

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. 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 in 2022, and requesting the Secretary-General to present a report on remaining issues in 2023.

5. 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

6. 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

7. When considering Lithuania's progress in December 2020, the CGC and its Working Party concluded as follows:

- 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. Regarding the CGC's priority recommendation 1, given that several companies were found to not be compliant with the company law requirements on board supervisory functions and independence – but that the main reason for this is that the boards were elected prior to the entry into force of the law – additional monitoring by the government at a later date, in line with the Bank of Lithuania's plans, would be warranted.
- Noted that the authorities have taken preliminary steps to implement the remaining priority recommendations, but more time and continued commitment will be necessary to fully implement them. Moving forward, Lithuania is 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.
- 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:
 - 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;
 - 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;
 - 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;
 - Proceeding with the planned corporatisations of statutory SOEs engaged in economic activities.

8. The next report by Lithuania to the Working Party and CGC is due to be submitted before the end of 2022.