Text consolidated by Valsts valodas centrs (State Language Centre) with amending laws of:

20 December 1999 [shall come into force from 24 January 2000];

20 November 2003 [shall come into force from 1 January 2004];

21 April 2005 [shall come into force from 25 May 2005];

3 December 2009 [shall come into force from 1 January 2010];

16 December 2010 [shall come into force from 1 January 2011];

12 September 2013 [shall come into force from 1 January 2014];

6 November 2013 [shall come into force from 1 January 2014];

12 June 2014 [shall come into force from 1 January 2015];

7 January 2021 [shall come into force from 2 February 2021].

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*1 has adopted and

the President has proclaimed the following law:

**Commercial Pledge Law**

**Chapter I**

**General Provisions**

**Section 1. Terms Used in this Law**

The following terms are used in this Law:

1) **Commercial Pledge Register**– a database of commercial pledges;

2) **holder of the Commercial Pledge Register**– the Enterprise Register of the Republic of Latvia which maintains the Commercial Pledge Register and ensures its accessibility to the public in accordance with the procedures laid down in this Law;

3) **properties subject to the registration**– land vehicles, small craft (rowing boat, motor boat, cutter, and personal watercraft), aircraft, shares of the equity capital registered in the Republic of Latvia and animals and herds to be registered in the National Unified Animal and Herd Register, as well as trade marks, designs, topographies of semiconductor products registered in accordance with the national procedure, granted Latvian patents and European patents in which Latvia is the designated state and regarding which a translation has been published in the Official Gazette of the Patent Office;

4) **holder of the Register of Properties Subject to the Registration**– an institution the obligations of which include keeping of registration of the properties subject to the registration.

[*20 December 1999; 21 April 2005; 12 June 2014*]

**Section 2. Commercial Pledge**

(1) The commercial pledge is a pledge right recorded in the Commercial Pledge Register in accordance with the procedures laid down in this Law.

(2) [20 December 1999]

(3) General provisions for the pledge right provided for in The Civil Law shall apply to the commercial pledge, insofar as it has not been laid down otherwise in this Law.

[*20 December 1999*]

**Section 3. Subject of the Commercial Pledge**

(1) The following may qualify as the subject of the commercial pledge:

1) a movable tangible or intangible property (including the right to claim) which belongs to a merchant or another legal person;

2) an aggregation of the properties referred to in Clause 1;

3) the entire assets of a merchant or another legal person.

(2) Properties subject to the registration, as well as an undertaking as an aggregate of properties, co-operative shares, stocks, and bonds may be the subject of the commercial pledge regardless of the ownership thereof.

(3) The commercial pledge where the subject is an aggregate of properties shall include the existing and also future parts thereof unless it is explicitly clear that the intent of the commercial pledgor has been to pledge only parts of such aggregate of properties as it was at the moment of creating the pledge right.

(4) Assets that may constitute the subject of the commercial pledge may not be pledged according to the provisions for other types of pledges. A contract concluded contrary to the present prohibition shall be deemed void against third persons.

[*20 December 1999; 21 April 2005; 3 December 2009; 12 June 2014*]

**Section 4. Properties which May not be the Subject of the Commercial Pledge**

(1) A vessel, a financial instrument recorded in the account of financial instruments, credit claims within the meaning of the Financial Collateral Law, financial resources, as well as a claim arising from a cheque or a bill of exchange may not be the subject of the commercial pledge.

(2) If the entire assets of a merchant or another legal person are pledged or an aggregate of properties is pledged, the claims referred to in Paragraph one of this Section, as well as immovable property, vessels, financial instruments recorded in the account of financial instruments, credit claims within the meaning of the Financial Collateral Law, and financial resources shall be considered excluded from the pledged property.

[*20 December 1999; 20 November 2003; 21 April 2005; 3 December 2009; 12 June 2014*]

**Section 5. Commercial Pledgor**

A commercial pledgor is a person granting the commercial pledge right.

**Section 6. Commercial Pledgee**

A commercial pledgee is a person accepting the commercial pledge to secure the claim thereof.

**Section 7. Claim Secured by the Commercial Pledge**

(1) A commercial pledge may be used to secure any claim, either existing, or contingent on the basis of an existing liability (outstanding loan to a debtor). If not explicitly agreed otherwise, the commercial pledge shall secure not only the principal claim but also ancillary claim.

(2) The maximum amount to be secured by the principal claim and ancillary claim should be determined by parties in the contract on commercial pledge. Part of the claim in excess of the agreed maximum amount of the commercial pledge liability shall be deemed an unsecured claim.

(3) If the commercial pledgor and the commercial pledgee agree to increase the amount of the secured claim or the volume of the pledged asset, such increase shall be regarded as a new pledge to be created and registered in accordance with the requirements laid down in this Law.

[*20 December 1999*]

**Section 8. Specific Cases for Transfer of the Commercial Pledge Right**

The commercial pledge right shall be transferred to the right to claim in respect of the following:

1) insurance compensation if the subject of the commercial pledge has been insured;

2) disbursement due to a shareholder (stockholder, member) if shares of the equity capital, stocks, or co-operative shares are the subject of the commercial pledge and they are cancelled as a result of the reduction of equity capital or the issuer thereof has been liquidated;

3) compensation received as a result of unauthorised alienation of the pledged assets if the acquirer thereof is acting in good faith.

[*12 June 2014*]

**Chapter II**

**Creation and Registration of the Commercial Pledge**

**Section 9. Creation of the Commercial Pledge**

(1) The commercial pledge shall be created on the basis of a contract or court ruling and registered in the Commercial Pledge Register in accordance with the requirements of this Law.

(2) If the parties have entered into a contract on the creation of the commercial pledge, but the commercial pledge has not been registered, the commercial pledgee may not exercise its right and the commercial pledge shall not be effective against third persons, however, the contract on commercial pledge shall remain effective. The commercial pledgee may institute a personal claim against the commercial pledgor. The subject-matter of the claim is registration and neither of the parties may, without the consent of the other, derogate from the liability because the commercial pledge has not been registered. The priority right for such commercial pledge is determined as of the moment of registration.

(3) The commercial pledge may be created on the basis of a court ruling whereby there has been a certain amount in cash adjudged from the debtor in favour of the claimant or there has been a undisputed enforcement allowed if the bailiff, upon effecting the collection of the assets of the debtor, has failed to obtain funds sufficient for full coverage of the claim of the claimant and has identified that the movable assets of the debtor have been pledged according to the provisions for the commercial pledge and the debtor has no other assets for the collection. The subject of the commercial pledge in this case is the assets of the debtor already subject to the creation of the commercial pledge and the amount to be recovered shall be the scope of the pledge liability.

[*20 December 1999*]

**Section 10. Information to be Entered in the Commercial Pledge Register**

(1) The following information shall be entered in the Commercial Pledge Register:

1) the name, legal address, and registration number of the commercial pledgor and the commercial pledgee (for a natural person – the given name, surname, address where he or she can be reached, and personal identity number; if the person does not have a personal identity number – the date of birth, the number and date of issue of the personal identification document, the country and institution that issued the document);

2) the commercial pledge registration number;

3) description and characterisation of the pledged asset according to the information indicated in the application;

4) the amount in euros covered by the pledge liability;

5) information regarding deletion of the commercial pledge;

6) the date of making each entry.

(2) In addition the following information shall be entered in the Commercial Pledge Register:

1) the name and registration number of the debtor (if it is not the commercial pledgor) and the manager of the commercial pledge (for a natural person – the given name, surname, and personal identity number; if the person does not have a personal identity number – the date of birth, the number and date of issue of the personal identification document, the country and institution that issued the document);

2) the right of the commercial pledgee to sell the pledged asset without an auction;

3) the prohibition to take the pledged land vehicle or its trailer outside Latvia;

4) the prohibition to pledge the subject of the commercial pledge repeatedly;

5) the date on which the application for the exercising of the commercial pledge right has been appended to the registration file of the commercial pledge;

6) information regarding the exercising of the commercial pledge right;

7) order of the commercial pledgee if the subject of the commercial pledge is pledged repeatedly to another commercial pledgee;

8) other information which is essential for the registration of the commercial pledge and exercising of the commercial pledge right.

(3) If the entire assets of a merchant or another legal person are pledged or an aggregate of properties is pledged, and it is comprised of the properties subject to the registration, they shall be indicated separately in the application. If any of the abovementioned properties is not included in the application, the commercial pledgee may not exercise the commercial pledge right and the commercial pledge on such properties shall not be effective against third persons. The commercial pledgee has the rights provided for in Section 9, Paragraph two of this Law.

[*12 June 2014*]

**Section 11. Making of an Entry in the Commercial Pledge Register**

Entries in the Commercial Pledge Register shall be made on the basis of an application submitted by the person interested. The Cabinet shall determine the application forms and the procedures for filling them in.

[*12 June 2014*]

**Section 12.** [12 June 2014]

**Section 13. Documents to be Attached to the Application**

(1) The contract on commercial pledge and the document which serves as basis for the claim to be secured shall be attached to the application.

(2) If the commercial pledge is registered on the grounds of a court judgment (Section 9, Paragraph two), the true copy of the court judgment shall be also attached to the application.

(3) If the commercial pledge is created on the basis of a court ruling (Section 9, Paragraph three), the true copy of the court ruling and the document certifying the preconditions for creating the commercial pledge specified in Section 9, Paragraph three of this Law shall be attached to the application instead of the contract on commercial pledge.

[*20 December 1999; 12 June 2014*]

**Section 14. Submission of an Application**

(1) The application and the documents attached thereto shall be submitted electronically to the holder of the Commercial Pledge Register, using the online form indicated by the holder of the Commercial Pledge Register.

(2) The application shall be signed by the commercial pledgor. If the application is drawn up on the basis of a court ruling (Section 9, Paragraphs two and three), it shall be signed by the commercial pledgee. An official of the holder of the Commercial Pledge Register shall verify the capacity to act of such persons and the scope of authorisation of the authorised person or representative.

(3) If another person signs the application on behalf of the commercial pledgor or commercial pledgee, the authorisation shall be notarized or a power of attorney with a secure electronic signature of the authorised person shall be appended to the application.

(4) [7 January 2021]

[*12 June 2014; 7 January 2021*]

**Section 15. Examination of an Application**

(1) The holder of the Commercial Pledge Register shall record the applications received according to their submission order, indicating the date of receipt and the registration number assigned in record-keeping.

(2) The holder of the Commercial Pledge Register shall examine the application within five working days. If several applications are received from one commercial pledgor, the application which has been received at the earliest date shall be examined first.

(3) Upon examining the application, the holder of the Commercial Pledge Register shall verify whether:

1) the application has been drawn up in accordance with the provisions of the Law;

2) the documents attached to the application do not contain anything which is obviously illegal;

3) the information indicated in the application and the documents attached thereto are not mutually contradictory;

4) the information included in the application conforms to the information included in the Population Register, as well as in the registers maintained by the Enterprise Register and in the registers of properties subject to the registration;

5) according to the information from the Register of Properties Subject to the Registration, there are no legal impediments for the creation of the commercial pledge;

6) according to entries made in the Commercial Pledge Register, there is no prohibition on repeated pledging, except for the case where the commercial pledge has been created in accordance with the procedures laid down in Section 9, Paragraph three of this Law;

7) according to the information from the Insolvency Register, the commercial pledgor is not subject to the legal protection proceedings or insolvency proceedings thereof have not been declared, except for the case where pledging is provided for in the plan of measures for legal protection proceedings or pledging is carried out by an administrator of insolvency proceedings;

8) a State fee has been paid.

(4) The holder of the Commercial Pledge Register shall take the decision to register the commercial pledge if the requirements of Paragraph three of this Section are met.

(5) The holder of the Commercial Pledge Register shall take the decision to refuse to register the commercial pledge if the requirements of Paragraph three of this Section are not met. In such case the State fee is not reimbursed. If an application where the deficiencies established are rectified is submitted within a month from the date of notifying the decision, the State fee need not be paid repeatedly.

(6) The holder of the Commercial Pledge Register shall not be responsible for internal defects of transactions.

[*12 June 2014*]

**Section 16.** [12 June 2014]

**Section 17.** [12 June 2014]

**Section 18. Additional Provisions for the Registration of the Commercial Pledge if a Property Subject to the Registration is Pledged**

(1) If the subject of the commercial pledge is a property subject to the registration, a document certifying payment of the fee specified for the registration of the commercial pledge entry with the Register of Properties Subject to the Registration shall be attached to the application. The holder of the Commercial Pledge Register shall verify the abovementioned information and whether there are no legal impediments for creating the commercial pledge according to the information available in the Register of Properties Subject to the Registration.

(2) If according to the information from the Register of Properties Subject to the Registration there are legal impediments for creating the commercial pledge, the holder of the Commercial Pledge Register shall register the commercial pledge, shall exclude from the pledged assets such property the pledging of which has legal impediments, and it shall be indicated in its decision.

(3) The holder of the Register of Properties Subject to the Registration, on the basis of the information provided by the holder of the Commercial Pledge Register, shall register the commercial pledge entry in respect of the properties subject to the registration indicated in the application.

(4) If the entire assets of a merchant or another legal person are pledged or an aggregate of properties is pledged, including also future properties, and if the commercial pledgor acquires in possession a property or adds it to the pledged aggregate of properties which should be indicated separately in the application in accordance with Section 10, Paragraph three of this Law, the commercial pledgor shall apply such amendment to the information of the Commercial Pledge Register to the holder of the Commercial Pledge Register within five days from acquisition of the property. If this provision is not conformed to, the commercial pledgee may request the registration of the amendment through court.

[*12 June 2014*]

**Section 19.** [12 June 2014]

**Section 20. Changes in Entries of the Commercial Pledge Register**

(1) The application for changes in entries in the Commercial Pledge Register shall be signed by the commercial pledgee and the commercial pledgor, if it has not been specified otherwise in this Section. The application shall be drawn up and submitted in accordance with the procedures laid down in Sections 11, 13, and 14 of this Law. If the secured claim is amended, the text of amendments to such document from which the secured claim derives shall be attached to the application.

(2) The commercial pledgor shall submit the application for changes in the information referred to in Section 10, Paragraph one, Clause 1 of this Law regarding the commercial pledgor.

(3) The commercial pledgor shall submit the application for changes in the following cases:

1) for changes in the information referred to in Section 10, Paragraph one, Clause 1 of this Law regarding the commercial pledgee;

2) for the reduction of the amount (in euros) covered by the pledge liability;

3) for the removal of a property from the content of the pledged assets;

4) for the appointment and removal of the manager of the commercial pledge;

5) for the registration of the assignment of the secured claim;

6) for exercising of the commercial pledge right.

(4) Concurrently with submitting the application referred to in Paragraphs two and three of this Section the applicant shall inform the other party to the contract on commercial pledge of the respective changes.

(5) If the change of the commercial pledgee occurs upon the novation of the liability, the application for making an entry on the novation in the Commercial Pledge Register shall be submitted by the current commercial pledgee, the commercial pledgor, and the new commercial pledgee.

(6) If the change of the commercial pledgee occurs in case of reorganisation or transfer of an undertaking, the application for making an entry on the change of the commercial pledgee in the Commercial Pledge Register shall be submitted by the current commercial pledgee and the new commercial pledgee. If as a result of reorganisation the current commercial pledgee has ceased to exist, the application shall be signed only by the new commercial pledgee.

(7) In the case referred to in Paragraph six of this Section the new commercial pledgee shall notify the commercial pledgor of registration of the change of the commercial pledgee within 30 days from the date of registering the change of the commercial pledgee in the Commercial Pledge Register, indicating the following:

1) the information referred to in Section 10, Paragraph one, Clause 1 of this Law regarding the new commercial pledgee;

2) the registration date and number of the commercial pledge;

3) justification for the change of the commercial pledgee;

4) the date on which the change of the commercial pledgee is registered in the Commercial Pledge Register.

(8) The holder of the Commercial Pledge Register, on the basis of the information in the registers maintained by the Enterprise Register, has the right, without taking a separate decision, to update the information recorded in the Commercial Pledge Register in relation to the name, legal address, and registration number of the commercial pledgor, commercial pledgee, debtor, and manager of the commercial pledge.

[*12 June 2014*]

**Section 20.1** [12 June 2014]

**Section 21. Transparency of the Commercial Pledge Register**

(1) Any person, for a fee, may become acquainted with entries in the Commercial Pledge Register, with the submitted applications for registration of the commercial pledge and may receive extracts from entries in the Commercial Pledge Register and the submitted applications for registration.

(2) The holder of the Commercial Pledge Register shall ensure at least the following information from the Commercial Pledge Register on its website free off charge: commercial pledgor (for a natural person – the given name, surname, for a legal person – the name and registration number), the registration number of the commercial pledge, the registration date of the commercial pledge, and the deletion or novation date of the commercial pledge.

[*12 June 2014*]

**Section 22. Corrections of an Entry**

(1) If a typographical error or a discrepancy between the Commercial Pledge Register entries and the registration application is detected, the error shall be corrected upon initiative of the holder of the Commercial Pledge Register or the person interested. The holder of the Commercial Pledge Register shall notify the commercial pledgor and all commercial pledgees of the detected error and shall determine the term for the submission of a comment.

(2) After expiry of such term the holder of the Commercial Pledge Register shall decide on the issue of correction of the entry. The non-submission of a response or a negative comment shall not be an obstacle for the correction of an error. Obvious errors may be corrected without requesting a comment.

(3) The decision to correct the error shall not affect the rights of other commercial pledgees, acquired prior to making corrections in the Commercial Pledge Register.

**Section 23. State Fee**

(1) A State fee shall be paid for making of an entry in the Commercial Pledge Register.

(2) The amounts of the State fee shall be determined by the Cabinet. The Cabinet may also determine the scope of persons fully or partially exempt from the payment of the State fee.

(3) If the application is revoked and the holder of the Commercial Pledge Register has not taken any decision in this regard, the State fee shall be reimbursed in accordance with the procedures laid down in the law On Taxes and Duties.

[*16 December 2010; 6 November 2013; 12 June 2014*]

**Chapter III**

**Consequences of a Commercial Pledge**

**Section 24. Rights of a Commercial Pledgor**

Pledging shall not terminate the ownership rights of the commercial pledgor to the pledged property. If the parties have not agreed otherwise, the commercial pledgor may administer and use the pledged property, as well as consume it for personal needs within the scope of commonly accepted standards until the commercial pledgor transfers it into the possession of the commercial pledgee out of good will or he or she is forced to do so as a result of judicial enforcement.

**Section 25. Rights and Obligations of the Commercial Pledgee if the Subject of the Commercial Pledge has been Transferred into the Possession Thereof**

(1) The commercial pledgee must maintain the pledged property during the whole period of possession thereof as a careful owner. The pledged property shall be deemed to be in the possession of the commercial pledgee if the possession has been established in accordance with Section 883, Clause 1, 3, 4, 5, or 6 of The Civil Law.

(2) If the pledged property is damaged or has perished through the fault of the commercial pledgee (as a result of insufficient care, gross negligence, or a malicious intent), the commercial pledgee shall reimburse the losses to the commercial pledgor.

(3) If the pledged property is damaged or has perished as a result of a criminal offence or *force majeure*, the commercial pledgee shall bear no responsibility for it and the losses shall be incurred by the owner of the property.

(4) The commercial pledgee may not use the property pledged thereto, unless the parties have agreed otherwise.

(5) If the commercial pledgee uses the pledged property, damages or destroys it, the commercial pledgee shall bear liability for the incurred loss also if it has arisen through accident or as a result of *force majeure*.

(6) If the claim of the commercial pledgee is discharged or his or her commercial pledge right has ceased any other way, he or she must immediately return the pledged property to the commercial pledgor, unless the commercial pledgee has had the right to retain the property or he or she has become its owner and can prove it.

(7) The commercial pledgee may retain the subject of the commercial pledge also for all other (including personal) claims against the commercial pledgor, but he or she shall possess this right only against the commercial pledgor himself or herself and his or her heirs, but not against third persons. Moreover, the right to retain the property shall not include the right to sell it for the coverage of some other claim.

(8) If a property bearing fruits is pledged and transferred into the possession of the commercial pledgee, the provisions on the usufructuary pledge shall apply, unless the parties have agreed otherwise.

[*20 December 1999*]

**Section 26. Consequences of Pledging a Property of Another Person**

(1) The commercial pledge right shall remain valid if someone accepts such movable property in good faith as a commercial pledge for securing his or her claim which has been entrusted to the commercial pledgor by the owner voluntarily.

(2) If a property acquired by criminal means is pledged, the commercial pledge right shall remain valid until the property is claimed back by its owner. If the property is claimed back, the commercial pledge right shall expire and the commercial pledgee may institute his or her claim,as well as demand the recovery of expenses and losses only against the commercial pledgor.

**Section 27. Priority Right of the Commercial Pledge**

(1) The commercial pledgor may grant more than one commercial pledge on the same subject of the commercial pledge if a prohibition of repeated pledging does not arise from a previously registered contract on commercial pledge.

(2) The priority right of commercial pledges shall be determined according to their registration order in the Commercial Pledge Register.

(3) The priority right may be changed upon a written agreement among commercial pledgees.

(4) The change of the priority right shall be registered in the Commercial Pledge Register. The application for the registration of the change of the priority right shall be signed by the person authorised by the agreement and the consent of all other commercial pledgees who are subject to the change of the priority right of the commercial pledge or whose interests are affected shall be attached thereto.

[*12 June 2014*]

**Section 28. Litigation and Deficiencies**

If a property which has been received by the commercial pledgee as a commercial pledge in good faith is litigated by a third person or if such material deficiencies are found in the property which reduce its value to the extent that it does not cover the amount of the secured claim, the commercial pledgee has the right to claim a compensation for all the losses thus incurred from the commercial pledgor.

**Chapter IV**

**Manager of a Commercial Pledge**

**Section 29. Manager of a Commercial Pledge**

(1) The commercial pledgee may at any moment appoint a manager of a commercial pledge for a registered commercial pledge. The manager of a commercial pledge may be both a natural person and a legal person.

(2) The manager of a commercial pledge shall act as an authorised person of the commercial pledgee in accordance with the provisions on authorisation provided for in The Civil Law insofar as it is not provided for otherwise in this Law.

**Section 30. Appointing of a Manager of a Commercial Pledge**

(1) The appointing of a manager of a commercial pledge shall be recorded in the Commercial Pledge Register. If the appointing of the manager of a commercial pledge is registered concurrently with the creation of the commercial pledge, information regarding the manager shall be included in the application for the registration of the commercial pledge. If the appointing of the manager of a commercial pledge is registered later, it shall be registered on the basis of a written application of the commercial pledgee. In such case, prior to the registration of the appointing of the manager of a commercial pledge, the commercial pledgee shall inform the commercial pledgor thereof in writing.

(2) If the same subject of the commercial pledge is granted to several commercial pledgees of different priorities, the manager of a commercial pledge may be appointed or removed by the commercial pledgee holding the highest priority. If the commercial pledgee does not want to exercise the given right, he or she may transfer the given right to another commercial pledgee in conformity with the priority right of the commercial pledge.

(3) If the commercial pledge to the same subject of the commercial pledge has been granted to several commercial pledgees of the same priority, the manager of a commercial pledge may be appointed, removed or the right to appoint the manager of a commercial pledge may be waived in favour of another commercial pledgee only upon mutual agreement by the commercial pledgees.

**Section 31. Authorisation of a Manager of a Commercial Pledge**

(1) A manager of a commercial pledge has the right to act on behalf of the commercial pledgee in all relations arising from the law and the contract on commercial pledge, but the manager of a commercial pledge shall be allowed to make novations, to waive some rights, or to exercise the commercial pledge right only if it has been particularly specified in the authorisation. Other restrictions of authorisation shall be effective against third persons only if such persons have known or they should have known about such restrictions.

(2) If a person is registered as a manager of a commercial pledge in accordance with the provisions of this Law, any action of such person shall be binding for the commercial pledgee within the scope of the granted authorisation.

(3) If the secured claim is transferred by the commercial pledgee to another person, the authorisation of the manager of a commercial pledge shall be retained and the manager of a commercial pledge shall act on behalf of the new commercial pledgee, unless the parties have agreed otherwise. Also the death of the commercial pledgee – natural person – and termination of the existence of the commercial pledgee – legal person – shall not cease the authorisation of the manager of the commercial pledge *per se*. It shall remain effective and upon transfer of the pledged asset to the new possessor actions undertaken by the manager of a commercial pledge shall become binding for the new possessor.

**Section 32. Removal of a Manager of a Commercial Pledge and Termination of the Authorisation Thereof**

(1) The authorisation of a manager of a commercial pledge shall cease upon expiry of the commercial pledge right.

(2) The commercial pledgee may remove the appointed manager of a commercial pledge at any moment.

(3) The manager of a commercial pledge, if he or she has justified grounds, may refuse to perform the obligations of the manager of a commercial pledge, notifying the commercial pledgee thereof two months in advance. Parties may also provide for a shorter period of time for notification in the contract on commercial pledge.

(4) The expiry of the authorisation of the manager of a commercial pledge shall be registered in the Commercial Pledge Register on the basis of a written application of the commercial pledgee. Prior to expiry of the authorisation of the manager of a commercial pledge, the commercial pledgee shall notify the commercial pledgor thereof in writing.

**Chapter V**

**Third Persons**

**Section 33. Binding Effect of Entries in the Commercial Pledge Register**

(1) Entries in the Commercial Pledge Register shall be binding on third persons and the failure to know them may not be used as a valid excuse.

(2) Entries in the Commercial Pledge Register with respect to third persons shall be deemed correct and third persons shall be under no obligation to examine the conformity of the entries in the Commercial Pledge Register with the Law.

**Section 34. Right of the Commercial Pledgor to Alienate the Pledged Asset**

(1) The commercial pledgor may alienate the pledged asset only with a written consent of the commercial pledgee (authorised alienation). In the absence of any other agreement with the purchaser of the subject of the commercial pledge the commercial pledge to the alienated property shall expire. If in case of alienation the information included in the Commercial Pledge Register changes, the commercial pledgor and the commercial pledgee shall apply such changes in the Commercial Pledge Register in accordance with procedures laid down in Section 20 of this Law.

(2) If properties subject to the registration, co-operative shares, stocks, bonds are alienated or if a merchant or another legal person alienates a property which clearly is not a property of its regular manufacture or trade, or if properties of regular manufacture or trade are alienated in unusually large volumes, the purchaser must ascertain whether the properties have not been pledged and, if they have been pledged, whether the alienation has been permitted.

(3) If the commercial pledgor alienates the pledged asset without the permission of the commercial pledgee (unauthorised alienation), the commercial pledge on the alienated asset:

1) shall be transferred to the new possessor within the amount of the value of the alienated asset if he or she has known or should have known in accordance with Paragraph two of this Section that the asset has been pledged and the alienation is not permitted (malicious acquisition);

2) shall cease if the new possessor has acquired it in good faith.

[*20 December 1999; 21 April 2005; 3 December 2009; 12 June 2014*]

**Section 35. Assignment of a Secured Claim**

(1) Upon assigning a secured claim, all the rights of the commercial pledgee are transferred to the assignee, unless the assignor and the assignee have agreed otherwise.

(2) If the assignee takes over the rights of the commercial pledgee, the commercial pledgee (assignor) shall submit an application for the registration of the assignment.

[*12 June 2014*]

**Chapter VI**

**Exercise of the Commercial Pledge Right and Expiry Thereof**

**Section 36. Exercise of the Commercial Pledge Right**

(1) If the claim secured by a commercial pledge is not executed in due term, moreover, the execution of the claim has been divided into several terms, the commercial pledgee has the right to take over the pledged asset into his or her possession (unless the pledged asset has already been under his or her possession) if one of the abovementioned terms has been missed, and to sell the pledged asset.

(2) If the commercial pledgee has not taken over the pledged asset into his or her possession, the commercial pledgee may request the undisputed enforcement of the liabilities in accordance with the procedures laid down in law, but, if the commercial pledge is created on the basis of a court ruling (Section 9, Paragraph three) – request the enforcement of the ruling.

(3) If the commercial pledgee delays the sale of the subject of the commercial pledge without a justifiable reason, the creditors who have directed recovery on the surplus may request the court to determine the time for the sale of the commercial pledge for the commercial pledgee.

(4) If legal protection proceedings are initiated for the commercial pledgor or insolvency proceedings thereof are declared, the right of the commercial pledgee to exercise the commercial pledge right are restricted in accordance with the procedures laid down in the Insolvency Law.

(5) In cases where the commercial pledge right is exercised by the commercial pledgee in relation to which other commercial pledgees have priority, the pledged asset may only be sold if its sales price exceeds the aggregate of the prioritised claims and expenses to be covered prior to settling the claim of creditors.

[*20 December 1999; 3 December 2009*]

**Section 37. Sale of the Pledged Asset at an Auction**

(1) If the commercial pledgor has not granted the commercial pledgee the right to sell the pledged asset without an auction, the pledged asset shall be sold at an auction in conformity with the provisions of Section 2073 and subsequent Sections of The Civil Law.

(2) The commercial pledgee shall announce the auction of the assets in the official gazette *Latvijas Vēstnesis* and at least in one more newspaper not later than a month prior to the auction date.

(3) The following shall be indicated in the announcement:

1) the name and location (legal address) of the commercial pledgor and the commercial pledgee and their registration data, but for natural persons – the given name, surname;

2) a brief description of the asset to be sold and its location;

3) the place where one may become acquainted with the terms of auction and the starting price of the auction;

4) the time, place of the sale, as well as the auctioneer if the sale has been entrusted to a third person;

5) other terms of the auction considered necessary by the commercial pledgee.

[*20 December 1999; 12 June 2014*]

**Section 38. Right to Sell the Pledged Asset Without an Auction**

(1) The commercial pledgee may sell the pledged asset without an auction if the commercial pledgor has granted such right to the commercial pledgee and this right has been registered in the Commercial Pledge Register. The right may be revoked only by mutual agreement of the commercial pledgor and the commercial pledgee.

(2) If the commercial pledge to the same subject of the commercial pledge has been granted to several commercial pledgees, the right to sell the pledged asset without an auction may be granted only to all commercial pledgees. If such right was granted upon creation of the first commercial pledge, it shall be deemed that such right is also granted to all future commercial pledgees. The right may be revoked upon creation of the second commercial pledge only by a mutual agreement between the commercial pledgor and all commercial pledgees.

**Section 39. Exercising of the Commercial Pledge if the Entire Assets, Undertaking of the Commercial Pledgor or Its Independent Entity are Pledged**

If the entire assets of the commercial pledgor are pledged and the commercial pledgor has not terminated its economic activity, the entire assets shall be sold as aggregate, unless the parties have agreed otherwise. If the undertaking of the commercial pledgor or its independent entity is pledged and the commercial pledgor has not terminated its economic activity, the undertaking or its independent entity shall be sold in aggregate as a functioning body, unless the parties have agreed otherwise.

[*12 June 2014*]

**Section 39.1 Exercising of the Commercial Pledge if a Property Subject to Rapid Deterioration is the Subject of the Commercial Pledge**

If the commercial pledgee takes the possession of a pledged property subject to rapid deterioration, the commercial pledgee may sell such property immediately on the open market without an auction, without prior notification of the commercial pledgor.

[*12 June 2014*]

**Section 39.2 Exercising of the Commercial Pledge if the Right to Claim is the Subject of the Commercial Pledge**

(1) If the right to claim is pledged, the commercial pledgee may sell such right in accordance with the provisions of this Law or may claim for satisfaction from the third person who is in debt to the commercial pledgor on the basis of the respective right to claim. The right to claim for satisfaction from the third person shall not be limited by the circumstance that the commercial pledgor has not granted the right to sell the pledged asset without an auction in accordance with Section 38 of this Law.

(2) The commercial pledgee may claim for satisfaction from the third person if the notification procedures specified in Section 42 of this Law have been conformed to and an entry on the exercising of the commercial pledge right has been made in the Commercial Pledge Register.

(3) The commercial pledgee shall sell a tangible property obtained as a result of claiming for satisfaction from the third person. Prior to such sale it is not required to conform repeatedly with the notification procedures specified in Section 42 of this Law.

[*12 June 2014*]

**Section 40. Commercial Pledge and Right of Detention**

If any person has the right of detention in relation to the subject of the commercial pledge in accordance with Sections 1734, 1735, 1736, 1737, 1738, 1739, and 1740 of The Civil Law, such person may not exercise its right of detention towards the commercial pledgee and the detained asset must be returned to the commercial pledgee without delay after making an entry on attaching the application for the exercising of the commercial pledge right to the registration file of the commercial pledge in accordance with Section 42, Paragraph five of this Law.

[*12 June 2014*]

**Section 41. Exercising of the Commercial Pledge Right Prior to Maturity**

(1) The commercial pledgee is entitled to exercise the commercial pledge right prior to maturity and to satisfy his or her secured claim if:

1) the pledged asset is divided;

2) commercial activities of the commercial pledgor have been suspended or terminated or insolvency proceedings of the commercial pledgee have been declared;

3) the pledged asset is alienated without the permission of the commercial pledgee;

4) the largest portion of the pledged asset has perished or its value has significantly decreased as a result of actions of the commercial pledgor;

5) the pledged asset is abandoned.

(2) Parties may also stipulate other cases when the commercial pledge right may be exercised prior to maturity.

[*21 April 2005; 12 June 2014*]

**Section 42. Notice on Exercising of the Commercial Pledge Right**

(1) If the pledged asset is sold without the intermediation of a court, the commercial pledgee, prior to the sale of the pledged asset, shall notify in writing the commercial pledgor of exercising the commercial pledge right (hereinafter – the notice). The notice shall be sent as a registered postal item to the address of the commercial pledgor recorded in the Commercial Pledge Register, issued in person in exchange for a signature, or notified according to other procedures if the parties have agreed thereupon.

(2) The following information shall be indicated in the notice:

1) the information referred to in Section 10, Paragraph one, Clause 1 of this Law regarding the commercial pledgee and the commercial pledgor;

2) the registration date and number of the commercial pledge;

3) the description of the pledged asset;

4) the claim according to which the commercial pledge right is exercised;

5) the circumstance which gives the right to the commercial pledgee to exercise the commercial pledge right;

6) the information regarding properties already sold or to be sold in accordance with Section 39.1 of this Law.

(3) If there are several commercial pledgees, the commercial pledgee exercising the commercial pledge right, along with the notification of the commercial pledgor, shall send a copy of the notice to other commercial pledgees.

(4) The commercial pledgor and other commercial pledgees may contest the notice before a court.

(5) Concurrently with notifying the commercial pledgor, the commercial pledgee shall submit an application to the holder of the Commercial Pledge Register for exercising of the commercial pledge right where the fact of notification is confirmed. The holder of the Commercial Pledge Register shall, within one working day, examine the submitted application and, if there are no legal impediments, shall take the decision to attach the application to the registration file of the commercial pledge.

(6) The holder of the Commercial Pledge Register shall take a decision to make an entry on the exercising of the commercial pledge right within 30 days after attaching the application to the registration file of the commercial pledge, if there are no legal impediments for exercising of the commercial pledge right.

[*12 June 2014*]

**Section 43. Sale of the Pledged Asset**

(1) The commercial pledgee may sell the pledged asset without the intermediation of a court after an entry on exercising of the commercial pledge right has been made in the Commercial Pledge Register.

(2) The sale of the pledged asset may be undertaken by the commercial pledgee himself or herself or it may be entrusted to a third person.

(3) The commercial pledgee must sell the pledged asset at the highest price possible during the sale and shall not delay its sale. If the pledged asset is sold without an auction and the commercial pledgor contests the determined price, the commercial pledgee must justify the price set. The contesting of the price shall not suspend the sale of the pledged asset.

(4) The sale of the pledged asset shall be conducted at the expense of the commercial pledgor.

[*20 December 1999; 12 June 2014*]

**Section 44. Revenue Depository**

(1) If the pledged asset is sold without the intermediation of a court and several commercial pledges have been created on such asset, the commercial pledgee who exercises the commercial pledge right, prior to the sale of the pledged asset, shall appoint the person who will sell the pledged asset and receive the proceeds from the sale – the revenue depository.

(11) The commercial pledgee shall inform the commercial pledgor and other commercial pledgees in writing regarding the appointed revenue depository, indicating the name, legal address, and registration number thereof (for a natural person – the given name, surname, and address where he or she can be reached).

(12) The commercial pledgees shall, within 10 days after receipt of the information referred to in Paragraph 1.1 of this Section, notify the revenue depository in writing of the amount of the secured claim thereof which cannot exceed the amount in euros covered by the pledge liability.

(2) The revenue depository may be a credit institution, a sworn auditor, a sworn advocate, or a bailiff, but with the consent of all commercial pledgees – one of the commercial pledgees or another third person.

(3) The commercial pledgor cannot be the revenue depository.

[*12 June 2014*]

**Section 45. Payment for the Purchase of the Pledged Asset if there are Several Commercial Pledgees**

(1) The revenue from the sale of the pledged asset must be deposited in a separate account in a credit institution.

(2) The revenue depository shall, on the basis of the information submitted by commercial pledgees and the information of the Commercial Pledge Register, make a list, indicating therein:

1) the commercial pledgees who have the right to the revenue from the sale according to their priority right of claim;

2) the amount to which each commercial pledgee has the right.

(3) When the list has been drawn up, the compiler thereof shall deliver a copy of the list to the commercial pledgor and all commercial pledgees registered in the Commercial Pledge Register who have the commercial pledge right to the asset to be sold.

(4) If the commercial pledgee or the commercial pledgor does not agree with the list drawn up, he or she may inform the compiler of his or her objections within five working days from the moment of delivery of the list. In such case the compiler of the list has an obligation to deliver either an amended list to all the persons mentioned in it, or a notice that objections have been taken into consideration, however, the list is to remain unchanged.

(5) If drawing up of the final list is for some reason delayed, a temporary list may be drawn up, leaving a sufficient reserve for any uncertain or challenged amounts.

[*12 June 2014*]

**Section 46. Distribution of the Revenue from the Sale**

(1) The revenue from the sale shall be distributed within 30 days from the day of the sale.

(2) If there are several commercial pledgees, the initial distribution of the revenue from the sale may be performed on the basis of the temporary list drawn up in accordance with Section 45 of this Law.

(3) The revenue from the sale shall be distributed in the following order:

1) remuneration for the revenue depository if such was agreed upon;

2) sales expenses;

3) expenses for the storage and management of the commercial pledge;

4) claims of commercial pledgees according to their priority right;

5) unsecured claims associated with the commercial pledge (claims exceeding the agreed amount of the secured claim).

(4) The remaining amount shall be disbursed to the commercial pledgor.

(5) The revenue shall be calculated and disbursed in euros.

(6) If, upon sale of the pledged asset, such amount is gained which is not enough for the full satisfaction of the claims of commercial pledgees, they have the right to claim the outstanding debt amount from the debtor.

(7) After disbursement of the revenue from the sale, the commercial pledgee who has exercised the commercial pledge right shall present a settlement of accounts to the commercial pledgor.

[*12 September 2013*]

**Section 47. Responsibility of the Commercial Pledgee for the Sale of the Pledged Asset**

The commercial pledgee who is selling the pledged asset without the intermediation of a court shall bear responsibility for the sale of the pledged asset as an authorised person and he or she must reimburse to the commercial pledgor for all the losses incurred through negligence. If there has been bad-faith conduct in the sale and the purchaser has participated in the act of bad faith of the commercial pledgee, the commercial pledgor has the right to claim the return of the sold asset, reimbursing the amount of the purchase with interest to the purchaser.

**Section 48. Expiration of the Commercial Pledge Right**

(1) The commercial pledge right shall expire if:

1) the commercial pledgor and the commercial pledgee agree upon in writing;

2) the commercial pledgee waives the commercial pledge right in writing;

3) the secured claim has been satisfied or otherwise ceases to exist;

4) the secured claim is transferred, without transferring the commercial pledge right at the same time;

5) a revoking condition has entered into effect or the commercial pledge right which had been created under a condition or for a specific period of time has matured;

6) the pledged asset has been consumed, has perished or otherwise ceased to exist and such asset has not been insured or insurance compensation is not due for it because of other reasons;

7) a third person has acquired the subject of the commercial pledge into ownership as free from any pledge (Sections 34 and 36);

8) the pledged asset has transferred into ownership of the commercial pledgee.

(2) It is not sufficient for the deletion of the commercial pledge that its basis is deleted the commercial pledge must be deleted in the Commercial Pledge Register. The commercial pledge shall be deleted if one of the following conditions exists:

1) a respective application which has been drawn up in accordance with the procedures laid down in Section 14 of this Law has been received from the commercial pledgee;

2) a court ruling has been received;

3) [12 June 2014].

(3) The commercial pledgee has an obligation, within five days from the expiry day of the commercial pledge, to submit an application to the holder of the Commercial Pledge Register for the deletion of the commercial pledge.

(31) The commercial pledgee may request in the application for the deletion of the commercial pledge that the application is examined together with another application for the registration of the commercial pledge, if the commercial pledgor is the same person. In such case the holder of the Commercial Pledge Register shall refuse to delete the commercial pledge if any legal impediments are discovered for taking of the decision to register the commercial pledge referred to in the related application.

(4) Upon deleting a commercial pledge in respect of properties subject to the registration, the holder of the Commercial Pledge Register shall notify the holder of the respective Register of Properties Subject to the Registration thereof for the deletion of the commercial pledge entry. The registration number of the commercial pledge, information regarding the pledged asset and the basis for the deletion of the commercial pledge shall be indicated in the notice.

[*20 December 1999; 12 June 2014*]

**Transitional Provisions**

[*20 December 1999*]

1. Commercial pledges which have been registered until the day of entry into force of this Law shall remain in effect and shall be discussed in accordance with the regulations effective at the moment of their registration.

2. The Road Traffic Safety Directorate, the State Technical Supervision Inspectorate of the Ministry of Agriculture, and the Civil Aircraft Register of the Ministry of Transport shall, by 1 April 2000, register amendments, novations, assignments, and deletions in respect of all commercial pledges registered in these institutions until 1 March 1999. The necessary documents for such commercial pledges shall be transferred to the holder of the Commercial Pledge Register by 1 April 2000.

3. After 1 April 2000 amendments, novations, assignments, and deletions in respect of the commercial pledges referred to in Paragraph 2 of these Transitional Provisions shall be registered by the holder of the Commercial Pledge Register.

4. The provisions of Section 3, Paragraph four of the Law are not applicable to pledges created prior to the entry into force of this norm.

5. [12 June 2014]

6. Financial resources may be applied for registration in the Commercial Pledge Register until the day of entry into force of the Financial Collateral Law. The commercial pledge for financial resources shall remain effective until its deletion.

[*21 April 2005*]

7. If the commercial pledge is registered in the Commercial Pledge Register or an application for the registration of the commercial pledge has been submitted by 31 December 2014 and the entire assets or an aggregate of properties of a merchant or an agricultural service co-operative society, which includes also shares of the equity capital or trade marks, designs, topographies of semiconductor products registered in accordance with the national procedure, granted patents and European patents in which Latvia is the designated state and regarding which a translation has been published in the Official Gazette of the Patent Office, is pledged, the abovementioned properties are not subject to the application of Section 10, Paragraph three of this Law and such properties shall be regarded as pledged properties.

[*12 June 2014*]

This Law shall come into force on 1 March 1999.

This Law has been adopted by the *Saeima* on 21 October 1998.

President G. Ulmanis

Riga, 11 November 1998