

UNOFFICIAL TRANSLATION

Law "On the Financial and Capital Market Commission"

Passed on June 1, 2000.

In effect as of July 1, 2001.

Note.

This Law will be effective as of July 1, 2001, except for Article 13, on the appointment of Chairperson and his/her Deputy, and Items 1, 2, and 4 of the Transition Rules that are effective as of the day following its promulgation.

SECTION I

GENERAL PROVISIONS

Article 1. This Law shall specify the provisions for the establishment and operation of the Financial and Capital Market Commission (hereinafter, the Commission).

Article 2. (1) The Commission shall enjoy full rights of an independent/autonomous public institution and, in compliance with its goals and objectives, shall regulate and monitor the functioning of the financial and capital market and its participants.

(2) The Commission shall make independent decisions within the limits of its authority, execute functions assigned to it by law, and be responsible for their execution. No one shall be entitled to interfere with the activities of the Commission, except institutions and officials authorised by law.

Article 3. (1) The Commission's legal ability and capacity shall comply with the objectives set forth in this and other laws. The Commission shall be assigned property owned by the state and have an independent balance sheet.

(2) The Commission shall have a seal bearing its full name, other corporate requisites and an account with the Bank of Latvia.

Article 4. Participants in the financial and capital market shall be issuers, investors, credit institutions, insurers, private pension funds, insurance brokers, stock exchanges, depositories, broker companies, brokers, investment companies and investment consultants.

SECTION II

COMMISSION'S GOALS, FUNCTIONS, AUTHORITIES AND RESPONSIBILITIES

Article 5. The goal of the Commission's activities shall be to protect the interests of investors, depositors and the insured, and to promote the development and stability of the financial and capital market.

Article 6. The Commission shall have the following functions:

1) to issue binding rules and regulations and directives setting out requirements for the functioning of financial and capital market participants and calculation and reporting of their performance indicators;

- 2) by controlling compliance with regulatory requirements and directives issued by the Commission, to regulate activities of the financial and capital market participants;
- 3) to specify the qualification and conformity requirement for the financial and capital market participants and their officials;
- 4) to establish the procedure for licensing and registration of the financial and capital market participants;
- 5) to collect and analyse information (data) relating to the financial and capital market and to publish it;
- 6) to ensure accumulation of funds with the Deposit Guarantee Fund, and Protection Fund for the Insured, their management and payment of compensation from these funds in accordance with the Laws on Deposits of Individuals and the Insurance Companies and their Supervision;
- 7) to analyse regulatory requirements pertaining to financial and capital market and draft proposals for their improvement and harmonisation with the regulatory requirements Community;
- 8) to engage in systemic studies, analysis and forecasting of the financial and capital market development;
- 9) to cooperate with foreign financial and capital market supervision authorities and participate in international organizations of the financial and capital market supervision institutions.

Article 7. (1) Executing the functions specified under Article 6 hereof, the Commission shall have authority:

- 1) to issue regulations and directives, governing the activities of the financial and capital market participants;
 - 2) to request and receive information necessary for the execution of its functions from the financial and capital market participants;
 - 3) in cases stipulated under the regulations, to set forth restrictions on the activities of the financial and capital market participants;
 - 4) to examine compliance of the activities of the financial and capital market participants with the legislation, and regulations and directives of the Commission;
 - 5) to apply sanctions set forth by the regulatory requirement to the financial and capital market participants and their officials in case said requirements are violated;
 - 6) to participate in the general meeting of the financial and capital market participants to initiate convening of meetings of the financial and capital market participant management bodies, specify items for their agenda, and participate therein;
 - 7) to request and receive, from the Commercial Register and other public institutions, any information required for execution of its functions free of charge;
 - 8) to cooperate with foreign financial and capital market supervision authorities and, upon mutual consent, exchange information necessary to execute its functions set forth by law;
- (2) In order to execute its functions specified by law, the Commission is entitled to carry out other activities permitted under the normative acts.

Article 8. Regulations and directives issued by the Commission are binding upon the financial and capital market participants. Regulations are effective as of the day following their publication in the government journal *Latvijas Vestnesis*, if same regulations do not provide for otherwise.

Article 9. The Commission shall be responsible for:

- 1) stability and development of the financial market;
- 2) promotion of free competition within the financial market.

SECTION III

Relation of the Commission with the Bank of Latvia and the Ministry of Finance

Article 10. (1) At least once per quarter the Commission shall submit information summary on the situation in the financial and capital market to the Bank of Latvia and the Ministry of Finance.

(2) Of short-term liquidity problems of a particular financial and capital market participant or its potential or actual insolvency, the Commission shall inform the Governor of the Bank of Latvia and the Minister of Finance in writing. The Commission shall be authorised to request the Bank of Latvia to extend a loan against collateral to any such credit institution.

(3) The Commission and Bank of Latvia shall share the statistic relevant to execution of their tasks.

Article 11. The Commission shall provide information on the financial status of specific credit-institutions upon a written request of the Governor of the Bank of Latvia.

Article 12. If not otherwise specified by regulatory requirements, the information referred to in this Section shall be considered restricted.

SECTION IV

Establishment and Management of the Commission

Article 13. (1) The Commission shall be governed by its Council.

(2) The Council shall be comprised of five members: the Chairperson of the Commission (hereinafter, Chairperson), his/her Deputy and three members, who are also directors of the Commission's Departments.

(3) The Parliament shall appoint the Chairperson and his/her Deputy for a period of six years upon a joint proposal of the Minister of Finance and the Governor of the Bank of Latvia.

(4) The Chairperson shall appoint and remove other members of the Council coordinating his/her decision with the Governor of the Bank of Latvia and the Minister of Finance.

(5) A person may be appointed to the position of Chairperson, Deputy Chairperson or a Council member provided that he/she:

- 1) is competent in financial management;
- 2) is of good repute;
- 3) has at least five years experience in the financial and capital market.

(6) The position of Chairperson, Deputy Chairperson or Council member shall not be taken by a person who:

- 1) has a criminal record for committing a deliberate offence, irrespective of its annulment or removal;
- 2) has been deprived of the right to engage in a particular or any type of entrepreneurial activity.

Article 14. The Parliament shall dismiss the Chairperson or Deputy Chairperson from his/her position before the end of their terms as specified under Paragraph 2 of Article 13 only if:

- 1) an application on resignation is submitted by the respective person;
- 2) a court judgement whereby the Chairperson or his/her Deputy is convicted for criminal offence becomes effective;

- 3) the Chairperson or Deputy Chairperson is not able to officiate for a period of six consecutive months due to illness or for any other reason;
- 4) an application submitted jointly by the Governor of the Bank of Latvia and the Minister of Finance, on his/her early dismissal has been received.

Article 15. (1) The meeting of the Council shall be convened and presided over by the Chairperson or, during his/her absence, by the Deputy Chairperson.

- (2) The Council shall be considered competent if no fewer than four of its members are present at a meeting, provided that one of them is the Chairperson or Deputy Chairperson.
- (3) Each member of the Council shall have the right to call a meeting of the Council by submitting a written application.
- (4) Meeting of the Council shall be convened on an as-needed basis, however, not less frequently than once a month.

Article 16. (1) The Council shall pass resolutions by a simple majority. In case of vote parity, the vote of the chairperson of the meeting shall be decisive.

- (2) The Governor or Deputy Governor of the Bank of Latvia and the Minister of Finance may participate in Council meetings in the capacity of advisors. Heads of the public organizations (professional associations) of the financial and capital market participants may also take part in Council meetings in such capacity, provided that these meetings have not been declared closed by a resolution of the Council.
- (3) All Council members attending a Council meeting shall sign its minutes.
- (4) If any Council member does not agree with a resolution of the Council and votes against it, his/her individual opinion shall be recorded in the minutes and he/she shall not be held responsible for this resolution of the Council.

Article 17. The Council shall have the exclusive right:

- 1) to approve supervisory and regulatory policies for the financial and capital market;
- 2) to issue binding regulations and directives regulating the activities of the financial and capital market participants;
- 3) to issue special permits (licenses) or certificates authorising operation in the financial and capital market;
- 4) to suspend and renew the validity of the special permits (licenses) or certificates issued;
- 5) to annul any special permit (license) or certificate issued;
- 6) to take decisions on the applications of sanctions against persons in breach of any of the regulatory requirements pertaining to the financial and capital market;
- 7) to specify payments to be made by the financial and capital market participants to finance the activities of the Commission;
- 8) to approve the structure of the Commission, its Statutes and structural units;
- 9) to approve the annual budget of the Commission;
- 10) to establish remuneration for the Commission's staff;
- 11) to approve the Commission's performance and annual report;
- 12) to approve the procedure for registration, processing, storage, distribution and liquidation of information at the disposal of the Commission;
- 13) to pass resolutions on signing cooperation agreements with the Bank of Latvia and foreign financial supervision authorities on the exchange of information necessary for supervision and regulation of the financial and capital market;

Article 18. (1) The Chairperson shall represent the Commission and shall be responsible for the organization of its activity. In the Chairperson's absence, his/her duties shall be performed

by the Deputy Chairperson.

(2) The Chairperson shall hire and dismiss the Commission's staff.

(3) The Chairperson shall represent the Commission in its relations with state institutions, the financial and capital market participants and international organizations.

SECTION V

Responsibility of the Officials and Staff of the Commission

Article 19. (1) The members of the Council, heads of its structural units, and other employees are officials of the Commission. The list of the employees to be ranked as government officials shall be approved by the Chairperson;

(2) To determine the restrictions on entrepreneurial activities, gaining income, combining positions and execution of tasks, as well as other related restrictions, duties and responsibilities of the officials of the Commission, the provisions of the Anti-corruption law apply.

Article 20. (1) The Council members as well as heads and employees of the structural units of the Commission are prohibited from publicly disclosing or disseminating in any other manner, both during their office term, and after termination of their employment or any other contract relationship with the Commission, data or any other information related to the financial and capital market participants that has not been previously published in accordance with procedures set by law or whose disclosure has not been approved by the Council.

(2) The persons specified under Clause (1) of this Article, in compliance with the regulatory requirements, shall be held responsible for any illegal disclosure of restricted information as well as for any loss incurred by third parties as a result of unlawful actions of the Commission's employees.

SECTION VI

Consultative Council of the Financial and Capital Market Commission

Article 21. (1) Consultative Council of the Financial and Capital Market Commission (hereinafter, the Consultative Council) shall be established to promote the efficiency of the monitoring of the financial and capital market and promotion of its safety, stability and growth. It shall be a collegial, advisory body charged with the following tasks:

- 1) to review legislation drafted for the regulation of the financial and capital market participant activities;
- 2) upon a financial and capital market participant's request and prior to consideration by the Commission, to review the participant's complaints regarding the findings of the Commission's inspections;
- 3) to prepare policy recommendations for the Council relevant to the execution of the Commission's functions as set by law, and improvement and development of the financial and capital market regulation and monitoring;
- 4) to review the Commission's annual budget and issue its opinion thereupon;
- 5) to submit proposals to the Chairperson of the Commission regarding improvement of the Commission's activities;
- 6) to supervise the accrual of funds with the Deposits Guarantee Fund and the Fund for the Protection of the Insured and compensation payments from these Funds.

(2) If the Council's decision does not agree with the opinion previously made by the Consultative Council on the same issue, the minutes of the Council meeting shall reflect the

motivation for declining said opinion.

(3) The Consultative Council shall be comprised of representatives of the Commission and heads of the public organizations (professional associations) of the financial and capital market participants on the principle of parity.

(4) The Consultative Council shall be considered competent if at least half of its members are present at its meeting. It shall pass resolutions by a simple majority of vote of the members present. In case of vote parity, the resolution shall be considered not passed.

(5) The meeting of the Consultative Council shall be presided by the Chairperson or Deputy Chairperson of the Commission.

(6) The Commission shall be responsible for the record keeping of the Consultative Council.

SECTION VII

Financing of the Commission

Article 22. (1) Activities of the Commission shall be financed from payments of the participants of the financial and capital market made in the amounts specified by the Council and not exceeding the amount set by law. The participants' payments shall be transferred to the Commission's account with the Bank of Latvia and utilized solely for the purpose of financing its activities.

(2) Payments by permanent representative offices and branches of foreign undertakings (business enterprises) engaging in entrepreneurial activity in the Republic of Latvia as participants of the financial and capital market shall be made as provided for under Article 23 of this Law.

Article 23. (1) The Commission's revenue shall be comprised of:

1) insurers' payments calculated from the total sum of the received quarterly insurance premiums:

- a) up to 0.4% (inclusive) of life insurance transactions related to the accrual of funds;
- b) up to 0.2% (inclusive) of transactions related to the third party mandatory civil liability insurance of land vehicle owners;
- c) up to 0.7% (inclusive) of other insurance;

2) private pensions fund payments of up to 0.4% (inclusive) of quarterly contributions made by or on behalf the pension plan members within pension plans licensed by private pension funds;

3) credit institutions' payments of up to 0.033% (inclusive) of the average quarterly value of their assets;

4) brokerage companies' payments of up to 1% (inclusive) of the average quarterly gross income from their transactions, but not less than 2,000 lats per year;

5) Stock Exchange payments of up to 2% (inclusive) of the average quarterly gross income from the Stock Exchange transactions, but not less than 5,000 lats per year;

6) Depository payments of up to 2% (inclusive) of the average quarterly gross income from the Depository's transactions, but not less than 5,000 lats per year;

7) investment companies' payments of up to 0.033% (inclusive) of the quarterly average asset value of investment funds managed by the investment companies, but not less than 2,500 lats per year;

8) income from services provided by the Commission as set by law.

(2) Payments for the financing of the Commission are made by each participant of the financial and capital market in compliance with Paragraph 1 of this Article and Paragraph 2 of Article 22.

Article 24. (1) In accordance with the provision and terms set forth by the Commission, the financial and capital market participants shall file with the Commission reports as necessary for the calculation of payments determined by Article 23 and make payments for the financing of the Commission by 30th day of the first month following the end of each quarter. (2) The Commission shall issue binding regulations on the filing of the reports specified under Paragraph 1 of this Article and on calculation of payments. (3) The Payments made by the financial and capital market participants for the financing of the Commission shall be accounted for as their expenditure.

Article 25. (1) A delayed or incomplete transfer of payment to the Commission's account with the Bank of Latvia shall incur a penalty in the amount of 0.05% of the outstanding amount per each of delay. (2) The financial and capital market participants shall transfer the calculated penalty for payment delay to the Commission's account with the Bank of Latvia.

Article 26. The end of the year balance of the Commission's accounts with the Bank of Latvia shall remain at the disposal of the Commission and shall be utilized in the succeeding year for the financing of the budget expenditure approved by the Council.

SECTION VIII

Control over the Commission's Activity

Article 27. The Commission shall annually file with the Parliament a written report on its performance during the proceeding year and its complete annual financial statements audited by a sworn auditor not later than by July 1.

Article 28. The Commission shall publish its balance sheet statement and the opinion of the sworn auditor in the government journal Latvijas Vestnesis not later than on July 1 following the end of the reporting year.

Transition Rules

1. The Credit Institutions Supervision Department of the Bank of Latvia, the Securities Market Commission and the Insurance Supervision Inspectorate shall merge by June 30, 2001.
2. The Commission shall commence its activities on July 1, 2001.
3. The Commission shall be the legal successor of the rights, obligations and liabilities of the Securities Market Commission and the Insurance Supervision Inspectorate, rights pertaining to the management of the Deposits Guarantee Fund, and Bank of Latvia's rights, obligations and liabilities credit institution's supervision.
4. By August 31, 2000 the Chairperson shall set the Commission's draft budget for 2001. The expenses related to the establishment pertaining to the supervision of its activities shall be proportionally covered from the funds of the Bank of Latvia, Securities Market Commission and Insurance Supervision Inspectorate.

5. Within the period from July 1, 2001 to December 31, 2006, activities of the Commission shall be financed from payments made by the participants in the financial and capital market, the state budget and the Bank of Latvia as follows:

1) expenses related to the supervision of credit institutions:

a) in the years 2001, 2002 and 2003, 1,200,000 lats shall be provided by the Bank of Latvia;

b) in the year 2004, 960,000 lats shall be provided by the Bank of Latvia and the rest by credit institutions in compliance with the provisions set out in Section VII hereof;

c) in the year 2005, 600,000 lats shall be provided by the Bank of Latvia and the rest by credit institutions in compliance with the provisions set out in Section VII hereof;

d) in the year 2006, 240,000 lats shall be provided by the Bank of Latvia and the rest by credit institutions in compliance with the provisions set out in Section VII hereof;

2) expenses related to the supervision of insurance shall be covered by the insurers in compliance with the provisions set out in Section VII hereof;

3) expenses related to the supervision of securities market and private pension funds:

a) in the year 2001, 100% of the total shall be covered from the state budget;

b) in the year 2002, 80% of the total shall be covered from the state budget and 20% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

c) in the year 2003, 60% of the total shall be covered from the state budget and 40% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

d) in the year 2004, 40% of the total shall be covered from the state budget and 60% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

e) in the year 2005, 20% of the total shall be covered from the state budget and 80% by the financial and capital market participants, except credit institutions and insurers, in compliance with the provision set out in Section VII hereof;

f) in the year 2006, 100% of the amount shall be covered by the financial and capital market participants in compliance with the provision under Section VII hereof.

6. The payment defined under Paragraph 1 of Article 5 of the Transition Rules shall be executed by the Bank of Latvia once per quarter by the 15th day of the first month of each quarter in an amount equal to one fourth of the amount that the Bank of Latvia is due to cover in the respective year.

7. Commencing with the year 2007, the activities of the Commission shall be fully financed from the payments of the financial and capital market participants.

8. Licenses (permits) and professional qualification certificates issued by the Securities Market Commission, Insurance Supervision Inspectorate and the Bank of Latvia for operation in the financial and capital market still valid on July 1, 2001 shall be valid until their expiration. Provisions for intensified supervision and restrictions on financial services applied by the Bank of Latvia in accordance with the Law "On Credit Institutions" that are effective on July 1, 2001 shall remain valid until the Commission resolves to abolish them.

9. Until the passage of the respective regulatory requirements of the Commission, yet not later than by January 1, 2002, the following Cabinet of Ministers Regulations shall remain effective, unless this law stipulates otherwise:

1) the Cabinet of Ministers Regulation No. 401 of October 6, 1998 for "Payments to the Protection Fund of the Insured";

- 2) the Cabinet of Ministers Regulation No. 421 of October 27, 1998 for the "Annual Reports of Insurance Companies";
- 3) the Cabinet of Ministers Regulation No. 436 of November 17, 1998 for the "Registration Rules for Insurance Companies and Insurers";
- 4) the Cabinet of Ministers Regulation No. 441 of November 24, 1998 for "Accounting for Insurance Broker's Services in Insurance Brokerage Companies";
- 5) the Cabinet of Ministers Regulation No. 442 of November 24, 1998 for "Insurance Brokerage Companies Civil Liability Insurance";
- 6) the Cabinet of Ministers Regulation No. 18 of January 19, 1999 for the "Certification of Insurance Brokers";
- 7) the Cabinet of Ministers Regulation No. 91 of March 17, 1998 for "Special Permits (Licenses) for the Operation of Private Pension Fund";
- 8) the Cabinet of Ministers Regulation No. 234 of July 7, 1998 for the "Calculation of Additional Capital Accrued with Private Pension Fund ";
- 9) the Cabinet of Ministers Regulation No. 253 of July 14, 1998 for "Private Pension Fund's Annual Report".

10. until the adoption of the respective regulatory documents by the Commission, but not later than January 1. 2002, binding regulations, issued by the Securities Market Commission, Insurance Supervision Inspectorate and the Bank of Latvia, governing the operation of the financial and capital market participants, calculation of their performance indicators and reporting shall remain effective unless this law stipulates otherwise.

11. As of July 1, 2001, the Law On Securities Market Commission shall be no longer in effect (Zinotajs of the Parliament of the Republic of Latvia and the Cabinet of Ministers, 1995, No. 20; 1997, No. 14; 1998, No. 23).