

Summary of Lithuania's OECD Post-Accession Progress

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Background

1. On 3 May 2018, Council decided to invite Lithuania to accede to the OECD Convention [C(2018)70/FINAL] and an Accession Agreement, consisting of the Final Statement of Lithuania accepting the obligations of OECD membership and the Council Decision to invite Lithuania, was signed on 30 May 2018. Lithuania deposited its instrument of ratification of the OECD Convention and thus became an OECD Member on 5 July 2018.

Overview of post-accession reporting

2. The Council Decision to invite Lithuania to become an OECD Member provided that, after accession, Lithuania should report as follows:

- *Corporate Governance Committee: A progress report to the Committee and its Working Party within two years after its accession to the Organisation and thereafter as required.*

3. During the accession process, Lithuania accepted all substantive OECD legal instruments without timeframes for implementation.

4. The post-accession progress reporting of Lithuania started in the second half of 2018. On 23 June 2021, the Council discussed the first annual post-accession progress report of the progress made by Lithuania in the implementation of its accession commitments in the field of corporate governance.

5. The second annual post-accession progress report was discussed by Council on June 1st 2023. The Council welcomed the progress made by Lithuania, noting that further post-accession reporting will take place in the Corporate Governance Committee's Working Party on State Ownership and Privatisation Practices, and requesting the Secretary-General to present a report on remaining issues in 2024.

6. Lithuania's post-accession progress in the area of Corporate Governance is set out below.

Summary of post-accession reporting: Corporate Governance

1. OECD post-accession recommendations

7. In the course of its review of Lithuania for purposes of accession to the OECD, the Corporate Governance Committee ("CGC") requested Lithuania to report in summer 2020 on the implementation of the priority recommendations identified by the CGC regarding the monitoring of the implementation of reforms to the Law on Companies, with a view towards clarifying and further strengthening the responsibilities of companies' boards of directors, as well as those of its Working Party on State Ownership and Privatisation Practices ("the Working Party"), concerning:

- Strengthening the ownership function;
- Strengthening the operational independence and supervisory responsibilities of SOE boards of directors;
- Streamlining SOEs' legal and corporate forms in order to convert statutory SOEs engaged in economic activities to limited liability companies;
- Ensuring that SOEs are subject to high quality accounting and auditing standards;
- Enacting amendments to the Law on Companies, in particular to remove the provision in the Law on Companies stipulating maximum term limits and reappointment criteria for the CEOs of SOEs.

2. Lithuania's progress

8. In November 2020, the CGC and its Working Party welcomed Lithuania's progress in implementing several of the priority recommendations, notably related to monitoring of the recent company law reforms applicable to listed companies' boards, strengthening the resources of the GCC and improving the SOE board nomination process. The Committee concluded the review process with respect to priority recommendation 1 on strengthening the ownership function and priority recommendation 4 on applying stronger accounting and auditing standards, but noted that elements of the reforms were stillwork in progress.

9. The Committee further noted that the authorities had taken preliminary steps to implement the remaining priority recommendations, but more time and continued commitment will be necessary to fully implement them. Lithuania was encouraged to continue monitoring listed companies' implementation of the company law reforms on board responsibilities and independence, with a view to ensuring that boards fulfil their essential good-practice roles in line with the *G20/OECD Principles*; to prioritise efforts to fully implement IFRS in the Forestry Enterprise's disclosures; to abolish legislative provisions fixing term limits for SOEs' CEOs; and to proceed with the planned corporatisations of commercial SOEs. Additionally, as the state pursues expanded monitoring and ownership functions in SOE subsidiaries, it should ensure that these functions do not impede the operational decision-making and autonomy of SOE parent company boards. Board nominations in SOE subsidiaries should remain within the remit of their parent companies.

10. The Committee requested Lithuania to give particular attention in the near term to advancing in the following areas, and to report back on related progress to the WPSOPP within two years:

- a. Removing the legislative provisions within the Law on Companies and the Law on State and Municipal Enterprises fixing explicit dismissal criteria and term limits for the CEOs of SOEs;
- b. Ensuring that the boards of SOEs' parent companies are able to fulfil their good-practice roles of overseeing subsidiaries' management, including by having full responsibility for subsidiary board appointments. Limited participation of the state in SOE subsidiary board appointments that the authorities deem necessary owing to strategic national-security concerns should be exceptional and temporary;
- c. Providing for sufficient safeguards to ensure that non-independent appointees, including those from the government administration and/or civil service, act in the best interest of the enterprise, meet criteria for professional qualifications, have skills that are complementary to other board members and follow mechanisms intended to prevent conflicts of interest;
- d. Proceeding with the planned corporatisations of statutory SOEs engaged in economic activities.

11. Lithuania's reported on progress in implementing these recommendations in November 2022 where the Committee noted that the authorities have continued strengthening the ownership functions of the Governance Coordination Centre, made improvements to the process for appointing both independent members and non-independent state representatives to SOE boards and even increased their reform ambitions related to SOE corporatisations. While issues remain concerning the state's role in SOE subsidiary board appointments and the continued existence of proscribed term limits for the CEOs of SOEs, on the whole the SOE reform trend in Lithuania is positive and the Committee therefore concluded the

post-accession progress reporting on priority recommendation 2 (empowering independent SOE boards) and priority recommendation 3 (corporatising statutory SOEs). The Committee requested that Lithuania report back on any developments related to the process for SOE-subsidary board nominations in the context of regular reporting to the WPSOPP.

3. Remaining actions

12. The Committee requested that the Lithuanian authorities give increased priority to repealing the current provision setting term limits for SOE CEOs as set out in priority recommendation 5. The Committee recalled that proscribing CEO term limits and reappointment criteria in law diminishes the board's authority and may hamper its ability to effectively oversee and incentivise SOE management.

13. The Lithuanian Parliament was reported to be considering draft amendments proposed by a group of members of parliament to lift the prohibition on CEOs of state-owned enterprises serving more than two consecutive terms of office. According to the information provided by the Lithuanian authorities, the proposal has been subject to criticism including a view that long-serving CEOs may be reluctant to change and adopt best practices, and that the removal of the prohibition might facilitate nepotism in particular with respect to municipality-owned enterprises. Following a parliamentary discussion on 4 April 2023, a decision was made to return the draft to the proposing members of parliament for further consideration.

14. In terms of next steps, WPSOPP and CGC may agree to conclude Lithuania's post-accession reporting process via written procedure, following the enactment of satisfactory legislative amendments. However, in the absence of the necessary action to address this concern, Lithuania would be asked to report again to the WPSOPP for a post-accession review of this issue at the end of 2024.