



Regulatory update

KPMG Lithuania
Forensic/AML Services

Issue 2021/01

This quarterly Regulatory update newsletter presents recent changes in the applicable EU-wide and local regulations in terms of prevention of money laundering and terrorist financing, risk management, internal controls and related topics that may be relevant to the financial market participants operating in Lithuania.

The publication can assist you in staying up to date with evolving application guidance and new regulatory developments concerning abovementioned topics.

Effective dates at glance

What is going to change?

At KPMG our team have identified key areas of change for activities throughout a company, see table below.

Illustration of regulatory changes

| Effective date | Legal act | Endorsed by EU? |
|-----------------|--|-----------------|
| 1 January 2021 | Resolution No 03-166 – Approval of the Rules on the Outsourcing of Operational functions of Financial Market Participants | Yes* |
| 1 January 2021 | Resolution No 03-106 – Approval of the description of requirements for electronic money institutions and payment institutions regarding the governance arrangements and safeguarding of received funds | No |
| 1 January 2021 | Resolution No 03-174 – Approval of the description of information and communication technology and security risk management requirements | Yes** |
| 1 January 2021 | Law amending Articles 10 and 11 of the Law of the Republic of Lithuania on Prevention of Money Laundering and Terrorist Financing | No |
| 12 January 2021 | Order of the Director of the FCIS No V-215 supplementing the Order No V-314 on the approval of technical requirements to perform the client's due diligence process from remote using electronic means allowing to directly transmit the image | No |

* 2019.02.25 The European Banking Authority (further – EBA) revised Guidelines on outsourcing arrangements setting out specific provisions for the governance frameworks of all financial institutions within the scope of the EBA's mandate. The Bank of Lithuania adopted the Resolution No.03-166 to implement the EBA outsourcing guidelines.

** 2019.11.28 The EBA published its final Guidelines on ICT and security risk management. These Guidelines established requirements for credit institutions, investment firms and payment service providers (PSPs) on the mitigation and management of their information and communication technology (ICT) and security risks. The Bank of Lithuania adopted the Resolution No.03-106 to implement the EBA Guidelines on ICT and Security Risk Management.

New Outsourcing rules



Which legal acts have been adopted?

01

On 10 November 2020, Board of the Bank of Lithuania adopted Resolution No 03-166 on the Approval of the Rules on the Outsourcing of Operational functions of Financial Market Participants.

02

The aim of Outsourcing rules is to set out requirements for the financial market participants where they outsource their operational functions, establish the management framework for the outsourcing of operational functions as well as the procedure for providing information on contracts for the outsourcing of important operational functions to the Bank of Lithuania.



Key aspects

01

Financial Institutions must develop and approve a policy for the outsourcing of operational functions.

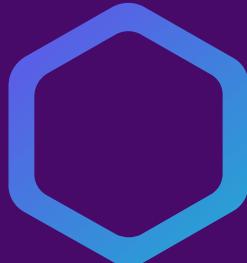
02

Financial Institutions shall never outsource operational function to the point that institution becomes and “empty shell”.

03

Financial Institutions shall establish Exit Plan for exiting from outsourcing agreements of critical and important functions

Internal control, risk management and safeguarding



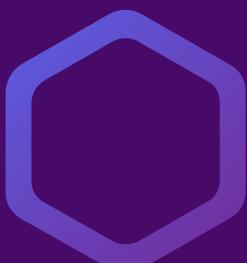
Which legal acts have been adopted?

01

On 23 July 2020, Board of the Bank of Lithuania adopted Resolution No 03-106 amending and recasting Resolution No 247 of the Board of the Bank of Lithuania of 30 December 2009 on requirements for electronic money institutions and payment institutions regarding internal control, risk management and safeguarding of received funds.

02

The aim is to set the main requirements for the governance arrangements, internal control and risk management system, internal audit and safeguarding of funds received from electronic money holders and/or payment service users or other payment service providers.



Key aspects

01

Financial Institutions shall implement sound and prudential principles based on governance arrangements, including the clear organisational structure and the effective system of risk management and internal control of the risks to which the institution is or may be exposed.

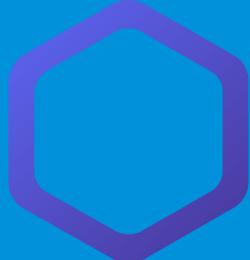
02

Financial institutions shall regularly assess the internal control and risk management system and ensure that the identified weaknesses are addressed.

03

Financial institutions providing payment services through an agent shall ensure that funds which were received by the agent and at the end of the following business day still held and not yet transferred by the agent to the payee or other payment service provider are held in the funds safeguarding account opened.

New guidelines on ICT and Security Risk Management



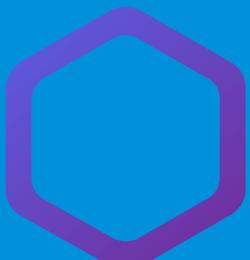
Which legal acts have been adopted?

01

On 26 November 2020, Board of the Bank of Lithuania adopted Resolution No 03-174 on the approval of the description of information and communication technology and security risk management requirements.

02

The aim of guidelines is to determine risk management measures to be taken by financial market participants in order to manage information and communication technology (ICT) and security risks in all their activities. These requirements cover information security requirements, including cyber security, to the extent that information is stored, processed and transmitted through ICT systems.



Key aspects

01

Financial institutions shall ensure that they have an appropriate internal management system for managing ICT and security risks and that the identification and management of ICT and security risks is integrated into the their internal control system.

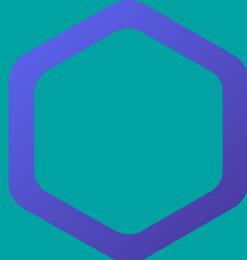
02

Financial Institution shall develop, approve the institution's ICT strategy and align it with the Institution's overall operational strategy.

03

Financial institutions must use a model of three lines of defense (internal management and control, risk management and internal audit) to manage ICT and security risks.

Amendment to AML Law and Resolution V-314 of FCIS



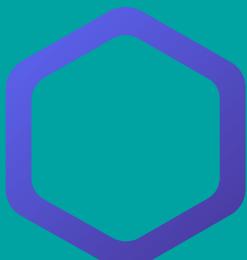
Which legal acts have been amended?

01

On 17 December 2020, Parliament of the Republic of Lithuania adopted the amendments to Article 10 and Article 11 of the Law on the Prevention of Money Laundering and Terrorist Financing.

02

In relation to the abovementioned amendments of the AML Law, On 30 December 2020, the Director of the Financial Crime Investigation Service (hereinafter – “FCIS”) adopted Order No V-215 supplementing the Order No V-314 on the approval of technical requirements to perform the client's due diligence process remotely using electronic means allowing to directly transmit the image.



What is changing?

01

A driving license is an acceptable proof of identity in Lithuania as of 1st of January 2021. In order to be accepted as proof of ID, driving licenses issued by non-EU countries will need to meet the standards in the December 2006 directive of the European Parliament and Council.

02

If information on citizenship is not provided on a person's driving license, financial institution must ask the person for a proof of citizenship.

03

During client identification process, where the identity is established remotely, using electronic means that allow live video transmission the side of the document containing the photograph of that natural person shall be shown on the display of the driving license.

If you have any questions, please let us know



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