is followed by following countries: the USA (21.5%), Luxembourg (8.7%), Ireland (4.9%), etc.

In Lithuania, 33 MCs supervised by the LB had established 116 collective investment undertakings intended for informed investors, which operate in accordance with the CIUIII Law: 70 real estate, 15 private equity, 8 mixed investment, 7 infrastructure, 6 venture capital, 3 loan funds, 1 bond fund, 1 cryptoasset and 1 litigation fund. In 2021, the number of collective investment undertakings intended for informed investors increased by 16 funds. Looking at the assets and the number of participants of collective investment undertakings intended for informed investors, both assets and the number of participants grew, with the assets amounting to €1,480 million (over 44% more than at the end of 2020); and as of 31 December 2021, the number of participants of collective investment undertakings intended for informed investors amounted to 2,560 (nearly 50% more than a year ago). Most of collective investment undertakings intended for informed investors investments are in securities, real estate, or energy facilities in the Baltic States, mainly Lithuania.

As of 31 December 2021, the units of 77 CIUs registered abroad, having 408 sub-funds, were distributed in Lithuania. The value of foreign CIUs distributed in Lithuania amounted to €379.24 million (the asset value increased by 60.94% or €143.6 million during the year). At the end of

2021, the number of foreign CIU participants amounted to 73.9 thousand (an increase in the number of participants by 38.45% or 20.54 thousand).

Figure 5. Regional breakdown of CIU investments



Source: Bank of Lithuania.

Crowdfunding

As of 31 December 2021, there were 21 CFPOs that announced 866 projects during 2021 (133.23% more than in 2020), of which only 2.4% or 37 projects were developed abroad. In 2021, the number of active platforms increased by two, the amount funded by the CFPOs amounted to €114.78 million, exceeding the amount funded in 2020 by 191%, while the number of transactions increased by 177.35% to more than 261.16 thousand.

On 10 November 2021, Regulation (EU) 2020/1503 on European crowdfunding service providers for business, which establishes a common legal framework for crowdfunding across the EU, came into effect. It should be noted that the principles and substantive requirements for crowdfunding service providers set out in the Regulation are very similar to those set out in the Republic of Lithuania Law on Crowdfunding, except for a few major innovations, such as auto-lending or the cooling-off period. Once relicensed, the platforms will be able to operate across the EU, which is likely to boost the growth of this market.

Although crowdfunding regulation allows raising funds not only in the form of loans, but also in the form of securities, currently only a few projects in Lithuania have opted for debt securities issuance, while equity securities issuance is not taking place.

Investment services

As of 31 December 2021, there were 15 entities registered in Lithuania providing investment services: 10 investment firms, and 5 banks and their branches. The revenues of investment service providers have been increasing in recent years, amounting to €7.16 million in 2019; €7.04 million in 2020; and €9.91 million in 2021. The value of assets held in securities accounts has been increasing since 2017, and the transaction value has also been growing significantly, becoming double in size in the last two years.

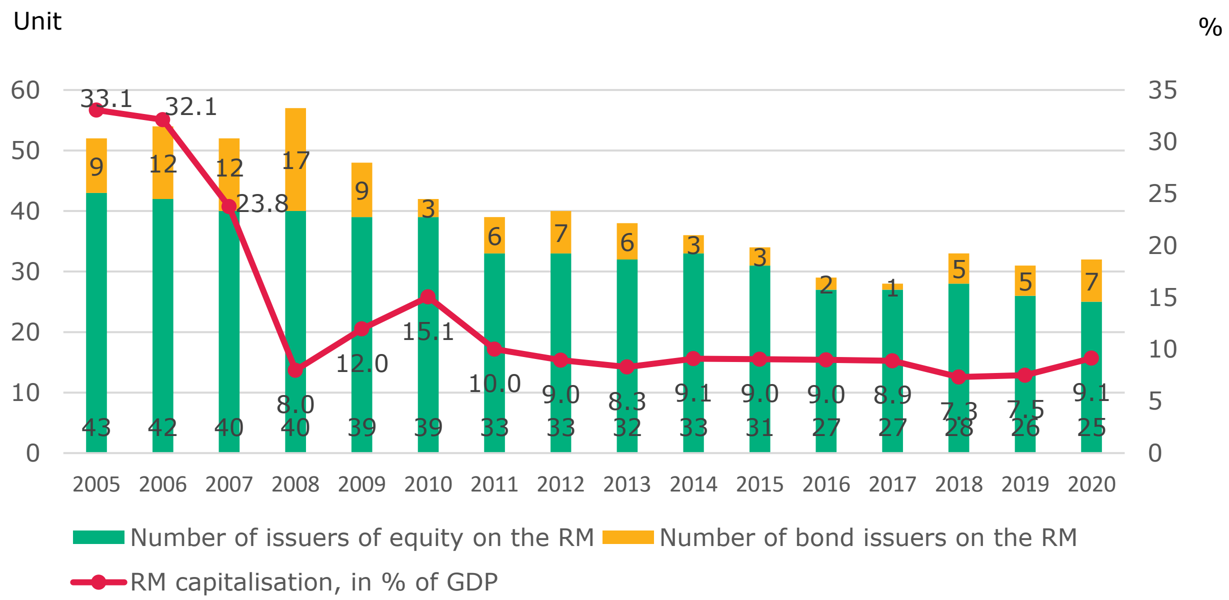
The number of investment services providers has also been growing, with 1 new entity established in 2019, and 2 enterprises established in 2021 (one of them in November 2021). The entities operating in Lithuania provide their clients with the opportunity to acquire securities issued by Lithuanian and foreign issuers, distribute units of CIUs established in Lithuania and abroad, provide investment recommendations, and manage client portfolios.

Listed financial instruments

As of 31 December 2021, 25 stock issues and 10 bond issues were listed on the RM trading lists of Nasdaq Vilnius, AB in Lithuania, and 5 stock issues (2 of them listed on a foreign stock exchange) and 6 bonds issues were listed on the Nasdaq Vilnius, AB, alternative First North market, which is eligible for the MTF. Among the securities tradable on the RM, there are shares of 5 of SOEs: Ignitis grupė, AB (27% free float of shares), Klaipėdos nafta, AB (72.34% – the state-owned shares, 10.41% of shares belong to Koncernas Achemos grupė, UAB, and the free float of shares amounts to 17.25%), Amber Grid, AB and Litgrid, AB, managed via UAB EPSO-G, where the free float of shares is respectively 3.4% and 2.5%, and AB Kauno energija, where the free float of free shares is 10%, while the remaining shares belong to the Kaunas City Municipality.

In Estonia, 20 stock issues and 13 bond issues were listed on Nasdaq Tallinn, and in Latvia, 13 stock issues and 11 bond issues were listed on Nasdaq Riga on the same date. On the MTF markets, Nasdaq Tallinn has 8 stock issues and 3 bond issues, and Nasdaq Riga has 3 stock issues and 4 bond issues.

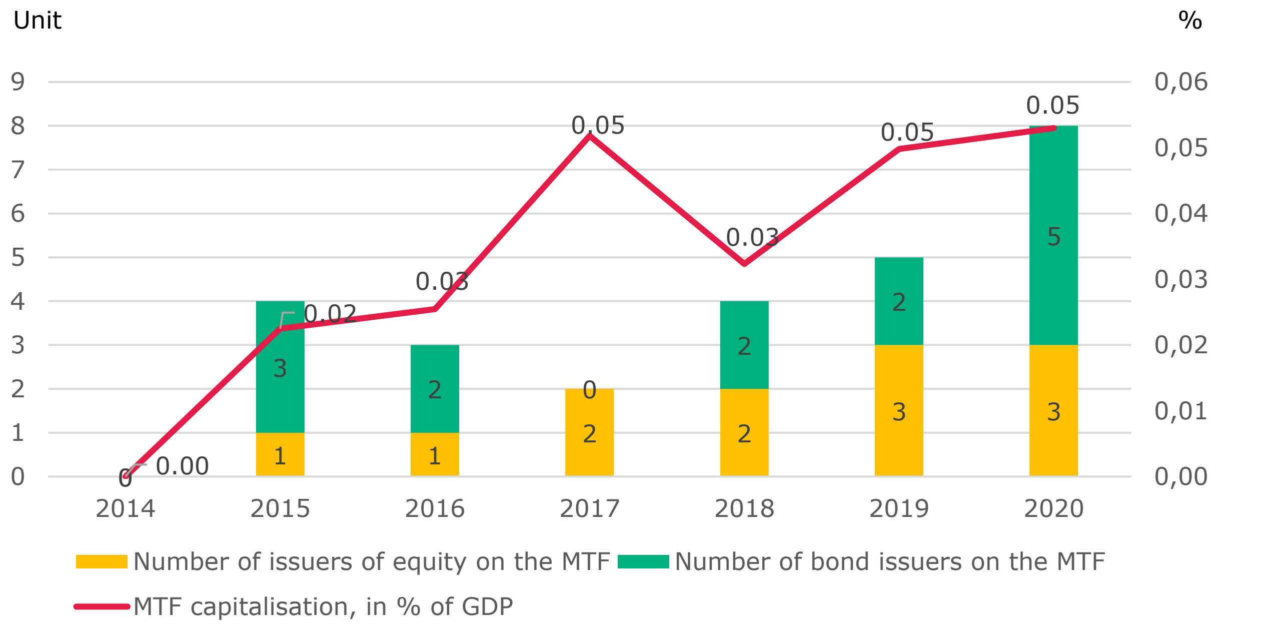
Figure 6. Statistics of financial instruments listed on the RM of Nasdaq Vilnius, AB



Source: Bank of Lithuania.

As shown in Figure 6, the Lithuanian regulated market has shrunk after the 2009 crisis and has not yet recovered: the number of listed securities issues fell from 57 in 2008 to 28 in 2017, while the Stock Market Capitalization-to-GDP Ratio, a widely used indicator in the financial markets, dropped by multiple times from 33% in 2015 to 9.3% in 2021. On the regulated market, the situation has been improving slightly since 2018 because of newly listed bonds. In contrast, there were no listed instruments on MTF (First North market) at all (see Figure 7) until 2014, and it is only in recent years that companies have decided to issue and list stocks and bonds on MTF. Turnover is also down, with stock turnover on the RM ranging from €70 to €90 million per year in recent years, skyrocketing to almost €190 million only in 2020 and to €375 million in 2021. Bond turnover was close to zero until 2020 and rose above €2 million only in 2020, growing to €4 million in 2021. The situation is similar for MTFs: in recent years, the stock turnover has been around €0.5 million, and exceeded €1 million only in 2020 and 2021; while the bond turnover fluctuated between zero and €1 million until 2020 and increased to €3.4 million in 2021. Moreover, for several years in a row, merely 4 CIUs have been listed on the Lithuanian market (-1 CIU on the Estonian market, none on the Latvian market), and the CIU turnover is also low, fluctuating up to €0.2 million per year. Meanwhile, there have been no ETFs listed on the Nasdaq Vilnius, AB, although this investment instrument is very popular in other countries, referred both by institutional and retail investors.

Figure 7. Statistics of financial instruments listed on the DPS Trading List of Nasdaq Vilnius, AB

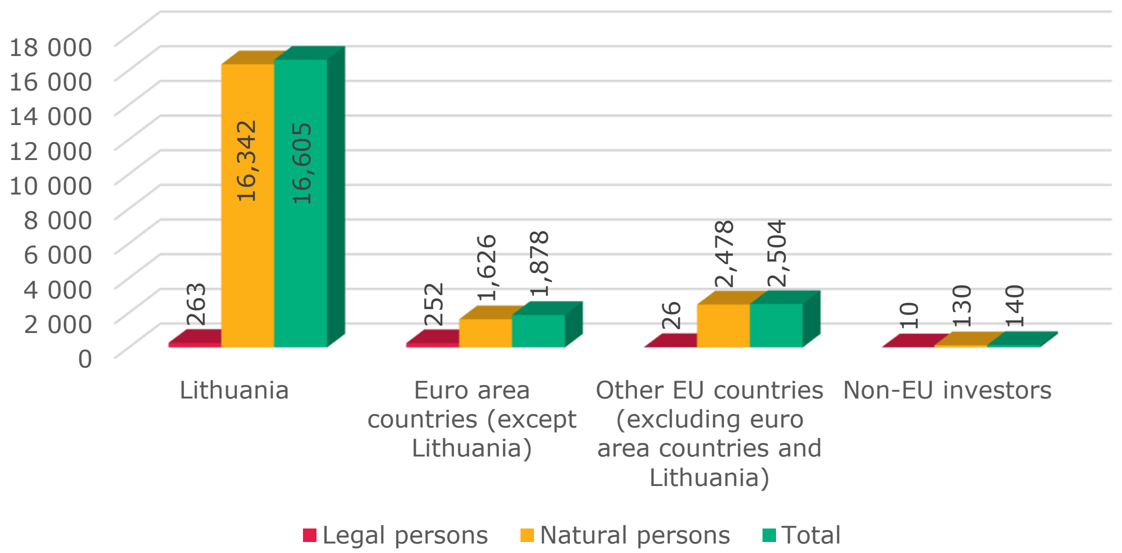


Source: Bank of Lithuania.

Investors

The LB's analyses of 2020–2021 show[10] (see Figures 8 and 9) that although the number of Lithuanian individuals investing on the Nasdaq Vilnius, AB stock exchange has doubled in 2020 compared to 2019 (from 8 thousand to 16 thousand), and the number of transactions they have completed has increased by 1.5 times (from 90 thousand to 147 thousand), these are not significant numbers compared to developed countries.

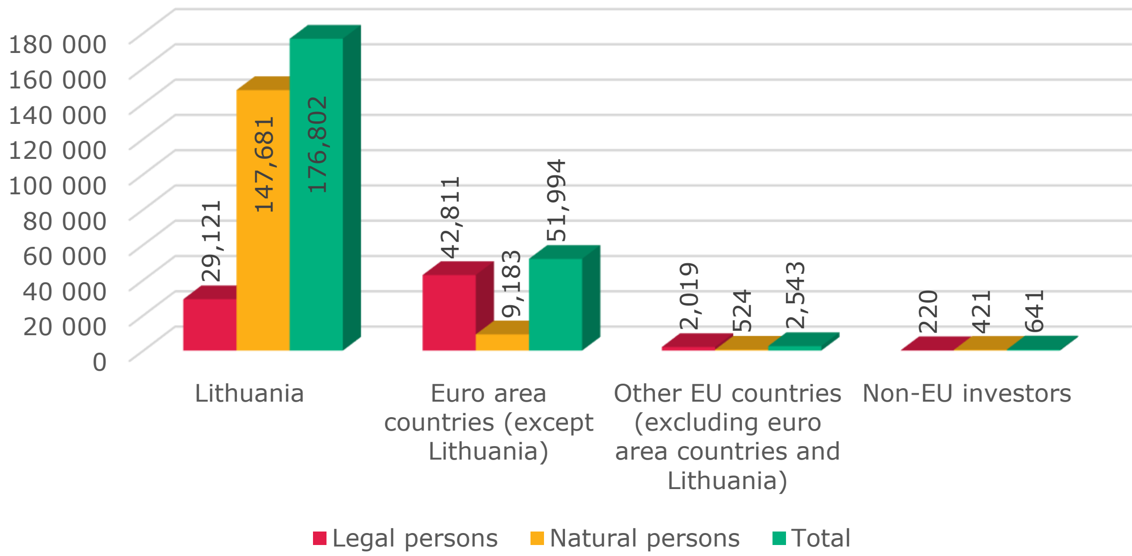
Figure 8. Number of investors investing in financial instruments listed on Nasdaq Vilnius, AB in 2020



Source: Bank of Lithuania.

[10] https://www.lb.lt/lt/naujienos/analize-investuojanciuju-skaicius-isaugo-du-kartus-aktyvesni-buvo-ir-uzsienio-investuotojai and https://www.lb.lt/lt/naujienos/investuotojo-portretas-kas-ir-kaip-investuoja-lietuvoje

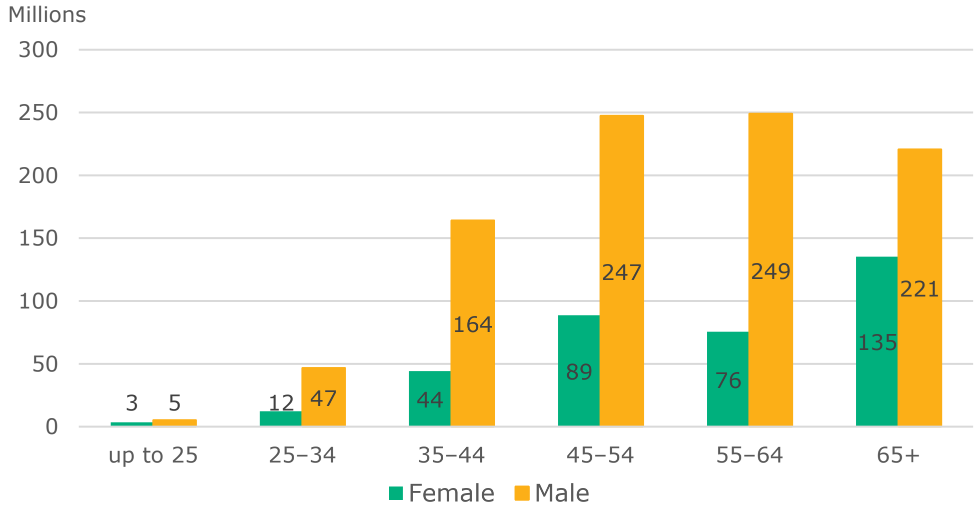
Figure 9. Structure of investors investing in financial instruments listed on Nasdaq Vilnius, AB by the number of transactions in 2020



Source: Bank of Lithuania.

According to data provided by intermediaries, 233 thousand people held securities accounts at Lithuanian financial institutions at the end of 2020. The total value of portfolios held by retail investors under portfolio management agreements at the end of 2020 amounted to €546.9 million, and the total value of financial instruments held in securities accounts amounted to €1.3 billion. Only a small number of clients were active and made at least one transaction in 2020, amounting to just over 42 thousand (i.e. 18% of those with a securities account), while the number of transactions concluded amounted to 525.5 thousand. In 2020, the turnover of transactions by retail investors increased by 61% compared to 2019, reaching €4.36 billion.

Figure 10. Value of financial instruments held in securities accounts at the end of 2020



Source: Bank of Lithuania.

Figure 11. Number and turnover of retail clients

Source: Bank of Lithuania.

Lithuanian capital market and sustainability

Since 14 January 2020, the Lithuanian Inter-Institutional Group on Sustainable Finance, established by the MF, has been in operation, comprising members from the MF, the Ministry of Environment, Viešųjų investicijų plėtros agentūra, UAB (national development agency), the Ministry of Energy, the Ministry of Transport and Communications, the LB, Investicijų ir verslo garantijos, UAB (national development agency), the MEI, the Ministry of Social Security and Labour, and the Ministry of Agriculture. Market participants are also involved in the working group discussions. To achieve an environmentally and socially sustainable financial system, the Lithuanian Strategy and Action Plan on Sustainable Finance was drafted in 2021. It contains actions in three key areas, i.e. public sector sustainable finance, private sector sustainable finance, and the necessary actions to finalise the development of the infrastructure needed to develop expertise in sustainable finance (data collection, labelling of sustainable financial products, and the establishment of an Institute for Sustainable Finance, which could mediate between the public and the private sector, and which would be responsible for the implementation of the strategy and action plan).

The EU Regulation on sustainability-related disclosures in the financial services sector was applied in March 2021, a draft European green bond standard (a legislative proposal for an EU regulation) was recently published, and other measures were in place. Compliance with clearer sustainability standards and requirements, adequate disclosure of sustainability-related information, the availability of the ESG-compliant financial instruments and socially responsible corporate governance are becoming increasingly important. Compliance with sustainability regulations could not only stimulate investment but also contribute to mitigation of climate change. It is no coincidence that one of the LB’s strategic objectives for 2022–2025 relates to adherence to and promotion of sustainability.

Sustainable financial products (e.g. UCITs, debt securities, equity securities, etc.) are those that contribute to environmental objectives, promote energy efficiency or renewable energy, reduce waste and CO2 emissions, have a positive impact on biodiversity, and promote the circular economy. Sustainable products are also those that support social objectives such as reducing inequality, social integration, investment in human capital, etc.

Recognising the importance of green investments, the GoRL issued its first green bond in 2018, followed by Ignitis grupė, AB in the same year, and AUGA group, AB in 2019. However, the supply of such financial instruments is not sufficient.

In 2021, the Bank of Lithuania carried out the study on the supply of sustainable investment products: the study surveyed banks, financial brokerage firms, and management companies. According to a survey conducted by the Bank of Lithuania, entities providing investment services to retail clients in Lithuania show a moderate interest in issuing sustainable financial products, but most of the companies are guided by the principles of sustainability in their day-to-day operations. 35% of the entities indicated that they distribute sustainability-related investment products and 47% indicated that they plan to distribute such products in the future. All products named in the survey were compliant with Article 8[11] of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, except for one product which was compliant with Article 9[12]. The survey also showed that enterprises are still cautious about offering sustainable products to investors due to the still unclear EU sustainability requirements, the lack of standards and uncertain demand.

Given the importance of sustainable investments and the growing interest of both companies and investors, it is necessary to continue to promote the supply of sustainable financial instruments and services, to raise awareness of the requirements and standards applicable to the issuance of sustainable products, and to explain its' importance and benefits.

1.3. PROBLEMS AND AREAS FOR IMPROVEMENT IN THE DEVELOPMENT OF THE LITHUANIAN CAPITAL MARKET

To achieve a stable development of the Lithuanian capital market, it is important that stimulus measures cover all key elements of the capital markets: capital market products, entities, infrastructure, that they focus on improving the legal and tax environment, and that measures are taken at several levels — national, Baltic region (Lithuania, Latvia, Estonia) and EU. The overall visibility and attractiveness of a single and competitive Baltic capital market requires a unified approach among the Baltic States in setting uniform capital market rules and requirements, and a uniform interpretation and application of EU requirements. To this end, it is necessary to make use of the existing formats of cooperation between Lithuanian, Latvian and Estonian public authorities and market players. The classification of the entire Baltic capital market as an emerging market internationally would be a major step towards attracting international investment. The MFs of the three Baltic States have already contacted some international rating agencies. In addition, the MFs of the three Baltic States use the cooperation format[13] to coordinate certain positions on issues under discussion in the EU institutions, on the implementation of EU legislation, or on certain legal initiatives in the Baltic States. In order to achieve EU regulation that is favourable to Lithuanian companies, it is essential that the relevant authorities responsible for capital market supervision and policy making in Lithuania (e.g. LB, MF) and their representatives in the EU working groups would be actively involved in the process of drafting legislation, as well as market players. It is also important that market representatives are active even before the publication of an EU legislative proposal, and that they make proposals that are relevant to their needs in public consultations on EU legislation.

Capital Market Council

At present, there is no single institution that is responsible for the overall strategy for the development of Lithuanian capital market, for the plan of measures and its implementation, and for the coordination of actions between the individual institutions. There is therefore a lack of a coherent national approach and action on capital market development. **The establishment of the Capital Market Council** (hereinafter – the Council) **could make an important**

[11] Products compliant with Article 8 are the ones that promote, "[...] among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices [...]".
[12] A product compliant with Article 9 is the one that "[...] has sustainable investment as its objective[...]".
[13] https://finmin.lrv.lt/lt/naujienos/baltijos-valstybes-siekia-sukurti-bendra-baltijos-saliu-kapitalo-rinka

contribution to the coordination and implementation of the measures envisaged in the Capital Market Development Action Plan of Lithuania. The Council should be a permanent presence and provide a clear direction for capital market development. The Council would also facilitate dialogue with market participants and public authorities with a view to the stable development of capital markets. Taking into account the positive examples in practice, i.e. the existence of the Payments Council in the Lithuanian payments market, which was established by a decision of the Advisory Commission for Financial Markets Policy Making, it is proposed to establish a permanent Council based on this example, composed of representatives of the market and high-level representatives of the public institutions. The Council could be composed of representatives of the GoRL, the MF, the MEI, the LB, and representatives of financial market participants and investors.

Legal and tax environment

Surveys of financial market participants have shown that the legal and tax environment has a crucial impact on capital market development:

- 75% of law firms, 67% of companies and 54% of financial intermediaries/management companies responding to the survey said that the legal environment has a decisive influence on the development of Lithuanian capital market;
- 100% of law firms and 33% of enterprises responded that the tax environment has a decisive influence on the development of the Lithuanian capital market.

Based on the observations made by the respondents and the insights and experience of the LB, it can be concluded that **substantial amendments to the Companies Law are necessary**, as the current Companies Law is no longer in line with the current market demand. Market participants in the survey identified the following main shortcomings of the Companies Law:

1. excessive requirements and restrictions on private limited liability companies, even though EU legislation imposes certain requirements and restrictions, such as the ban on financial assistance, equity size requirements, only on public limited liability companies;
2. lack of compliance with modern investment instruments, e.g. issue of non-voting shares and different classes of shares is not legalised;
3. a limited form of articles of association, which cannot reflect the shareholders' arrangements enshrined in the shareholders' agreements. When 'non-traditional' provisions are present in shareholders' agreements (e.g. drag along right, tag along right, vesting) are incorporated into the articles of association, they are not notarised;
4. a company is not allowed to issue and hold large numbers of unpaid shares (that hold no rights), which are paid by transfer to investors, etc.;
5. no possibility to create a reserve for the repurchase of treasury shares beyond the annual BAS;
6. no power is given to the company's general meeting of shareholders/board of directors to delegate to the CEO the specific details of a bond issue;
7. uncertainty about the procedure for organising general meetings of shareholders by electronic means and participation in meetings by electronic means.

Although amendments to the Companies Law are currently being drafted which address many of the shortcomings of the Companies Law identified by market participants, they do not address all the problems that are important for the capital market. The LB notes that the **Companies Law allows the only way for a company to buy back its own shares is by buying them under uniform terms and conditions from all shareholders.** In contrast, IPOs often hire a stabilisation intermediary which subsequently transfers the shares bought back in the stabilisation back to the issuer. This is currently almost impossible, because under the Companies Law, the issuer cannot buy up shares from one shareholder and must buy up them from all shareholders instead. In the view of the LB, this is one of the important impediments to IPOs. It should be noted that the possibility to buy back shares only partly from shareholders is also relevant for the growing popularity of SPACs worldwide; shareholders who voted against the acquisition of a business at general meetings of shareholders should be given the opportunity to sell their shares to the SPAC. **The legalisation of redeemable shares allowed in other countries would also contribute to making it quicker and easier for companies to adjust their share capital.** At the same time, it should be noted that the decision was made not to transpose some of the advanced company law institutes left at the discretion of the Member States which are applicable in a number of EU Member States and could significantly increase the attractiveness of national company law and contribute to the development of the Lithuanian capital market during the transposition of Directive (EU) 2017/1132 of the European Parliament and of the Council relating to certain aspects of company law (hereinafter – Directive 2017/1132). For example, in addition to the above-mentioned provisions on redeemable shares (Article 82 of Directive 2017/1132), the provisions of Article 47 should be mentioned which could allow persons who undertake to place shares in the exercise of their profession to pay less than the total price of the shares for which they subscribe in the course of this transaction. Attention should also be drawn to the institute of subscribed capital provided for in Directive 2017/1132 which does not exist in national law (Article 3, Article 68(2), etc.) as well as to the legal framework laid down in Articles 78 to 79 on the redemption of subscribed capital without reduction and the reduction of subscribed capital by compulsory withdrawal of shares, which, based on the expectations of market participants, could contribute to the development of the capital market.

The above suggests that it would be reasonable to review the legal framework of companies and consider the possibility of responding to the expectations of market participants with a view to making the national company law regulation flexible giving companies as much freedom as possible to decide how to manage and develop their business. One option is to take advantage of the work of the steering group that is working on the recast of the Companies Law under the EMCA. The aim of the EMCA is to unify corporate governance in Europe, leading to the creation of uniform corporate principles across the EU. The EMCA has been drafting since September 2007, with a working group initially made up of scientists from 16 EU countries and subsequently from 22 countries, ensuring that the document is professional and balanced. The EMCA group was chaired by Paul Krüger Andersen, Professor of Law at Aarhus University.

From time to time, the LB receives complaints from investors that financial intermediaries charge **custody fees for 'worthless' (illiquid) shares**, while there is virtually no real possibility of abandoning or selling such shares (this is especially true for shares in unlisted companies). There is also no way to divest shares in failing companies and investors are forced to keep them in their personal securities account, which cannot be closed. **Another problem identified by market participants is the divestment of 'orphan source' shares.** After the enterprise privatisation, some shareholders are still unknown/cannot be found. This makes it extremely difficult to exercise their rights and places an additional administrative and financial burden on companies. Although the Civil Code of the Republic of Lithuania in principle provides for the possibility to declare a person's property as 'orphan source', in practice this process does not take place due to the extremely complex and unclear practical procedures. To ensure that shareholders can renounce 'worthless' shares or declare financial instruments to be orphan source, it is necessary to revise and amend the Companies Law (and, if necessary, other legislation) accordingly, so that the process is clear and implementable.

In 2018, the MF started drafting the new Law on Securitisation and Covered Bonds on the basis of the initial proposals made by the EBRD and the contracted Lithuanian legal consultants. Soon after, the LB's specialists were also involved in the process. The adoption of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU[14] at the end of 2019 has led to the need to transpose the provisions of this Directive. In addition, provisions agreed between the three Baltic States have been integrated into the draft law and should contribute to the creation of a common covered bond market of the Baltic States. The adoption of this law will facilitate the **market participants to have better opportunities and conditions to issue covered bonds and securitisation instruments.** The basis for the issuance of securitisation instruments is already laid down in Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent

[14] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019L2162

and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012[15].

Market participants also indicated in the survey that one of the reasons that hinder the development of Lithuanian capital is the **excessive legal requirements imposed by EU legislation on listed companies and the high cost of compliance with such requirements** (60% of enterprises indicated that the requirements for disclosure of information in the prospectus are too high; 40% of enterprises and 38% of FIs/MCs indicated that the disclosure requirements of financial statements, governance, remuneration policy, and corporate social responsibility disclosure are too strict). It was also pointed out that **MIFID II is unfavourable for retail investment**, with a risk-return ratio unfavourable for service providers, and that it is not cost-effective to provide personalised services (providing recommendations, meetings). To start investing, only general advice is available. Given that the requirements specified by market participants are set out in EU legislation, the LB (and other authorities) should seek to ensure that the Lithuanian market (as a small market) is subject to the minimum EU requirements and, where given the choice, to exemptions. It should be noted that the EU is currently actively working on the Capital Markets Union (CMU) Action Plan, which aims to facilitate the access for SMEs to the capital market by reducing disclosure requirements, facilitating listing, etc., so Lithuanian institutions and market participants should actively follow the CMU initiatives and strive for easier regulation (especially for SMEs) in the discussions of draft legislation/proposals, and to prepare for the implementation of the measures envisaged in the CMU Action Plan.

100% of financial intermediaries/management companies and 67% of law firms indicated in surveys that **legalising the investment and savings account would be beneficial and would help attract new investors**. Also, 83% of the investors who participated in the survey indicated that the legalisation of the investment and savings account would be most likely to stimulate the activity of existing investors and help attract more new investors to the Lithuanian capital market. Also, many respondents identified the importance of tax clarity and certainty, tax incentives and ease of tax reporting, which could also be facilitated by the creation of an investment and savings account institute covering a wide range of financial market participants. Financial market participants justified the introduction of the investment and savings account on the grounds that it would allow the investor to offset gains against losses and to pay tax only on the amounts withdrawn from the investment and savings account. It would also simplify tax reporting for individual investors. Market participants also identified the need to bring back the personal income tax (PIT) allowance for investors investing in capital markets, as the current PIT allowance is not sufficient. There is a lack of tax incentives to motivate investors to move their funds from bank deposits to capital markets.

In the view of the LB, the main objective of the investment and savings account should be the efficient administration of investment income taxes of retail investors (natural persons) that is convenient and comprehensible for both the State and citizens. It is therefore important to consider the investment and savings account model in the context of a review of the system of taxation as a whole rather than in isolation. The key advantages of an investment and savings account could be the non-taxation of reinvested profits and the setting-off of investment results. Both the investment and savings account and the investment outside the investment and savings account should be subject to taxation at one stage (there should be no non-taxation at any stage or multiple taxation of the same funds).

Market participants also pointed out that the market lacks clarity on the tax treatment of stock option schemes, etc. For example, when options are granted to an employee, is this linked to the employee's salary and subject to payroll taxes, or is it linked to other benefits (e.g. health insurance, pension contributions, etc.) and subject to less tax than payroll taxes. What is the treatment of granting an option to persons who are not employees but, for example, employed as self-employed, etc.?

[15] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2402

Pension funds

In Lithuania, legislation clearly defines where a PF can invest and where it is prohibited: **PFs are not allowed to invest in financial instruments of unlisted companies, co-invest**, use derivatives for non-risk management purposes, or invest directly in real estate.

The study of the EBRD's project on Improving the Investment Environment for Institutional Investors in Lithuania (2018) indicated that most of the PFs do not invest in stocks registered in Lithuania due to low liquidity of the local market. It is also highlighted that in Lithuania direct investments in unlisted securities are not allowed, which poses challenges for PFs to invest in the local market. Lithuania is also one of the few EU countries where direct investments in unlisted securities[16], real estate[17] and financial derivatives[18] for the purpose of generating returns are not allowed. In these countries, as in Lithuania, PFs may channel part of their funds into such financial instruments indirectly (through investment funds and ETFs, stocks or bonds of real estate management/development entities). Opening up investment options such as co-investment or investment in unlisted corporate securities would be in line with both the OECD recommendations (made at the time of accession) and the EBRD recommendations mentioned above, and would thus increase the opportunities for the PF to better fulfil its main objective of maximising returns to the PF's participants. These options would also give the PF more choice in investing in the local (Lithuanian) economy (e.g. unlisted SME securities), in sustainability-related (ESG-compliant) projects and products, and in co-investing with other institutional investors.

PFs are subject to **excessive periodic reporting requirements**. Following the 2019 pension system reform, 40 new 2nd pillar PFs were established, implementing the lifecycle strategy. The increase in the number of PFs has resulted in increased regulatory burden on pension accumulation companies, as each PF has to prepare semi-annual and annual (audited) statements, which are lengthy and very detailed. In addition, for each PF, statements must be prepared that comply with both the requirements of BAS 39 (on financial statements) and the requirements of the Rules on the Preparation and Provision of Information on Management Companies, Collective Investment Undertakings and Pension Funds approved by the Resolution No 03-154 of the Board of the Bank of Lithuania of 12 July 2012. The differences between the two regulatory requirements and the abundance of overlapping information make the preparation and provision of statements and the audit process more complicated.

Collective investment undertakings

In 2018, the EBRD made proposals to improve the CIU market: in the light of the recommendations, the requirements on duration of operation and redemption of units applicable to CIUs have been revised, and the Guidelines for the Management of Collective Investment Undertakings have been prepared to help those operating or planning to operate in this field to better understand the applicable requirements. The Guidelines contain all the interpretations and recommendations issued by the Bank of Lithuania on this topic.

To improve the dialogue between the CIU market participants and the LB, and achieve stable investment market growth and balanced investor protection, the Collective Investment Undertakings Market Forum was established in 2021, comprising the LB, the MF and associations of market participants. The Forum is designed to identify the most relevant issues and develop possible solutions, and to discuss the necessary legislative changes or clarifications. In addition, a working group of lawyers has been set up to analyse foreign regulation procedures and best practices, and to develop proposals for regulatory improvements.

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[16] In Estonia, for example, up to 50% of the PF asset can be invested in unlisted corporate bonds (OECD, 2021).

[17] In Estonia, for example, up to 70% of the 3rd pillar PF asset can be invested in real estate, and up to 40% of the 2nd pillar PF asset can be invested in real estate (up to 10% of the value can be invested in one object). In Latvia, private voluntary PFs are allowed to invest up to 15% of the PF asset directly in real estate (OECD, 2021).

18 In Estonia, for example, up to 50% of the PF asset can be invested in financial derivatives. In Latvia, the 3rd pillar PFs are allowed to invest in financial derivatives where the single counterparty risk exposure does not exceed 5% (OECD, 2021).

In the surveys on capital market development, market participants identified **the problem of uncertainty in the legal framework governing the listing of funds and their increased involvement in the Lithuanian capital market**:

1. most funds are set up as LPs; however, the current legal framework does not provide clarity as to whether LP's shares or bonds can be publicly traded and listed;
2. the right of funds to issue bonds is not enshrined in law;
3. in recent years, the Lithuanian investment fund market has been expanding only because of collective investment undertakings intended for informed investors investments; however, regulatory requirements for listing collective investment undertakings intended for informed investors investments are not clear.

Additionally, further clarification is needed on the responsibilities of the managers of collective investment undertakings intended for informed investors investments and the intermediaries who make them available.

Investment services

The Bank of Lithuania, through surveys of financial market participants, investors and consumers, as well as interactions with stakeholders, has identified three areas that influence the development of the investment services sector in Lithuania (see Figure 12).

Figure 12. Areas influencing the development of the investment services sector in Lithuania

Source: Bank of Lithuania.

Demand and supply. Respondents consider this to be the most important factor. The choice of investment services and products in Lithuania is limited: most of the investment firms have chosen to provide a limited/narrow spectrum of services such as the acceptance and transfer of orders, the issue and accounting of securities, and the placing of financial instruments issued by affiliated companies; there is a lack of independent consultants to provide quality and comprehensive information to investors and help them make investment decisions. According to the consumers surveyed, there is a lack of innovative and user-friendly services (robo-advisors portfolio management, algorithmic trading, investment mobile apps, etc.), and the number and availability of products is limited (the Bank of Lithuania's product governance survey showed that only banks offer a truly wide range of products). Respondents believe that the commissions charged by financial intermediaries in Lithuania are higher than those charged by financial intermediaries in other countries (the commissions charged are mostly competitive only when trading on the Baltic exchanges). One of the main reasons for the high commission rates may be the low level of competition among existing service providers. For these reasons, the services of investment companies registered and licensed in other countries are becoming more popular in Lithuania. Meanwhile, financial market participants have identified that the low number of investors and low demand can make it unprofitable to launch new financial products or offer innovative services, financial education and incentivization of investors are therefore necessary.

Tax environment/incentives. The second key factor is the tax system, which, according to surveys carried out by the LB, does not provide favourable fiscal conditions for investment, with tax incentives only for investments in pension funds and life insurance, apart from a €500 tax incentive applied for sales income of securities. The regularisation of the investment and savings account in Lithuania could harmonise the taxation of all types of investments (security investments, crowdfunding, mutual funds, pension funds, and investment life insurance). Compared to the current scheme, the key advantages of an investment and savings account could be the non-taxation of reinvested profits and the setting-off of investment results. The investment and savings account model should be as neutral as possible in terms of products and activities (to achieve horizontal fairness and minimum market distortion), while respecting the principles of vertical fairness (tax progressivity and social justice). It is important to balance tax fairness with the efficiency and simplicity of the scheme. It should also be as broad as possible in order to cover a wide range of investment services and products. According to the LB, an investment and savings account could be available for entities authorised to provide investment services, namely credit institutions, investment firms, management companies, and entities providing payment services, namely e-money institutions and payment institutions.

Regulation. Despite the growth of investors' interest in investing in Lithuania over the past years, there are regulatory shortcomings or uncertainties that hinder the development of this market. Investing in Lithuania is also complicated by the requirement to have a spouse's power of attorney for selling securities. This requirement is not typical within other EU countries and is considered excessive. The regulation of new business models or new activities, such as copy trading, mirror trading, fractional shares, fractional ETFs is not completely clear either. Intermediaries have been found to avoid providing information on investment opportunities and individual financial instruments or securities, and publishing studies and assessments performed because this may be considered as investment recommendation. The interpretation of incentive regulation, and the application of product governance and disclosure requirements also raise questions. The market development may as well be constrained by national requirements in addition to EU regulation.

Crowdfunding

The crowdfunding market is growing rapidly, and EU regulation will allow crowdfunding platforms to provide their services in other countries, and offer different types of securities for public distribution, subject to the regulations in different countries. Besides, given the possibility to operate in foreign countries, platforms will be able to attract foreign investors and project owners, thereby creating more supply and demand and increasing investment liquidity. This could also reduce the cost of business financing when borrowing or attracting investment through crowdfunding.

According to the consumer survey, tax incentives, personalised investment offers, and a faster and simpler funding process could encourage investment via crowdfunding platforms.

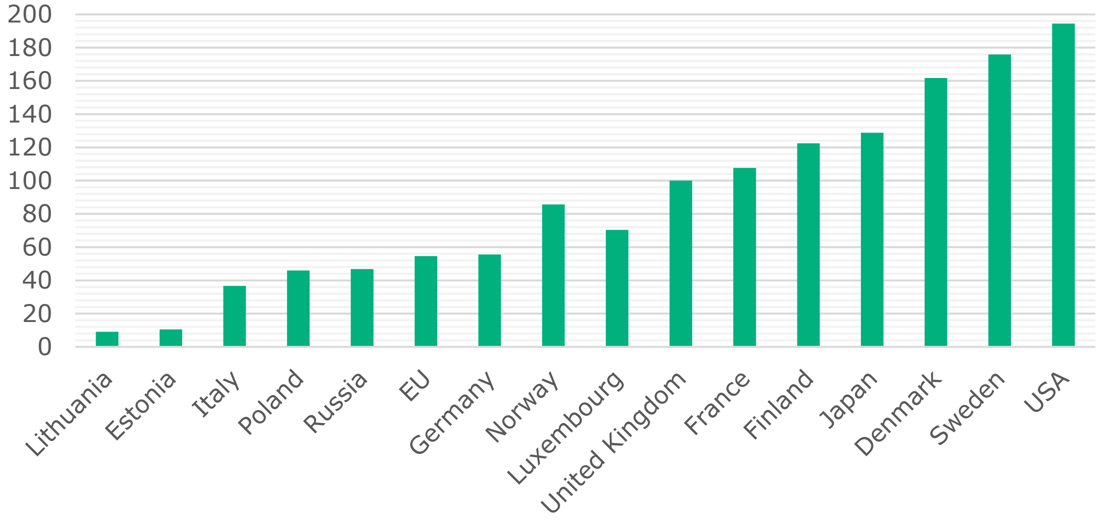
Although the current regulation in Lithuania allows raising funds not only in the form of loans, but also in the form of securities, only a few projects have opted for debt securities issuance, while equity securities issuance is not taking place.

Foreign countries allow public distribution of the equivalent of PLLC shares; as **Lithuanian regulation prohibits this, PLLCs established in Lithuania cannot raise funds by distributing their equity securities through crowdfunding platforms**. Thus, even after the EU regulation comes into force, Lithuanian PLLCs will not be able to distribute their shares on crowdfunding platforms, in contrast to foreign companies that will be allowed to distribute the same securities on the same platforms, even those established in Lithuania, and raise funds from Lithuanian investors.

Listed financial instruments and capital raising

The prospects for capital market development in Lithuania are limited by the low number of listed enterprises. 59% of investors who participated in the survey noted that the listing of new issuers on the Nasdaq Vilnius, AB exchange and increased liquidity of securities would most likely stimulate the activity of existing investors and help attract more new investors to the Lithuanian capital market. The market capitalisation of Nasdaq Vilnius, AB is extremely small compared to other EU countries (see Figure 13), resulting in few local investment opportunities, low interest from institutional and retail investors, and thus few local opportunities to raise share capital. When institutional investors, such as pension funds or investment funds, are active in the stock market, liquidity and efficiency of a market increase. Lacking market activity by institutional investors creates conditions for weak demand for corporate stocks and bonds.

Figure 13. EU stock market capitalisation, in % of GDP (2020)



Source: www.ceicdata.com

In recent years, there has been virtually no capital raising through issued shares. In the last three years, there was one initial public offering for the shares by Ignitis grupė, AB, with the company's shares subsequently being listed for trading on the Main List of Nasdaq Vilnius, AB. Since 2018, bonds of the large companies as MAXIMA GRUPĖ, UAB, Medicinos bankas, UAB, Ignitis grupė, AB, AUGA group, AB, Šiaulių bankas, AB, and AKROPOLIS GROUP, UAB have been listed on the Bond List of Nasdaq Vilnius, AB. Nevertheless, most of these issues are aimed at wholesale investors due to their large denomination, which results in low liquidity (at the end of 2021, out of 10 bond issues, 6 issues had a minimum denomination of €100,000 and one issue had a minimum denomination of €10,000), and only two bond issues (Medicinos bankas, UAB, and AUGA group, AB) have been transacted.

As mentioned above, the **liquidity** of securities traded on Nasdaq Vilnius, AB **is limited by the small proportion of regularly traded shares**. Both the State, which owns majority holding in the listed SOEs, and the large shareholders of other listed companies are not inclined to actively trade on the market, holding shares to maintain control of the companies they manage and to receive dividends. This situation severely restricts market supply, adversely affects the liquidity of the stock exchange and reduces investors' ability to diversify their portfolios.

The lack of diversity of financial instruments traded on the Lithuanian capital market is also a recurrent concern, both in surveys and in meetings with market participants. Lack of investment instruments was also identified in The study on the improvement of the investment environment for institutional investors in Lithuania conducted by the EBRD and contracted Lithuanian legal consultants in 2018. Currently, only a few financial instruments are offered, namely shares, corporate bonds, and fund units, but the opportunity to raise capital by offering a wider range of financial instruments and new ways of offering them to investors is being missed. Market participants note that the Lithuanian market is particularly short of ETFs, different classes of shares, covered bonds, shares without voting and/or other rights, securities issued by start-ups, units and/or shares of tradable real estate investment funds etc.

Market participants note that the Lithuanian capital market also lacks simple, uncomplicated financial instruments authorised by the Lithuanian Government, such as: GSBs that were valued by older clients; as well as local government/municipal debt securities, state-guaranteed securities, which could be non-MiFID II-targeted (as GSBs); and state-guaranteed securities (bonds and bond funds), which could not only be a good instrument for households, but also contribute to the financing sources of SMEs; also, debt securities of the SOEs suitable for retail investors.

At the beginning of the COVID-19 pandemic, when increased caution made it difficult for companies to borrow from credit institutions, and when there was no greater practice and preparation for borrowing in the market, the lack of safe short-term financial instruments to provide liquidity and working capital became apparent. Short-term borrowing can serve as a bridge to longer-term borrowing, not only in times of crisis and pandemic but also in the normal course of business when faced with liquidity fluctuations. Short-term commercial paper would free companies from reliance on a single source of funding and increase the scope for debt diversification, cost of borrowing regulation and competitive pricing. At the same time, it would mobilise the available short-term resources of institutional investors and contribute to the capital market development.

Currently, the so-called SPACs, which make it easier and faster to list new companies, have become popular around the world, including in Europe. Regulated market operators (e.g. Sweden, Germany, etc.) also allow financial instruments that are favoured by investors but listed on other markets to be admitted to their administered regulated markets without the issuer's consent, thereby facilitating access and making them cheaper to acquire. There is no legislation in place yet to regulate the issuance of covered bonds, no possibility to issue a wider range of share classes, etc.

It is important to note that the legislation of the Republic of Lithuania (the Companies Law and other special legal acts regulating financial instruments as well as individual legal forms of companies) does not in all cases allow for the development of a wider variety of financial instruments on the Lithuanian capital market to meet the needs of the market, and does not pay enough attention to the development of money market instruments, which are important for the management of liquidity of companies. Encouraging large, well-established companies and credit institutions to issue commercial paper would also be an excellent start for a further move into the capital markets.

In Lithuania, the majority of listed companies are large companies (according to the criteria of the Republic of Lithuania Law on the Financial Statements of Entities), which indicates that the **availability of the capital market and the opportunities it offers to SMEs are more difficult to access**.

This year, the Bank of Lithuania and the Competition Council carried out a detailed study on financing opportunities for SMB, which included an analysis of SME financing and made recommendations to improve SME financing opportunities in Lithuania. The SMB study found that SMEs struggle to access scarce finance and that Lithuania lags behind other EU countries in this area. Lithuanian SMBs finance their activities mainly with their own funds and debts owed to other non-financial undertakings (e.g. trade credit). Bank loans are also one of the main sources of external finance for SMBs, especially for longer-term borrowing, but the availability of bank finance has been decreasing in recent years. As this study shows, in 2018–2019, SMB applicants rarely received the full amount of funding they wanted from banks, and the rejection rate for loan applications increased significantly and was among the highest in the EU. The study shows that while the deterioration in access to finance for SMBs in 2018–2019 is mostly due to short-term factors related to individual institutions' decisions and risk management, SMBs also face structural challenges that undermine their access to finance: lack of adequate collateral, lack of awareness of alternative financing options, lack of financial reporting and financial literacy.

Although the debt securities market is significant in that it is not only available to companies, but also to providers of alternative finance (e.g. credit institutions), some of whom also see it as an important source of finance, this type of finance raising is not yet very popular among SMEs. At the end of 2021, Nasdaq Vilnius, AB had 10 bond issues listed on the Bond List, but these were issued by large companies rather than SMEs. 6 SME bond issues were traded on the Nasdaq Vilnius, AB alternative market First North at the end of 2021. And while some enterprises apply to be listed on the First North every year, this is far from sufficient, both to meet the financing needs of the SMEs themselves and to provide an offer to investors.

It should be noted that the authorities of the Republic of Lithuania have already taken appropriate steps to facilitate SMEs access to existing financial market instruments and to access financing instruments used in other countries. In the autumn of 2019, the MF, together with the Ministries of Finance of Latvia and Estonia, applied to the European Commission to use the Structural Reform Support Programme administered by the European Commission to analyse the need for, and the possibility of establishing, a Baltic States Capital Markets Development Acceleration Fund (hereinafter – the Fund). Following the European Commission's approval of the Fund project and its financing, the project was launched in the spring of 2020 in cooperation with the EBRD and KPMG Baltics AS, the project consultants. The aim of this project is to create a common fund to invest in SMEs and mid-cap companies listed on the stock exchange (in the pre-IPO and IPO stages). The creation of the Fund would increase access to finance for SMEs and create additional opportunities for institutional investors to participate in the stock exchange through the Fund. This project is a follow-up to another joint project between the MF and the EBRD, completed in June 2020, which aims to help SMEs raise finance through the stock market. The MEI has currently developed the measure 'Promoting the listing of securities on the stock exchange' under this project. The measure is intended to partially compensate SMEs for the costs incurred in the issuance of securities and the admission of these securities to the regulated or alternative securities market of Nasdaq Vilnius, AB.

National development institutions also play an important role in the capital market. For example, the State Investment Management Agency UAB, a company established at the initiative of the Bank of Lithuania to manage the State Aid Fund for Business, provided financial assistance to almost 20 companies in 2021 by buying their bonds. The national development body INVEGA also contributes to supporting SMEs through a range of instruments managed by the body and plays an important role in developing the capital market. INVEGA uses alternative instruments to finance small businesses such as venture capital funds, financing through crowdfunding platforms (Avietė) and is currently implementing the measure to promote the listing of securities on the stock exchange aimed at helping SMEs to raise the financing they need for development by covering some of the costs they incur by issuing shares and/or bonds for the purpose of their listing on the stock exchange.

It is important to note that the initiatives taken by the Republic of Lithuania authorities are appropriate and good, but still not sufficient to enable a larger share of SMEs to access capital market opportunities. This is confirmed by the fact that some of the market participants and investors who took part in the survey expressed the need to strengthen financing for SMEs and the need for instruments that could contribute to the issuance and listing of medium-sized issues.

Listing of SOEs

At the end of 2021, 2020 and 2019, the five SOEs listed on Nasdaq Vilnius, AB accounted for almost half of the total share capitalisation of the companies listed on Nasdaq Vilnius, AB (45.2% at the end of 2021, 48.4% at the end of 2020, 47.5% at the end of 2019); however, in 2019, their annual turnover amounted to 6.7% of the total turnover of the exchange of Nasdaq Vilnius, AB, then rose to 22.6% in 2020 and 41.9% in 2021. These statistics show that the increase in the turnover of the SOE exchange in 2020 and 2021 was directly influenced by the fact that the State made a public offering of 26.92% of the shares of Ignitis grupė, AB to minority shareholders in October 2020. Until then (including 2019), the State's share in the SOEs listed on the security lists of Nasdaq Vilnius, AB amounted to 90–97.5% (except for Klaipėdos nafta, AB); therefore, the number of free and regularly traded shares was not high. A higher proportion of free float on the stock exchange has a significant impact on the liquidity thereof, and it is therefore worth increasing the number of SOEs and their free float to increase liquidity on the Lithuanian capital market. Moreover, the low number of free float of SOEs discourages institutional investors such as pension funds, insurance companies from investing in such companies due to the low liquidity of their shares. Investors are usually interested in companies with at least 25% of free float. The State does not have a clear strategy towards these companies, it does not encourage companies to increase their free float or to issue additional shares, and there is a lot of uncertainty about the governance of such enterprises and the incentives for their managers/employees. This does not contribute to stock market liquidity, increase in supply or encouragement of foreign investment.

As mentioned above, in 2018 the EBRD carried out a study on Improving the Investment Environment for Institutional Investors in Lithuania, the conclusions of which included recommendations on the listing of SOEs. The document points out that Lithuania is ranked 40th out of 140 countries in the World Competitiveness Index of the World Economic Forum. One of the reasons for this is low market capitalisation (93rd out of 140). **Listing of SOEs on the stock exchange and listing of a larger holding in existing SOEs** (with the State retaining a 2/3 stake in SOEs) **would increase access to capital and thus lead to greater investment opportunities for companies, attract new Lithuanian and foreign investors**, and broaden the geography of investors, create additional investment opportunities for pension funds and other institutional investors in Lithuania, the proceeds from the placing of the SOEs would generate greater benefits for the State compared to dividends over the long term, and the proceeds could be used for the implementation of strategic projects of the State, the exact value of the SOEs would be known and the possibility to grow the value of the SOEs would be created. In addition, the population would be provided with reasonably secure opportunities for additional savings with higher returns, more citizens of the country would be able to become direct shareholders in the SOEs, which would increase trust in both the state and the SOEs, and the population would have a real opportunity to contribute to the management of the SOEs, etc., all of which would contribute to the overall growth of the national economy.

Therefore, one of the most important measures for the development of the Lithuanian capital market is to increase the number of shares of SOEs floated on the stock exchange. In order to ensure national security, this could be achieved by selling 1/3 of the state-owned shares while retaining a controlling 2/3 of the voting shares in the issuer's general meeting of shareholders, by legalising the possibility of a non-voting share distribution, by increasing the number of shares in listed SOEs, or by listing new SOEs on the stock exchange through a public share sale. It should be noted that 17 enterprises, institutions and companies fall under the management of the Ministry of Transport and Communications of the Republic of Lithuania. 12 of these companies are incorporated as public limited liability companies or are already reorganised into public limited liability companies, which can issue securities publicly according to the legislation of the Republic of Lithuania, and therefore the possibility of public sale of part of their equity (shares) or debt securities, and their listing on the stock-exchange listing of Nasdaq Vilnius, AB could be considered. The practice of other countries and expert analyses show that the most attractive for investors are shares of infrastructure companies, such as Lietuvos geležinkeliai, AB, Klaipėdos valstybinio jūrų uosto direkcija, VĮ, and Lietuvos oro uostai, VĮ, which will be transformed into public limited liability companies. They could offer both shares and bonds to the market. It is important to note that SOEs can also play an important social role by inviting the public to invest in SOE shares and/or bonds. By issuing SOE bonds to non-professionals, the populations could directly contribute to the development of the local capital market and thus develop savings and investment habits.

Similarly, the World Bank's study of 2021 on Listing SOEs in Emerging and Developed Economies[19] highlighted that the listing of SOEs can significantly boost the development of capital markets in the short term. SOEs are typically large companies, and their securities are also highly valued. Their listing could therefore significantly increase market capitalisation and widen the investor base, especially among retail and foreign investors. According to the World Bank, this has increased the capitalisation of local stock markets by up to 170% in some countries. The listing of SOEs has also attracted a substantial number of new shareholders, in some cases more than one million, many of them retail investors for the first time. At the same time, the listing of SOEs has provided governments with an excellent opportunity to attract foreign investors. For example, SOEs account for around 60% of the MSCI Emerging Markets Index in the energy sector, and about 40% in the financial sector. The World Bank estimates that the SOE listing would have some impact on the listing of private enterprises; however, a more positive impact on private enterprises' decisions would most probably achieved only if plans for SOE listing were included in the overall capital markets reform plans. Setting and sticking to a long-term strategy towards capital markets (e.g. consistent implementation of investment-friendly measures) would build overall confidence in the capital market and allow market participants to plan and make informed decisions. According to the World Bank, there are few examples in practice where the listing of SOEs has had a negative impact on the capital

[19] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/984431624443117178/listing-state-owned-enterprises-in-emerging-and-developing-economies-lessons-learned-from-30-years-of-success-and-failure.

market development. In all these cases, weak capital markets infrastructure was the main reason; however, according to the World Bank, the risk of listing of SOEs is low.

Although the listing of SOEs has a positive effect on the capital market, the Bank of Lithuania points out that the listing of SOEs should not be an end in itself; each case is an individual one, and the benefits of the listing of a particular SOE for the shareholder (the State) and the SOE itself should be assessed, in particular, it should be clear for what purpose the raised funds will be used and what the purpose of the funds will be, e.g. financing of operations or development, strengthening of capital, refinancing of debt etc. It should also be noted that the amount of liquidity of free float is more important for the attractiveness of capital market than the number of listed companies.

Market structure of Nasdaq Vilnius, AB

On 24 September 2020, the European Commission adopted a new CMU Action Plan that focus particularly on the access of European companies to market-based sources of finance at every stage of their development, with a particular focus on the establishment of a regulatory framework to support SMEs' access to public finance. To this end, a separate regulation was adopted on 27 November 2019 amending Directive 2014/65/EU and Regulations (EU) No 596/2014 and (EU) 2017/1129 as regards the promotion of the use of SME growth markets, and the Stakeholder Think Tank was set up to monitor the functioning and success of the SME growth market. In mid-2021, the Think Tank published a report setting out an action plan to further promote the establishment of SME markets, the easing of requirements for SMEs, etc. Considering the proposals of the Think Tank and the results of the public consultation, the EC envisages to prepare amendments to EU legislation in 2022 to facilitate both the listing requirements for SMEs in EU growth and/or other markets and other requirements to facilitate their access to capital markets.

MIFID II introduced the possibility for Member States to set up dedicated trading facilities — SME growth markets (MTF) — that meet certain criteria. A key requirement for such markets is that at least 50% of the issuers trading on them should be SMEs. These markets, categorised as MTFs, would be subject to more flexible requirements (e.g. disclosure), while ensuring adequate investor protection, and, like regulated markets, would have the right to market their securities to the public in other EU countries (i.e. obtain the so-called 'green passport') after having prepared a facilitated EU growth prospectus. Their inclusion in one SME growth market could also lead to their inclusion in relevant SME markets in other EU countries. Currently, all Nasdaq Nordic countries (Sweden, Finland, Denmark, and Iceland) have such markets in place, except Norway, but neither Lithuania nor the other Baltic States can take advantage of the SME market because there are no established SME growth markets in the Baltic States.

Most financial market participants who took part in the survey on the need to legalise the SME growth market in Lithuania indicated that it would be relevant, as the vast majority of businesses in Lithuania are SMEs. Market participants also pointed out that the SME growth market could be targeted at the fast-growing start-up community, with the possibility for wider participation.

Currently, there is a regulated market (for shares) administered by Nasdaq Vilnius, AB in Lithuania, comprising two lists: the Main List and the Secondary List; and the alternative First North market of Nasdaq Vilnius, AB, organised in accordance with the requirements of the MTF for SMEs and other new entrants to take advantage of the advantages of the capital markets. The listing rules of Nasdaq Vilnius, AB differentiate the inclusion and listing requirements for issuers by setting high requirements for issuers seeking to be listed on the Main List (at least three years of continuous operating activity and audited financial statements, a capitalisation of at least €4 million, a 25% free float, etc.), and lower requirements for the Secondary List (at least two years of continuous operating activity and audited financial statements, capitalisation of at least €1 million, no requirement for the amount of free float, etc.). Given that EU legislation sets specific requirements only for the Main List, and that a number of new innovative technology-based companies have recently been established/launched to raise capital on the market, but which do not yet meet the requirements of even the Secondary List, **the existing structure of the Lithuanian regulated market and the applicable requirements should**

be reviewed, e.g. by reducing the requirements for inclusion and/or listing on the Secondary List, or, in the interests of clarity and uniformity of application of the requirements, by introducing a single common list, etc.

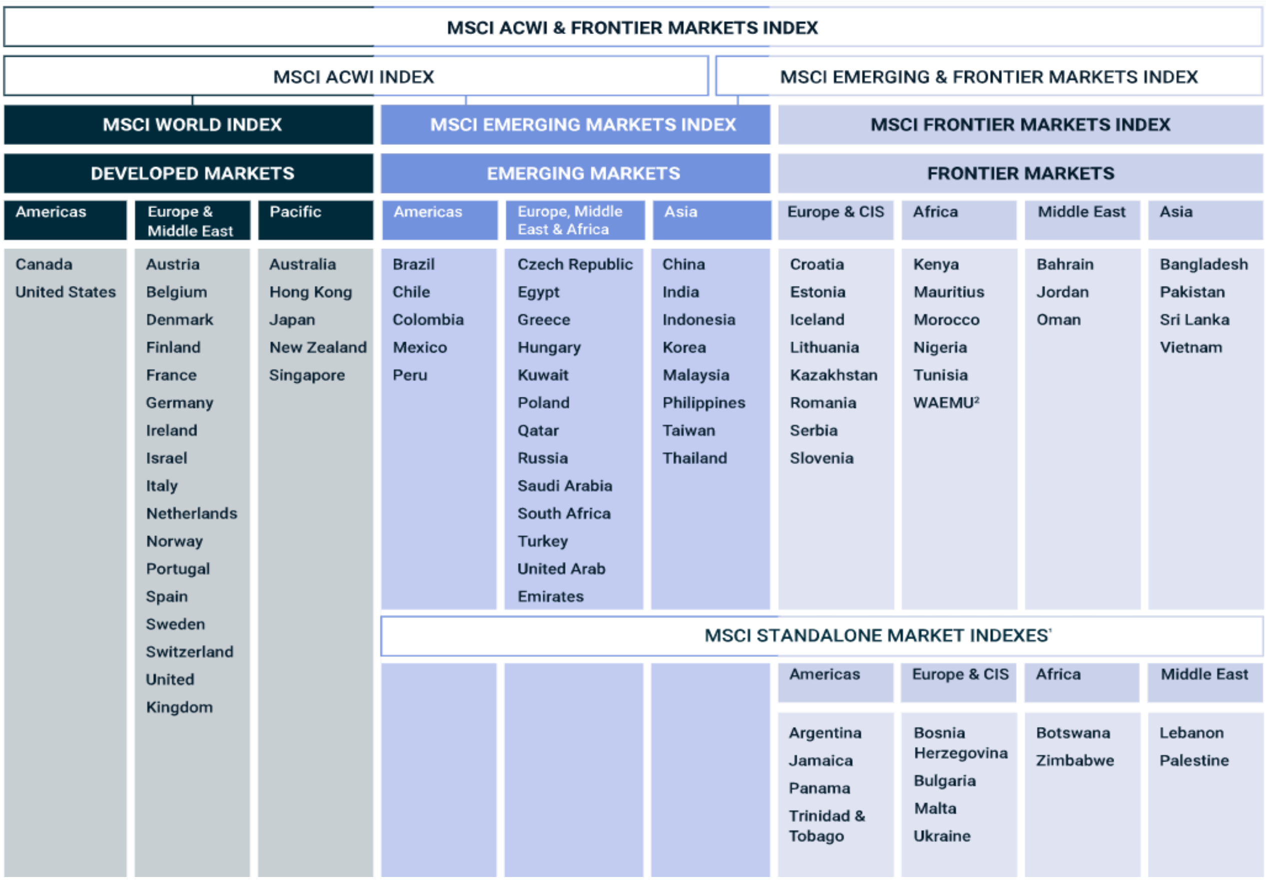
The survey of market participants also showed that SMEs and start-ups seeking to list their securities on the Alternative First North Market face a significant challenge due to the mandatory biannual audit of their financial statements. Therefore, to attract as many new issuers as possible to the MTFs, there is a need to offer both new opportunities (e.g. the SME growth market), and the review of the applicable requirements with a view to optimising them.

Inclusion of the Lithuanian market in indices

In order to stimulate the interest of international investors in the region and to attract more investors, the visibility of the market for foreign investors is crucial. One of the measures to achieve such visibility is the inclusion of the Lithuanian market in recognised indices compiled by international institutions and published in the public domain, that is, statistical indicators that not only reflect the performance and trends of the financial markets of specific countries, but also the overall economic condition of the countries, allowing for comparisons between markets, monitoring the changes taking place in them, and, in this respect, allowing investors to make investment-related decisions.

Lithuania is currently included in the MSCI FRONTIER MARKETS index published by the MSCI[20] (see Figure 14). This discourages foreign investment and does not correspond to the current level of market development.

Figure 14. Market classification by MSCI index



Source: https://www.msci.com/our-solutions/indexes/market-classification

[20] According to the FTSE Russell Markets Index, Lithuania is included in the EUROPE Frontier Index. Source: https://research.ftserussell.com/products/downloads/Europe-Frontier_latest.pdf?_ga=2.150378934.1638183638.1638354661-582489952.1638354661

In the surveys carried out, market participants noted the need to classify the Baltic States' capital markets as emerging markets or even developed markets, that is, the need to be in contact with index providers/compilers (e.g. MSCI), **so that the Baltic States would be included in the relevant internationally recognised indices.** In order to strengthen the economy and stimulate investment, the Baltic States - Latvia, Estonia and Lithuania - signed back in 2017 a Memorandum of Understanding, agreeing to harmonise capital market rules and to take measures to reduce barriers to investment. The aim of the initiative is to attract investment by creating a common capital market, combining the strengths of the three Baltic States and overcoming the constraints often faced due to the limited size of the markets. Given these countries' cultural, historical and economic similarities, foreign investors see the three Baltic States, that is, Latvia, Estonia and Lithuania, as a single market (the three countries share a common trading system, a similar legal system, a common currency and other similarities).

Therefore, given that the individual markets of Lithuania, Latvia and Estonia are small in the international context and do not meet the high criteria for index inclusion, the finance ministers of the three countries, together with representatives of Nasdaq, EBRD and the European Commission, approached the MSCI back in 2018 to have the single market recognised and included in the higher MSCI Emerging Markets Index, which includes such EU countries as the Czech Republic, Hungary and Poland[21].

Moreover, in early 2021, the Baltic finance ministers, together with representatives of the EBRD, the European Commission and Nasdaq Baltic, additionally applied to FTSE Russell (UK) for a common Baltic index. The replies received point out that the current market classification criteria are quite high and the Lithuanian market does not yet meet them and that in order to achieve recognition of a common region, taking into account the already completed and ongoing market integration actions, there are still some differences/specificities in legislation, regulation, tax system that should be resolved in order to achieve presentation of a single market to investors. Therefore, taking into account the observations of market participants and in order to achieve capital development and international recognition, it is necessary to continue to maintain a constructive dialogue with the index compilers MSCI, FTSE Russell or others to clarify the existing obstacles and to take measures to reduce them to the maximum extent possible or to remove them altogether in order to recognise the Baltic States as at least meeting the criteria of emerging markets.

Investors

As the statistics presented in the section on the current situation of the Lithuanian capital market show, the Lithuanian public does not make sufficient use of the opportunities offered by the capital market and only to a small extent invest savings in financial instruments, also does not contribute to the financing of local businesses. According to the data of the Bank of Lithuania, deposits of households with financial institutions amounted to €20.9 billion as of 31 December 2021, as at 31 December 2020 – €18.384 billion. However, the total value of financial instruments held by retail investors in securities accounts amounted to €1.3 billion at the end of 2020 and €1.6 billion in 2021. Capital markets provide conditions for achieving a balance between the demand for and supply of financing, are capable of efficiently distributing economic resources and risks and contributing to the growth of investors' financial assets.

One of the reasons why Lithuanians are reluctant to invest is the lack of choice of investment service providers and investment products. The public keeps a large part of its funds in bank accounts and considers real estate as the best investment (see Figure 15).

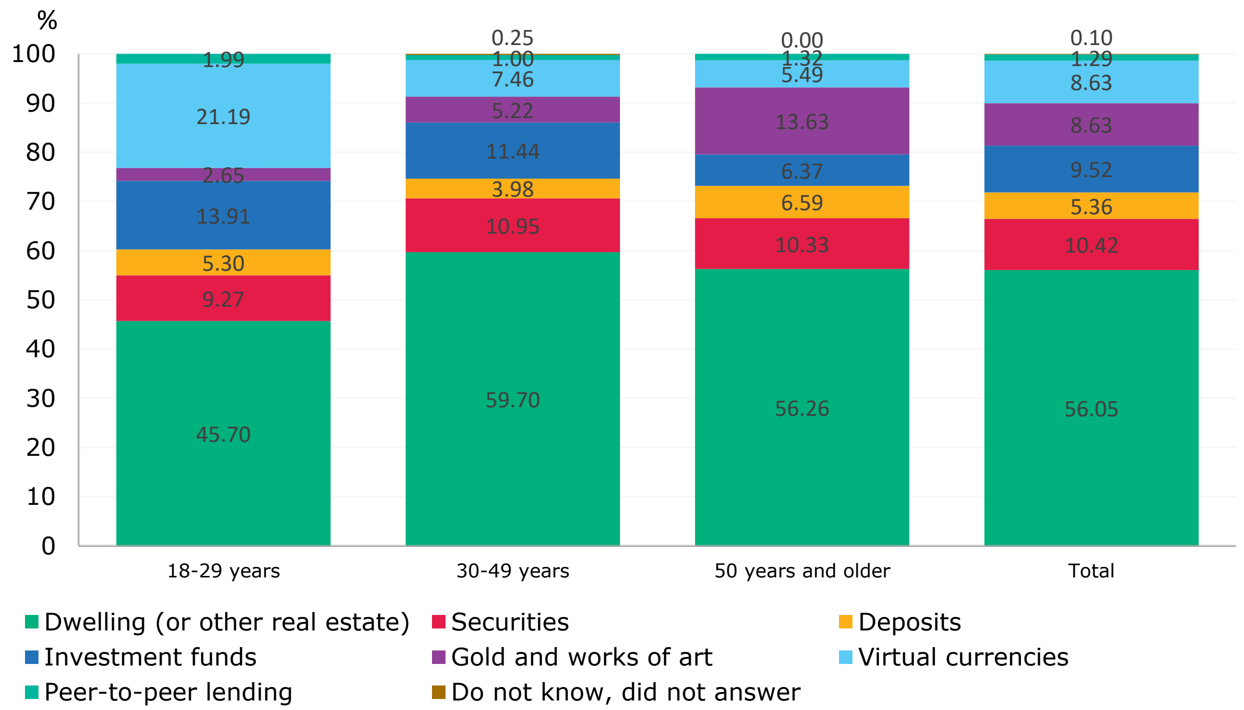
It should be noted that **there is a serious lack of investment education among Lithuanian residents.** 59% of investors participating in the survey of the Bank of Lithuania noted that enhanced financial education of Lithuanian residents would be best to stimulate the activity of existing investors and help attract more new investors to Lithuania's capital market. The lack of investment knowledge among the residents is often exploited by scammers and illegal investment service providers. The investors surveyed also pointed out that there was a lack of

[21] The FTSE Russell Markets Index includes Poland in the higher Developed Markets Index. Source: https://research.ftserussell.com/products/downloads/Europe-Developed_latest.pdf?_ga=2.150794806.1638183638.1638354661-582489952.1638354661

convenient tools for investing in Lithuanian enterprises. Not all products are offered to retail investors, who often opt for regulated and non-regulated service providers based abroad.

In 2021, the LBA initiated a survey[22] on the basis of which the overall financial literacy index for the country's population was calculated. This year's indicator scores 45 points out of a possible 100, just two points higher than in 2019, when it amounted to 43. The biennial survey asks residents to answer questions related to saving, investing, personal finance management, retirement, financial and economic phenomena. This year's survey shows that Lithuanians know most about the areas of personal finance management and savings. The average percentage of correct answers in these categories is around 60%. The public understands the basic concepts and values related to a household budget and are able to evaluate loan products suitable for responsible personal finance management. Compared to the 2019 results, this year 3% more respondents are also aware of one of the most popular savings rules, that is, the recommendation to have at least 3-6 months of income in savings for unexpected life situations. Just over half of the public answered the basic questions on personal finance management correctly, while unfortunately, only about a fifth of respondents understand more complex processes: just as the year before, this year's survey respondents were the least successful when it came to questions on economic and financial phenomena.

Figure 15. Distribution of households by most attractive investment assessment and age group



Source: Bank of Lithuania.

Although the LBA survey showed that the theoretical knowledge of the public on financial management is relatively good, the behaviour of respondents suggests that it is rarely used in practice. Almost 40% of respondents reported that they experienced a situation in the last year where their monthly expenditure exceeded their income, while some 67% of respondents kept some of their savings in cash at home or in their wallet, 27% put them in a fixed-term deposit, and less than a tenth of the respondents invested their spare funds in the last 12 months.

1.4. SUMMARY CONCLUSION

In conclusion, both the market statistics available to the Bank of Lithuania and the results of the surveys of financial market participants and investors conducted by the Bank of Lithuania

[22] https://www.lba.lt/lt/apie-mus/asociacijos-naujienos/lietuvos-finansinio-rastingumo-indeksas-situacija-gereja-taciau-progresas-per-letas.

indicate that the capital market in Lithuania is less developed than in most EU countries, and there is a lack of diversity and liquidity of listed financial instruments, companies make little use of the sources of financing provided by the capital market, issuing only such financial instruments as shares and bonds, and the Lithuanian public does not channel its savings into financial instruments, nor contributes to the financing of local businesses. Meanwhile, investment service providers often offer a narrow range of services, avoid providing innovative services (such as algorithmic trading, robo-advice or portfolio management, etc.), and often charge higher intermediary fees than foreign providers. Investor entry is hampered by some regulatory and redundant national requirements, a lack of a clear and investor-friendly tax environment, and a lack of education. Recent evidence of single company IPOs on the regulated market and an increase in listed bond issues, as well as the growing number of listed companies' financial instruments on MTFs provide hope that the situation is improving, however there is no firm evidence of stable and sustained capital market growth. Therefore, the Bank of Lithuania is of the opinion that additional measures are needed to help ensure stable capital market development, while keeping in mind the necessary investor protection requirements.

2. LITHUANIAN CAPITAL MARKET DEVELOPMENT ACTION PLAN

The Lithuanian Capital Market Development Action Plan covers the following areas: debt and equity securities markets, that is, regulated and non-regulated securities markets; retail investment in debt and equity securities; investment fund markets, to the extent that this is related to investment in Lithuanian enterprises and the listing of investment funds on the stock exchange, the pension fund market and crowdfunding, to the extent that this is related to investment in Lithuanian enterprises.

The Action Plan is presented below and identifies seven areas:

- Establishment of the Capital Market Council;
- Legal environment;
- Tax environment;
- Supply of new financial products;
- Stock exchange (AB Nasdaq Vilnius) activity and infrastructure;
- Intermediaries;
- Financial education.

For each area, there is a list of issues identified on the initiative of LB or from responses to the survey. An objective, as identified by LB upon assessment of the issues identified by market participants and investors in their responses to the survey, and specific measures to that end are presented. The fourth column shows the level at which the measure is proposed to be implemented: at national (Lithuania) or regional level, i.e. at the level of the three Baltic States –Lithuania, Latvia and Estonia (Baltic). At regional level, the measures would aim to contribute to the overall development of the capital markets in the region both by aligning the positions of the countries when the European Commission’s proposals for new EU legislation are being considered and by aligning the implementation modalities and options for the measures laid down in the Directives as well as other initiatives that do not derive from EU law. The fifth column presents the relevance as indicated in the survey. The priorities have been set based on the significant number of respondents who have mentioned them and/or the assessment by LB that these measures could make a significant contribution to the stable development of the Lithuanian capital market. The time limits for the implementation of the measures should be laid down by the Capital Market Council, taking into account the impact of the measure on the market, status of measures already launched and other relevant circumstances.

Establishment of the Capital Market Council

It is proposed to establish a standing Capital Market Council composed of market representatives and high-level representatives of state institutions. The Council would ensure a clear direction for the development of the capital market, the implementation of measures and would maintain a dialogue between the state institutions and market representatives. The Council must be set up immediately after the publication of the Capital Market Development Action Plan. The Council should be composed of around 10 representatives, thus ensuring its effective functioning. The Council should approve its rules of procedure and set up working groups to deal with the implementation of specific measures (including time limits) as well as, if necessary, set additional indicators to measure progress in the implementation of the Capital Market Development Action Plan.

Issue	Objective	Actions	Level	Relevance	Priority	Institution responsible (and supporting institutions)
There is currently no single institution that would be responsible for the overall strategy for the development of the Lithuanian capital market. There is a lack of a coherent approach at national level and coordinated action as regards capital market development.	To establish the Capital Market Council to coordinate the implementation of the Plan's actions and to provide a clear direction for the development of the Lithuanian capital market.	To establish a standing Capital Market Council composed of representatives of the GoRL, MF, MEI, LB and financial market participants and investors.	LT		High	LB, MF (MEI, LBA, Investors' Association, etc.)

Improving the legal framework

Both the survey of market participants and the practical issues identified by LB have shown that it is necessary to amend the Companies Law, which is no longer in line with the needs of the market (it should be noted that some of the issues could be resolved by the amendments to the Companies Law currently submitted to the MEI). There are also other legislative provisions which impose unnecessary burdens on companies or limit their ability to issue and list financial instruments.

Issue	Objective	Actions	Level	Relevance	Priority	Institution responsible (and supporting institutions)
The Companies Law is no longer in line with the needs of the market: I. Weaknesses identified by market participants related to provisions that are not adapted to the issue of a wider range of financial instruments, to modern investment instruments, to the form of the statutes reflecting shareholders' agreements, etc. II. Neither the possibility to issue redeemable shares, nor the possibility to buy back shares from only part of the shareholders is provided for in the Companies Law. This is relevant in post-IPO share price stabilisation, as well as in case of SPACs, where shareholders who voted against the acquisition of a company at a GMS are given the opportunity to sell their shares to a SPAC. III. Financial intermediaries charge a custody fee for 'worthless' and 'ownerless' shares, and the Companies Law does not create a legal institute allowing for the renunciation of such shares. IV. The Companies Law prohibits the public offering of shares of private limited liability companies (UAB). V. Other (see p. 18 for more details)	To improve the regulation of company law to meet the needs of the market.	To assess the positive and negative consequences and impacts of the proposals put forward by market participants and, if necessary, to prepare amendments to the Companies Law. At the same time, if necessary, prepare amendments to the Civil Code and Law on Markets in Financial Instruments (e.g. on 'worthless' and 'orphan source' shares).	LT	75% of law firms, 67% of enterprises and 54% of financial intermediaries/management companies responded that the legal environment has a decisive influence on capital development. The Companies Law prohibits the public offering of shares of private limited liability companies (UAB), although with the entry into force of the EU regulation of crowdfunding platforms, companies operating in foreign countries that qualify as private limited liability companies will be able to offer such securities to the public.	High	MEI (MF, LB, AB Nasdaq Vilnius, Nasdaq CSD SE)

Excessive disclosure requirements in the Information Document.	To introduce proportionate ('adequate') disclosure requirements in the Information Document.	To prepare amendments to the description of the Information Document.	Baltic	60% of enterprises responded that the biggest regulatory barrier to the issue of securities is excessive disclosure requirements in the Information Document. 80% of investors would support simplification of the content of the document (information document) for share issues and 65% of investors would support simplification of the content of the document (information document) for bond issues.	High	LB (MEI and MF)
Unclear legal regulation concerning the listing of investment funds and enhancing their entry in the Lithuanian capital market.	To achieve legal regulation that ensures the right of funds to issue bonds and allows public offering and listing of fund units regardless of the legal form.	Amendments to the Republic of Lithuania Law on Partnerships, the Companies Law, the Law on the Protection of Interests of Holders of Bonds in Public Limited Liability Companies and Private Limited Liability Companies (for its application to a wider range of entities) and to the CIUIII Law.	LT	100% of enterprises, 73% of financial intermediaries/management companies and 67% of law firms responded that exchange traded funds are the most lacking on the Lithuanian market. 39% of investors responded that adding more investment funds to AB Nasdaq Vilnius would most likely stimulate the activity of existing investors and help attract more new investors to the Lithuanian capital market.	High	MEI, MF or another institution authorised by the GoRL (LB, AB Nasdaq Vilnius)

Pension funds may not invest in Alternative Market Instruments (unlisted securities, co-investments, derivatives for return purposes, real estate).	To assess possible changes to the regulation of pension funds to allow investment in Alternative Market Instruments, ESG-compliant instruments, directly in real estate.	To assess possible amendments to the Republic of Lithuania Law on Supplementary Voluntary Pension Accumulation.	LT	75% of law firms, 67% of enterprises and 54% of financial intermediaries/management companies responded that the legal environment has a decisive influence on capital development.	High	MF (LB)
The national requirements established in the Baltic States (Lithuania, Latvia, Estonia) and related to the offering of financial instruments, disclosure, licensing of SOEs, authorisation of funds, etc. (when the requirements in place are not EU requirements but national ones) may be different, which does not promote the unified development of the Baltic market.	Harmonisation of the national requirements of the Baltic States.	In cooperation with Latvian and Estonian state institutions (including supervisory institutions), to work towards harmonised legal regulation in the areas of issue, offering and/or listing of financial instruments, disclosure requirements, etc. At the same time, to seek that Lithuania, Latvia and Estonia jointly/generally recognise the national documents on the issue, offering and/or listing of financial instruments approved separately by the supervisory institutions of each of these countries.	Baltic		High	LB (MF)

Only a bank authorised to provide investment services in the Republic of Lithuania or in another state of the European Economic Area and having its registered office or branch in the Republic of Lithuania may act as the depositary for pension funds.	Expand the range of providers of depositary services and increase competition between them by allowing financial brokerage firms to provide depositary services.	Amendments to the Law on Supplementary Voluntary Pension Accumulation.	LT		Medium	MF (LB)
Insufficient protection of minority shareholders' rights: there is a lack of supervision by LB and protection of minority shareholders against actions of major shareholders using a company's funds for their own benefit, and there is a need for stronger protection of investors' rights in cases of delisting (removal from a regulated market).	To ensure objective and adequate protection of minority shareholders' rights.	Assessment of the provisions of the Republic of Lithuania Law on Securities and, if necessary, preparation of proposals for amendment concerning the powers and rights of LB with regard to the determination of a fair price for delisting.	LT	43% of investors responded that the LB could contribute to the development of the capital market by devoting more attention and resources to investor protection. 46% of financial intermediaries/management companies responded that the protection of investors' interests is crucial for capital development.	Medium	LB (MEI, MF, Investors' Association)

Insufficient clarity on the practical implementation of the possibility to participate in general meetings of shareholders (GMS) online.	To improve regulation, to publicise best practices in the market.	Preparation of amendments to the Companies Law (or guidelines for practical application or clarification of provisions of the Companies Law) related to participation in GMSs by electronic means and organisation of the GMSs by electronic means.	LT	33% of investors responded that they consider the conditions for participation in meetings of shareholders to be moderate.	Medium	MEI (AB Nasdaq Vilnius, LB)
The Republic of Lithuania Law on the Protection of Interests of Holders of Bonds in Public Limited Liability Companies and Private Limited Liability Companies is no longer in line with the needs of the market, as only a financial brokerage firm, an auditor or a bankruptcy administrator can be appointed as a trustee for bondholders. In practice, the first two professions play a passive role (no proactive role). In Western EU countries, this function is performed by the so-called trustee, who is not licensed or subject to supervision, but whose business is to take an active interest in the issuer's activities and duties and to act proactively in the interests of bondholders. To assess the need to include lawyers among trustees.	To improve legal regulation in order to meet the needs of the market.	Amendments to the Republic of Lithuania Law on the Protection of Interests of Holders of Bonds in Public Limited Liability Companies and Private Limited Liability Companies.	LT	67% of law firms and 31% of financial intermediaries/management companies responded that the existing legal investor protection measures are insufficient.	Medium	MEI (LB)

The threshold for public disclosure of managers' transactions is too low (currently €5,000).	To encourage managers to participate in the capital market, to increase the liquidity of financial instruments on the Nasdaq Vilnius stock exchange.	Amendment to the LB Disclosure Rules (increase of the threshold to have the same threshold in all Baltic states, the threshold allowed under the EU directive is €20,000).	Baltic	67% of law firms and 40% of enterprises responded that increasing the threshold would encourage managers to participate more actively in the capital market. 22% of investors responded that raising the threshold would increase the liquidity of securities, while 20% of investors would be in favour of increasing the threshold to up to €20,000.	Medium	LB
The requirement to present the spouse's power of attorney to sell securities, which is uncommon in other EU countries, hampers the development of the market in Lithuania and the use of the latest technologies in investments.	Review of legal regulation to assess if the requirement to present the spouse's power of attorney should be removed.	Amendments to the Civil Code and the Republic of Lithuania Law on Markets in Financial Instruments, review and updating of interpretations by LB.	LT	Foreign countries do not have such regulation, and starting market players as well as existing market players in Lithuania face difficulties in applying such a national requirement, in particular in order to operate online.	Medium	MJ, MF (MEI, LB,)

The reporting requirements (semi-annual and annual) for PFs and CIUs are potentially redundant.	Optimisation of the reporting requirements for PFs and CIUs in terms of the amount of information to be provided, elimination of redundant requirements, alignment of the requirements set out in the LB rules with those set out in the BAS.	Amendments to BAS-39 and the Rules for the Preparation and Provision of Information by Management Companies, Collective Investment Undertakings and Pension Funds, as approved by Resolution No 03-154 of the Board of the Bank of Lithuania.	LT	Market participants have identified that some of the reporting requirements for PFs and CIUs (semi-annual and annual) are redundant, do not create value for the user, but involve additional costs for market participants.	Medium	LB, MF (LIPFA)
There is a lack of clarity on the regulation of new business models or new activities (copy trading, mirror trading, fractional shares, fractional ETFs) and uniform treatment in the Baltic states.	To develop clarifications in line with foreign practice.	Preparation of a clarification and coordination with supervisory and regulatory authorities of the Baltic States.	Baltic		Medium	LB
Existing EU regulation on the inclusion of EU growth markets and SMEs in trading is disproportionate and makes it difficult to establish such markets and to attract SMEs to EU growth market listings.	To identify regulatory areas in need of amendment and to seek to take Lithuania’s position into account in the course of regulatory review.	Preparation of a position and proposals with reasoning regarding regulatory relaxation/facilitation.	Baltic		Medium	MF (LB, Nasdaq Vilnius)

The bulk of capital markets regulation is based on EU legislation, which does not always take into account the specificities of small jurisdictions and businesses, therefore it is crucial to represent Lithuania's position in negotiations over EU legislation.	To seek more active involvement in the EU legislative process for all stakeholders.	To identify the most relevant EU legislation to be amended in the area of capital markets and to prepare positions and reasoning on it in coordination with other Baltic States.	Baltic	Market participants have identified that current MIFID II requirements (e.g. product management, disclosure) are disproportionate and difficult to implement and limit the ability to provide services to consumers.	Medium	MF, LB, market representatives
National requirements complementary to EU regulation potentially disproportionately burden the provision of investment services.	To identify national requirements that are applicable in addition to EU requirements.	Assessment of national requirements and preparation of proposals regarding possible amendments.	LT	Market participants have identified the existence of national requirements that additionally burden the provision of investment services.	Medium	MF (LB, LBA, LFMA)
The concept of investment advice as stipulated in the Republic of Lithuania Law on Markets in Financial Instruments and the lack of further clarifications potentially limit the ability of investment service providers to provide clients and potential clients with information that allows them to understand the nature and possibilities of investment.	To prepare a clarification of the concept or adjust the concept.	Preparation of a clarification or adjustment of the concept it in coordination with other Baltic States.	Baltic	Market participants consider that further elaboration of the concept is needed as there is currently no clear boundary between simple provision of information and investment advice.	Medium	LB (LBA, LFMA, MF)
Lack of clarity on the interpretation of inducements regulation, product management and the application of disclosure requirements under EU and Lithuanian legislation.	To identify areas of questionable application and prepare clarifications or positions.	Preparation of a clarification or position.	Baltic	Market participants consider that further clarifications are needed to improve the understanding of the applicable requirements for the provision of investment services.	Medium	LB (LBA, LFMA, MF)

The process of attracting an investor involves significant administrative, technical and financial costs, and associated compliance risks are also high.	To identify changes needed and develop proposals regarding legislative amendments.	Proposals regarding legislative amendments have been prepared.	LT	The market considers that the main barrier to the development of the market for retail investors is attraction of clients. In the current regulatory environment, a retail investor's attraction and service involves significant administrative, technical and financial costs, and associated compliance risks are also high. In order to broaden the investor base, there is a need to look at ways to simplify, shorten and 'cheapen' the processes of client attraction and service.	Medium	LBA (LFMA, LIPFA, LB)

Improvement of the tax environment

In the surveys, market participants identified the legalisation of an investment and savings account as one of the key tax changes that would stimulate the attraction of new investors and investor activity. In addition, the market lacks clarity on the tax treatment of option schemes, etc.

Issue	Objective	Actions	Level	Relevance	Priority	Institution responsible (and supporting institutions)
Absence of investment and savings account.	To encourage more active investor participation in the capital market. 'Employ' individuals' savings.	Legalisation of investment and savings account.	LT	100% of financial intermediaries/management companies and 67% of law firms responded that the legalisation of investment and savings account would be beneficial and would encourage the attraction of new investors.	High	MF (LB, STI)

				83% of investors responded that the legalisation of investment and savings account would best stimulate the activity of existing investors and help attract more new investors to the Lithuanian capital market.		
Although the prospectus indicates that the offering of securities in non-EEA countries is prohibited, the issuer is required to provide a detailed list of beneficiaries and this requirement is linked to the application of the withholding tax. In contrast, Latvia and Estonia do not require disclosure of a detailed list of beneficiaries. Such a requirement complicates the issue of securities and discourages investors.	To encourage more active investor participation in the Lithuanian capital market.	Review of the tax regime related to the withholding tax and, if necessary, initiation of changes.	LT	100% of law firms and 33% of enterprises responded that the tax environment has a decisive influence on capital development. 100% of law firms, 60% of enterprises and 50% of financial intermediaries/management companies responded that changes in tax legislation are needed to attract more Lithuanian and foreign investors and to encourage capital raising through the issue of securities. 67% of law firms, 60% of enterprises, 58% of financial intermediaries/management companies and 48% of investors responded that the tax regime in Lithuania, as compared to other Baltic States or other EU countries, is unfavourable for Lithuanian capital development.	High	MF (STI, LB)

Lack of legal clarity on the taxation of stock options, both for the issuer and the recipient of the options.	Clearer approach of the STI on this issue.	Information of the STI to market participants on the taxation of options has been summarised.	LT	100% of law firms and 60% of enterprises responded that there is a lack of legal clarity on the issue of stock options to incentivise managers.	High	STI (MF, LB)
Foreign investors are not sufficiently aware of Lithuania's favourable tax regime for them, that is, of the fact that there is no withholding tax, which is the case in a number of countries.	To encourage attraction of foreign investors to the Lithuanian market.	Spread the word to foreign investors about Lithuania's favourable tax regime (publications, public speeches, etc.).	LT		Low	STI (MF, Invest Lithuania)

Increasing the supply of new financial products

In order to create conditions for a greater diversity of financial instruments offered on the Lithuanian capital markets, it is necessary:

a) to assess the need to amend the provisions of the Companies Law, the CIUIII and other legislation in order to identify and, if necessary, to remove the major obstacles (if any) to the listing of fund bonds, financial instruments intended for informed investors, corporate bonds, enabling the issue of shares of different classes, etc.;

b) work towards the adoption, as soon as possible, of the Law on Securitisation and Covered Bonds and relevant secondary legislation;

c) in cooperation with other supervisors of the Baltic States and together with AB Nasdaq Vilnius, to prepare the necessary amendments to the legislation in order to allow the listing of SPAC companies in Lithuania and other Baltic States, as well as provide the possibility for AB Nasdaq Vilnius to trade in securities traded on the markets of other EU Member States without the knowledge of the issuer;

d) to encourage the GoRL to take steps to promote the listing of shares and debt securities of SOEs and the issue and public offering of such products as GSBs, bonds with a State guarantee, etc., and to encourage the issue of safe short-term money market instruments (e.g. commercial paper).

Issue	Objective	Actions	Level	Relevance	Priority	Institution responsible (and supporting institutions)
The range of financial instruments that can be issued is too small.	To create conditions for a greater diversity of financial instruments to meet the needs of the market.	Amendments to the Companies Law and the CIUIII Law, adoption of the Law on Securitisation and Covered Bonds, assessment of the need for amendments to other legislation.	LT	100% of financial intermediaries/management companies and 67% of law firms responded that foreign investors, especially larger ones, do not choose to invest in Lithuanian issuers due to the small size of the Lithuanian capital market and the insufficient choice of financial instruments. 60% of investors citing the reasons why most of their investments are directed to markets other than Lithuania claimed that it is due to the small choice of financial instruments. 41% of investors claimed that increased supply of financial instruments would best stimulate the activity of existing investors and help attract more new investors to the Lithuanian capital market. 42% of investors responded that market makers are the most lacking among investment service providers in Lithuania.	High	MEI, MF or another institution authorised by the GoRL (LB)
Small number of listed companies and low diversity of listed financial instruments.	To increase the diversity of listed financial instruments and to improve their accessibility.	In cooperation with other Baltic States, amendments to the Nasdaq Vilnius listing rules harmonised and applicable at the level of all the three Baltic States in order to allow the listing of financial instruments without the knowledge of the issuer and to enable the listing of SPAC companies.	Baltic		High	AB Nasdaq Vilnius (LB)

Small number of listed SOEs, lack on the market of such products as GSBs, bonds with a State guarantee, local government debt securities/municipal debt securities, SOE debt securities, etc.	To increase the number of listed companies, the issue of new products that are lacking on the market and their public offering and listing. To increase the issue of 'no-risk financial instruments'.	In line with proposals of the World Bank and the EBRD, to consider the possibility of listing of an increased number of SOE securities. Also to analyse possibilities of issuing 'no-risk financial instruments'.	LT		High	MEI, MF, Ministry of Energy, Ministry of Transport and Communications and other ministries exercising the rights of shareholders (LB)
Lack of secure short-term financial instruments in the market to ensure liquidity and working capital.	To encourage the development of the market for money market instruments (commercial paper, etc.), which in turn would stimulate the emergence of longer-term corporate bonds in capital markets.	To analyse the legal framework and, if necessary, legal amendments which could encourage the issue of money market instruments. If possible, to continue the initiative already launched in 2021 by the Baltic Central Banks, the Nordic Investment Bank and the EBRD to develop a regional commercial paper market, to promote the STEP standard for the issue of short-term (up to 1 year) bonds supported by the ACI FMA and the European Monetary Markets Institute (EMMI).	Baltic		Medium	Nasdaq CSD SE, LBA, (MF, LB)
Lack on the market of products that can provide an alternative to deposits, are suitable for retail	To identify potential products, to encourage the emergence of such products.	In cooperation with other Baltic States, to identify potential products, to encourage the emergence of such products.	Baltic		Medium	LBA (MF, LB)

investors and are not subject to MIFID II regulation.						
Lack on the market of sustainability-related investment products and disclosures.	To encourage disclosure of sustainability-related information on the financial market and the launch/development of sustainable investment products.	To promote disclosure of sustainability-related information on the financial market and the issue/development of sustainable investment products, that is, to publish and explain applicable legal requirements, Q/A, etc.	LT		Medium	LB, MF
Potential lack of demand for sustainable investment products on the market (for non-professional investors).	To disseminate information on the benefits of sustainable investment	To encourage to take into account the long-term sustainability prospects when participating on capital markets.	LT		Medium	LB

Stock exchange activity and infrastructure improvement

In order to attract as many new issuers as possible, in particular SMEs and start-ups, to trade on the AB Nasdaq Vilnius alternative First North market there is a need to consider the feasibility of and create legal conditions for the creation of an SME growth market, as well as to revise and streamline the requirements for admission to the AB Nasdaq Vilnius alternative First North market (review of audit and other requirements) and to assess the current structure and requirements of the regulated market (review of the listing rules of AB Nasdaq Vilnius). In addition, taking into account the views of market participants and in order to increase the visibility of the Lithuanian regulated market for foreign investors, to continue to pursue and to take measures removing existing legal or regulatory barriers to the inclusion of the Lithuanian market in Emerging Markets indices.

Issue	Objective	Actions	Level	Relevance	Priority	Institution responsible (and supporting institutions)
Requirements that deter potential issuers from listing on the Alternative Market are as follows: audit of financial statements and capitalisation of €1 million.	To facilitate the listing of companies on the Alternative Market.	Assessment of the provisions of the alternative First North market rules, the description of the Information Document and the provisions of the Companies Law and, if necessary, preparation of proposals for amendments to these documents/legislation.	Baltic	60% of enterprises and 46% of financial intermediaries/management companies responded that the requirements for inclusion and listing on the Alternative Market should be relaxed. However, only 10% of investors would support a waiver of the audit of financial statements in the case of share issue (up to €8 million) and only 8% would support a waiver of the audit of financial statements in the case of bond issue (up to €8 million).	High	AB Nasdaq Vilnius (LB)
SMEs are not very active in the Baltic capital markets, there is a lack of financial instruments for SMEs with growth potential.	To enhance the access to financing for SMEs, if necessary, through the creation of a fund as a new financial instrument, additional opportunities would thus be created for institutional investors to participate in the stock exchange through the fund.	Considering the possibilities and if necessary, to establish a common Baltic Fund to invest in SMEs and mid-cap enterprises listed on a stock exchange (at the pre-IPO and IPO stage).	Baltic		High	MEI, MF
There is no SME growth market in Lithuania that can simultaneously accommodate the growing start-up community.	To facilitate the access to capital for SMEs through the issue of financial instruments.	Depending on market conditions, creation of a SME growth market.	Baltic	69% of financial intermediaries/management companies, 50% of law firms and 40% of enterprises responded that there is a need to formalise an SME growth market in Lithuania.	Medium	AB Nasdaq Vilnius (MF, LB)

It is proposed to review the current structure of the Lithuanian regulated market and the applicable requirements, for example, by relaxing the requirements for inclusion/listing on the Secondary List or by introducing one single list for the purpose of clarity and application of common requirements, or by structuring the lists according to other criteria, etc.	Review of the lists and listing requirements of the regulated market of AB Nasdaq Vilnius to ensure that they meet the needs of the market.	Review and, where necessary, amendment of the listing rules of AB Nasdaq Vilnius.	Baltic	100% of law firms, 50% of enterprises and 42% of financial intermediaries/management companies responded that they would be in favour of a regulated market comprising a single list of issuers of shares. However, only 37% of investors responded that they propose a single Regulated Market List instead of the Main List and the Secondary List and/or propose to simplify the requirements for inclusion in the Secondary List. 26% of investors responded that they propose structuring the Regulated Market lists according to the capitalisation level of enterprises.	Medium	AB Nasdaq Vilnius (LB)
The Baltic capital markets should be classified as emerging markets.	To seek the inclusion of the Baltic countries in the Emerging Markets indices.	To continue the dialogue already initiated with the index compilers to include the Lithuanian market in the Emerging Markets indices.	Baltic		Medium	MF (AB Nasdaq Vilnius, LB)

Intermediaries

In order to reduce the fees charged by intermediaries, it is proposed to increase competitiveness, to encourage the attraction of new financial intermediaries, and to participate in the creation of an investment and savings account institute. In addition, it is desirable to held discussions with market participants on the development of services that meet the needs of consumers and to promote the adoption of new technologies.

Issue	Objective	Actions	Level	Relevance	Priority	Institution responsible (and supporting institutions)
Relatively high intermediary fees (commissions for trading and custody of securities).	To increase competition among financial intermediaries in order to reduce intermediary fees.	To encourage the establishment of new financial intermediaries in Lithuania.	LT	27% of investors cited excessive intermediary fees (commissions) as the reason why most of their investments are directed to markets other than Lithuania. 30% of investors claimed that lower fees for financial intermediation services would best stimulate the activity of existing investors and help attract more new investors to the Lithuanian capital market. However, as many as 80% of investors responded that financial intermediaries are the most lacking among investment service providers in Lithuania. And as many as 83% of investors responded that the most important factor when choosing a financial intermediary is the fees charged by the financial intermediary.	Medium	Invest Lithuania (MF, LB)
There is a lack of convenient mobile applications for investing.	To seek to provide investors with a wider and more convenient range of investment methods and instruments.	To initiate a discussion with market participants on the development of services that meet consumer needs. To create a thematic sandbox for the purpose of testing more user-friendly applications, client attraction methods and other tools to improve investor experience.	LT	61% of investors responded that the adaptation of financial technology for investment services in Lithuania is insufficient due to the lack of user-friendly mobile applications for investing. 61% of investors responded that the most important factor when choosing a financial intermediary is the user-friendliness of the investment platform used by the financial intermediary.	Medium	LB (LBA, LFMA)
Electronic money institutions currently keep significant amounts of money in accounts with the Bank of Lithuania. In	To improve regulation which would meet market needs.	To assess the feasibility and, if necessary, facilitate the investment of electronic money institutions in debt securities and/or CIUs	LT		Medium	

practice, electronic money institutions face difficulties as to how and where to keep securities acquired with the funds received by electronic money institutions from electronic money holders and/or payment service users. The actual practical problem is that account managers, i.e. financial brokerage firms and banks, do not have accounts of this type and electronic money institutions cannot open them.		ensuring adequate protection of client funds.				
Start-ups in Lithuania and the entities intending to issue new types of securities on the blockchain face the challenge of applying a two-level accounting of securities and cannot test the issuance of new types of securities using blockchain.	To create conditions for new, innovative ways of attracting investment and to promote new technologies.	To implement the EU DLT sandbox regime for the purpose of testing the issue of new types of securities using blockchain to allow market participants to test the issuance of this type of securities.	LT		Low	LB ,(MF)

Financial education

To develop financial literacy programmes for SMEs and the population (all age groups), including information, counselling, and training measures.

Issue	Objective	Actions	Level	Relevance	Priority	Institution responsible (and supporting institutions)
Low financial literacy of the public and enterprises.	To achieve a higher level of financial literacy in the area of investment among the public and enterprises.	I. To update and to approve the Public Financial Education Plan. II. On the LB website, to provide information to the public on how to start investing, what solutions are offered on the market, to help understand these offers and to create model investment solutions, to publish model portfolios tailored to the age of an investor, etc.	LT	59% of investors responded that enhanced financial education of the Lithuanian public would best stimulate the activity of existing investors and help attract more new investors to the Lithuanian capital market. 73% of investors responded that the Bank of Lithuania could contribute to the development of the capital market by focusing more on communication with and financial education of investors.	Medium	MF (LB, MESS, LBA, AB Nasdaq Vilnius, Investors' Association)

Annex

IMPLEMENTED MARKET-IDENTIFIED ACTIONS

Respondents to the surveys related to the development of the Lithuanian capital market also identified the following issues that have already been implemented or resolved by the time of the publication of this Plan. The table below provides information on such issues.

Issue	Explanation of how this has been resolved/implemented
The legislation does not create preconditions for the emergence of small investment companies that could offer their shares on a non-public basis to a limited number of investors without being subject to fund regulation.	The legislation allows for this, and the CIUIII Law provides for the possibility of establishment of a non-supervised collective investment undertaking. Article 7(5) of the CIUIII states that an undertaking which offers to acquire or commit to acquire in the future the units, shares or other securities or rights certifying participation in a legal person, whether they belong to the undertaking or to an entity which it manages, to a predefined and known group of persons who meet the requirements for informed investors set out in Article 3 of this Law, also an undertaking whose units, shares or other securities or rights certifying participation in a legal person or those belonging to an entity which it manages are acquired by such persons or such persons undertake to acquire them in the future on their own initiative without the undertaking having first approached those persons with such an offer is not required to obtain an authorisation as referred to in paragraphs 1 and 4 of this Article to carry out the activities specified in this paragraph.
There is no obligation to offer investment funds on the local market.	EU and Lithuanian legislation governing the activities of collective investment undertakings permits the offering of units of a fund only in the country where the collective investment undertaking is established. Where EU legislation so provides, it is possible to notify the fund for offering in another EU country.
Medium-sized issues do not have an infrastructure and require financial advisors for offering, which significantly increases the cost of offering.	The Ministry of Finance and the European Bank for Reconstruction and Development have implemented a project to help small and medium-sized enterprises raise funds through a stock exchange, under which the Ministry of the Economy and Innovation has prepared a measure entitled "Promoting the inclusion of securities on a stock exchange". This measure is intended to compensate to small and medium-sized enterprises for part of the costs incurred in the issue of securities and the listing of these securities on the regulated or alternative stock exchange of AB Nasdaq Vilnius.
Advice from LB is needed on prospectuses, periodic reports, disclosures to issuers (in the simplest possible form). Information on what a company intending to issue shares needs to know and do has been arranged in a user-friendly way.	LB has developed for financial market participants a Reporting Calendar, which contains detailed information on the reports submitted to LB for supervision purposes: https://www.lb.lt/en/issuers-reporting-calendar. Moreover, the section of the website of LB "Requirements for the preparation of a prospectus relevant to issuers" contains the following information: Requirements for the Preparation, Approval and Submission of Prospectuses to the Bank of Lithuania and Key Requirements for Managers of Issuers, Holders of Voting Rights and Other Financial Market Participants Regarding Disclosure Duties. At a seminar held in 2021, LB and AB Nasdaq Vilnius presented what needs to be known when planning to issue and list shares or bonds: https://www.lb.lt/lt/renginiai/seminaras-finansavimosi-alternatyvos-verslui-birzos-galimybes. These measures and initiatives will be continued and further efforts will be made to ensure information/requirements are made available to market participants in a simple and clear manner, thereby encouraging their use of capital markets.