

# Amendments to the Law on Companies in Lithuania: What's New?

May 2023

**On November 17, 2022, The Parliament of the Republic of Lithuania adopted an amendment to Lithuania's Law on Companies (hereinafter "the Law").**

These amendments aim to facilitate corporate governance, liberalise the legal regulation of share classes, encourage the use of digital tools in decision-making, and reduce capital requirements for new companies. Some of these amendments took effect immediately, while the rest took effect from May 1, 2023.

## Shareholders can vote electronically

The new version of the law provides that a company has the right to allow shareholders to vote by electronic means at the request of the shareholders. Companies will be obliged to provide for electronic voting if requested by shareholders whose shares represent at least 1/10 of the total number of votes (and the company's articles of association may provide for a lower number). In addition, if so requested by all its shareholders, the company's articles of association can provide for the possibility to organise general shareholders' meetings only by electronic means, thus eliminating the need to organise an in-person meeting. Documents will be able to be signed with a qualified electronic signature, using a qualified-electronic-signature certificate that complies with the requirements of the European Union Directive.

## Reduction of the compulsory share capital

From May 1, 2023, setting up a new company has become even easier. Although previously the mandatory authorised capital of a private limited liability company could not be less than €2,500, to make it easier to attract new investments and set up companies, the share capital requirement has now been reduced to EUR 1000. This is particularly favourable for business start-ups.

## Sale and redemption of shares in a private limited liability company

Another important amendment to the Law contributing to the liberalisation of corporate governance is the clarification of the right of first refusal on shares for sale. Previously, there was a debate about the possibility of providing a different procedure for the sale of shares in the articles of association of companies than that provided for in the Law. From now on, however, companies will be able to waive the right of first refusal altogether in their articles of association and to define a different procedure for the sale of shares.

A new article has been added to the Law on Companies to regulate the redemption and sale of shares in private limited liability companies. The Institute of Redemption of company shares in private limited liability companies will allow minority shareholders to exit a company and large shareholders to buy out minority shareholders. Shareholders who acquire at least 95% of the shares in the company will simultaneously acquire the right to compel the remaining minority shareholders to sell their shares at a fair price (i.e., a "squeeze-out"). Shareholders will be able to initiate squeeze-out procedures within 3 months from the date on which they acquire 95% or more of the shares in the company. Majority shareholders who have acquired at least 95% of their companies' shares are now required to notify their companies that they have reached that status, in writing, within 5 working days. It should also be emphasised that both these deadlines and the entry into force of the amendments to the Law on Companies are relevant for those shareholders who acquired the right to redeem shares or the right to have shares redeemed before the entry into force of the amendments. The latter group will have the right to initiate a redemption within 1 year after the entry into force of the amendments to the Law on Companies.



In addition to the above, this Article includes a provision for a reverse right, also known as a "sell-out". Under this provision, small shareholders are entitled to demand that the large shareholder, either alone or with other shareholders holding more than 95% of the shares, repurchase their shares on the same terms and conditions, including a fair price. Shares will have to be settled in cash. This amendment to the law is intended to enhance corporate governance by enabling major shareholders to make decisions while also allowing minority shareholders to withdraw from a company that is controlled by a major shareholder and safeguard their interests.

## Regulation of the issue of share classes

One of the most important changes to the Law is the liberalisation of the regulation of classes of shares: companies are now permitted to issue various forms of preference shares that go beyond those outlined in the Law. Through their articles of association, they can also decide the specific types of preference shares to be issued in the company and the corresponding property and non-property rights that will be granted to shareholders. Thus, the new wording of the Law on Companies removes the prohibition on the issue of shares beyond those expressly provided for in the previous Law, and the new regulation now limits only the right of companies to issue shares that can be converted into bonds.

Previously, preference shares could only represent 1/3 of a company's capital, but with these changes, preference shares will be able to represent a maximum of 1/2 of the company's capital. Limiting preference shares to no more than 1/2 of the company's capital will ensure that the company's decisions are not taken solely by a minority of shareholders.

The new amendments also allow companies to issue different classes of preference shares and convert preference shares into ordinary shares or other classes of preference shares. The new ability to convert shares into ordinary shares or other classes of preference shares is considerably simpler than the pre-amendment conversion procedure, which required that shares first be converted into ordinary shares before new shares could be issued. Going forward, companies will also have the right to define the procedure for determining dividends on preference shares in their articles of association, which will make it easier for companies to attract new investments by personalising the preference-share dividend depending on the investment attracted and other relevant circumstances.

In addition, whereas under the previous provisions of the Law, the issue price of shares issued in a company had to be

the same, with different issue prices being a source of much debate in practice, the new amendment also allows shares to be issued at different issue prices within the same share issue. This change will help companies avoid wasting time and money.

In summary, the new changes will encourage private limited liability companies to use digital tools for decision-making, will protect the interests of minority shareholders, and will allow companies to hold a wider range of share classes, thus allowing them to adapt to modern business needs and opening up opportunities for easier market entry.