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

22 June 2023 [shall come into force on 19 July 2023].

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:

**Covered Bonds Law**

**Chapter I**

**General Provisions**

**Section 1. Terms Used in the Law**

(1) The following terms are used in the Law:

1) **substitution assets**– cover assets other than primary assets;

2) **use of assets**– receipt of payments, sale of a pledge, recovery, and other administration activities;

3) **disposal agreement**– a transaction by which an alienor transfers cover assets to a covered bond company for the purpose of including them in a cover pool;

4) **alienor**– an issuer or another credit institution which alienates a cover asset from a covered bond company for the purpose of including it in a cover pool;

5) **derivative financial instrument contract** (hereinafter – the derivative contract) – a transaction as a result of which an issuer or a covered bond company obtains or purchases a derivative included in a cover pool;

6) **branch of a foreign credit institution**– a branch of a credit institution of such country which is not a Member State;

7) **Member State**– a country of the European Union or European Economic Area;

8) **covered bond of different asset classes**– a covered bond the primary assets of which in the amount of at least 85 per cent of the required value of the cover assets consist of a set of assets which conforms to the requirements of several asset classes laid down in this Law;

9) **issuer**– a legal entity which is entitled to implement a covered bond programme in accordance with the legal acts of a Member State;

10) **investor**– any person who owns a covered bond;

11) **special administrator**– a person who is appointed in place of the issuer to implement a covered bond programme, including, if necessary, to administer cover assets, in cases, in accordance with the procedures, and to the extent laid down in law;

12) **net liquidity outflow**– all payment outflows falling due on one day, including principal amounts, interest payments, and payments according to the derivative contracts within the scope of the covered bond programme from which all payment inflows falling due on the same day for claims related to the cover assets have been deducted;

13) **collateral**– a pledge, a financial collateral, a guarantee, or another reinforcement of liabilities (also a guarantee) which has been provided or established in connection with the cover assets;

14) **extendable maturity structure**– a mechanism which provides for the possibility to extend the scheduled maturity of covered bonds for a pre-determined period or also if a specific trigger event provided for in this Law or the provisions of the covered bond programme occurs;

15) **debtor**– a borrower or another person against whom the issuer or alienor has the right to claim included in the cover assets;

16) **administrator**– a person who, in accordance with this Law or under a contract, administers cover assets or a cover pool;

17) **compulsory enforcement**– application of the security of the claim and temporary protection in a court or application of other permanent or temporary means of enforcement governed by public law (except for criminal procedural means by which property is recognised as criminally acquired) or private law that are provided for in laws, including the direction of recovery, imposition of obligations or prohibitions specified in a court ruling or an executive order or another executive document of an official in case of any claims and on any legal grounds;

18) **primary assets**– assets which form the dominant part of a cover pool, determine the nature of the cover pool, and conform to the requirements of this Law;

19) **liability restructuring process**– a set of legal measures to restore the solvency of a legal entity which is supervised by a court, a competent authority, or a person appointed for such purpose in accordance with legal acts;

20) **covered bond**– a debt security issued by a credit institution according to the covered bond programme the liabilities arising from which are reinforced by a cover pool separated from the assets of the issuer and in relation to which investors or creditors of covered bonds have the right to claim to be settled on a priority basis in comparison with the right to claim of other creditors;

21) **creditor of covered bonds**– a person who, according to a derivative contract entered into for the management of market risks related to the cover assets, sells a financial instrument to the issuer or a covered bond company;

22) **cross-border covered bond programme** (hereinafter – the cross-border programme) – such covered bond programme according to which a part of the cover assets in a cover pool is located in a Member State other than the Member State in which the implementation of a covered bond programme is authorised (registered);

23) **covered bond claims**– claims of investors for the payment of the principal amount of covered bonds, interest, and other payments provided for in the provisions of the covered bond programme, and claims of the creditors of covered bonds arising from the concluded derivative contracts;

24) **covered bond programme**– an aggregate of provisions which includes the structural features of covered bonds and other provisions necessary for the implementation of the covered bond programme, including in relation to the policies and procedures of the issuer developed by the issuer;

25) **transfer of a covered bond programme**– transfer of the issued covered bonds and also the liabilities, rights, and obligations of the covered bonds of the issuer arising from the covered bond programme to another credit institution which joins as a new issuer the covered bond programme instead of the issuer;

26) **covered bond programme country** (hereinafter – the programme country) – a Member State in which the implementation of the relevant covered bond programme is authorised (registered);

27) **covered bond company**– a capital company which has been established in relation to a covered bond programme in order to segregate the cover pool from the assets of the issuer and to guarantee the obligations of the issuer arising from the covered bond programme;

28) **covered bond liabilities**– payment liabilities arising from a covered bond programme and including:

a) liabilities to pay the principal amount of outstanding covered bonds;

b) liabilities to pay interest on all outstanding covered bonds;

29) **structural features of covered bonds**– characteristics that include all the requirements the purpose of which is to protect the cover pool of covered bonds, including requirements for the segregation of cover assets;

30) **cover assets**– assets that are alienated for inclusion in the cover pool or are included in the cover pool and also revenues and other property acquired during the administration of the cover assets, or the funds held by a covered bond company to settle the claims of investors and creditors of covered bonds;

31) **alienation of cover assets**– alienation of cover assets for the implementation of a covered bond programme, also for the liquidation or transfer of a cover pool to another issuer;

32) **segregation of cover assets**– activities performed by the issuer to identify cover assets and to segregate them from other assets of the issuer for the purpose of protecting investors or creditors of covered bonds;

33) **cover pool**– a clearly identifiable set of assets that is segregated from other assets of the issuer itself or held by the issuer and is sufficient to cover liabilities towards investors and creditors of covered bonds;

34) **liquidation of the cover pool**– complete or partial sale of the cover assets included in the cover pool in order to make early repayment of the covered bonds for the purpose of settling covered bond claims;

35) **immediate automatic discharge of liabilities** (hereinafter – the immediate discharge of liabilities) – modification of the period for the discharge of liabilities specified in a legal act or a contract in such a manner that, upon occurrence of a specific circumstance, the liabilities are to be discharged immediately prior to the initially specified term;

36) **trustee**– a person who represents the rights and legal interests of investors (hereinafter also – the interests of investors) in matters related to the relevant covered bonds;

37) **covered bond of one asset class**– a covered bond the primary assets of which in the amount of at least 85 per cent of the required value of the cover assets consist of assets which conform to the requirements of one specific asset class referred to in this Law;

38) **overcollateralisation**– the entirety of the levels of collateral specified in this Law, the provisions of the covered bond programme, or voluntarily which exceeds the coverage requirements included in this Law.

(2) The terms “insolvency proceedings”, “liquidation”, “self-liquidation”, “reorganisation measures” used in the Law which are applied to a credit institution shall correspond to the terms used in the Credit Institution Law, the term “resolution” shall correspond to the term used in the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms, but the term “capital company controlled by a public person” – to the term used in the Law on Governance of Capital Shares of a Public Person and Capital Companies.

(3) The term “credit institution” used in the Law shall correspond to the term used in Article 4(1)(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter – Regulation No 575/2013), the term “market value” shall correspond to the term used in Article 4(1)(76) of Regulation No 575/2013, the term “group” shall correspond to the term used in Article 4(1)(138) of Regulation No 575/2013, and the term “exposures” shall be used within the meaning of Article 5(1) of Regulation No 575/2013.

**Section 2. Purpose of the Law**

The purpose of the Law is to promote the availability of financial resources, the development and stability of the financial system, and also to ensure the protection of investors and creditors of covered bonds.

**Section 3. Scope of Application of the Law**

(1) This Law prescribes:

1) the structural features of covered bonds in Latvia;

2) the establishment, operation, liquidation, supervision of covered bond companies and the change of shareholders or stockholders of covered bond companies;

3) the rules for the alienation of cover assets and the protection of cover assets against claims of third parties;

4) the special characteristics of the insolvency proceedings of the issuer, alienor, and covered bond company;

5) the rights and protection of investors and creditors of covered bonds;

6) the requirements for the disclosure and publication of information;

7) the supervision of the implementation of the covered bond programmes of Latvijas Banka;

8) the implementation of a cross-border programme.

(2) A covered bond programme shall be implemented in Latvia and the issue within the scope thereof shall be performed by a credit institution which is registered in Latvia and has received the licence (permit) for the performance of the operation of a credit institution or a branch of a foreign credit institution which is entitled to provide financial services in Latvia and has received the permit for the implementation of a covered bond programme in accordance with the procedures laid down in this Law.

(3) Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 shall be applied to the issue of covered bonds.

(4) If the issuer has received the permit for the implementation of the covered bond programme in accordance with Section 37, Paragraph one of this Law and if it is provided for in Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, the issuer shall prepare the issue prospectus.

(5) In relation to the field of covered bonds, the Civil Law, the Commercial Law, the Insolvency Law, the Civil Procedure Law, the Credit Institution Law, and the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms shall be applied insofar as it is not laid down otherwise in this Law.

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**Section 4. Restrictions on the Use of Certain Terms**

(1) The term “covered bond” or the term “the European covered bond”, the derived forms and translations thereof into the language of any Member State may only be used in respect of the covered bonds issued in a Member State in accordance with the procedures laid down in legal acts.

(2) The term “covered bond company” may only be used by such legal entity in its activities which has been established as a covered bond company in accordance with this Law and also by a covered bond company registered in another Member State and involved in the cross-border programme in Latvia.

(3) It is prohibited to use the following phrases in any documents, including documents for the issue of financial instruments, advertising or informative materials in any manner misleading other persons:

1) a European covered bond (Premium) – in respect of financial instruments which do not conform to the requirements of Article 129 of Regulation No 575/2013;

2) a residential mortgage covered bond – in respect of financial instruments which are not referred to in Paragraph four of this Section.

(4) Covered bonds may be deemed as residential mortgage covered bonds if at least 80 per cent of the required value of the cover assets consist of the assets specified in Section 48, Clause 2 of this Law and only if the cover pool includes mortgages established in respect of residential immovable property located in a Member State within the meaning of Article 4(75) of Regulation No 575/2013.

(5) Covered bonds may be deemed as European covered bonds (Premium) if they conform to the requirements of Article 129 of Regulation No 575/2013.

**Section 5. Protection of Information**

(1) A covered bond company, an administrator, a cover pool monitor, and a special administrator shall comply with the requirements for the protection of information laid down for a credit institution – an issuer or alienor – in the Credit Institution Law in respect of the protection of secrecy of persons, accounts, deposits, and transactions (hereinafter – the non-disclosable information).

(2) An issuer, an alienor, a covered bond company, an administrator, a cover pool monitor, and a special administrator are entitled to provide the information at their disposal, including the non-disclosable information, on the cover assets and collateral:

1) to persons who are involved in the implementation of a covered bond programme or the administration of cover assets, alienation of cover assets, or liquidation of the cover pool so that these persons would be able to perform the functions referred to in this Law or the regulations of the covered bond programme, provided that these persons ensure protection of the information received;

2) to Latvijas Banka for the supervision of the implementation of the covered bond programme;

3) to courts, sworn bailiffs, and other institutions and persons, insofar as it is necessary to ensure the protection of the cover pool against claims of third parties and compulsory enforcement, as specified in this Law;

4) in any other cases where the issuer or alienor has had such a right prior to the inclusion of the relevant cover asset in the cover pool.

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**Chapter II**

**Establishment, Operation, and Termination of Operation of a Covered Bond Company**

**Section 6. Establishment of a Covered Bond Company**

(1) A covered bond company shall be established as a capital company by an issuer. If the issuer is a branch of a foreign credit institution in Latvia, the decision to establish a covered bond company shall be taken by the foreign credit institution as a legal person.

(2) Documents of incorporation of a covered bond company shall not specify a term for which the company has been established or the fact that the operation thereof shall be terminated upon achieving the objectives specified in the articles of association.

**Section 7. Firm Name of a Covered Bond Company**

The firm name of a covered bond company shall include the indication “covered bond company”.

**Section 8. Shareholder or Stockholder of a Covered Bond Company**

(1) A shareholder or stockholder of a covered bond company shall be the issuer itself.

(2) A shareholder or stockholder of a covered bond company may be changed concurrently with the transfer of the covered bond programme to a new issuer.

(3) When submitting documents to the Enterprise Register of the Republic of Latvia for the change of a shareholder or stockholder of a covered bond company, a written confirmation of Latvijas Banka that Latvijas Banka has no objections to such activities shall be attached thereto.

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**Section 9. Country of Registration of a Covered Bond Company**

(1) The issuer and a covered bond company shall be registered in the same Member State.

(2) An alienor which is not the issuer may also be registered in a Member State other than the issuer or the covered bond company.

**Section 10. Exceptions to the Licensing Requirements**

It shall not be required for a covered bond company performing itself the functions of an administrator referred to in Section 11, Paragraph three, Clause 4 of this Law to have the special permit (license) specified in laws and regulations for the provision of a consumer credit service and for the extrajudicial recovery of debt.

**Section 11. Operation and Restrictions on the Operation of a Covered Bond Company**

(1) A covered bond company shall be concurrently involved only in one covered bond programme, but the assets alienated by both the issuer and another alienor may be used as the cover assets.

(2) A covered bond company may perform activities and enter into transactions which are necessary for ensuring the operation of a covered bond company or adequate implementation of a covered bond programme and are not in contradiction with the purpose of the establishment of the relevant company.

(3) A covered bond company:

1) shall acquire, alienate, and use cover assets, and also enter into transactions with the issuer and other persons necessary for the implementation of this purpose;

2) shall enter into derivative contracts for the management of the risks specified in this Law;

3) shall provide a guarantee for the liabilities of the issuer arising from the covered bond programme;

4) may perform itself the functions of an administrator if the contract for the administration of a cover pool or cover assets referred to in Section 22 of this Law is not entered into or if the issuer is not able to perform the contract for the administration of a cover pool referred to in Section 43 of this Law;

5) may use the revenues obtained by administrating the cover assets to finance the activities of the covered bond company, without exceeding the limits specified in the covered bond programme.

(4) A covered bond company is entitled to use cover assets and undertake liabilities in respect of the cover assets if these transactions are related to the covered bond programme and are concluded for the benefit and in the interests of the investors or the creditors of covered bonds, including to ensure the operation of the covered bond company.

(5) A covered bond company may not provide a collateral using cover assets, except where it is necessary to secure liabilities of the covered bond company towards investors and creditors of covered bonds.

(6) A covered bond company may not use the cover assets for the repayment of any loan (credit) and for the discharge of other liabilities, except for the payments which are made:

1) for the discharge of liabilities towards investors and creditors of covered bonds;

2) on the basis of the transactions referred to in Paragraph four of this Section and arising from Section 47, Paragraph one, Clauses 1 and 5 of this Law;

3) to cover:

a) costs related to the service fees and expenses specified in the contract for the administration of a cover pool and cover assets;

b) costs of the administration of cover assets;

c) remuneration of the cover pool monitor;

d) expenses of the special administrator;

f) supervision fee.

(7) A covered bond company shall receive the consent of the issuer or the special administrator (if such has been appointed) for entering into the transactions referred to in Paragraphs four and five of this Section.

(8) Shares or stocks of a covered bond company may not be pledged or subject to compulsory enforcement, nor may they be alienated, except for the case referred to in Section 8, Paragraph two of this Law.

(9) Transactions of a covered bond company entered into without conforming to the restrictions specified for the operation of the company in this Law shall not be valid.

**Section 12. Transactions with Involved Persons**

The legal norms of the Commercial Law regarding transactions of related persons shall not be applied to the transactions for the implementation of the covered bond programme which are concluded between an issuer, an alienor, a covered bond company, an administrator, or another person involved in the implementation of a covered bond programme.

**Section 13. Financial Statements of a Covered Bond Company**

A covered bond company shall prepare financial statements according to the international financial reporting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (hereinafter – Regulation No 1606/2002).

**Section 14. Reorganisation and Termination of the Operation of a Covered Bond Company**

(1) Reorganisation of a covered bond company, transfer of its undertaking, or any other action with the covered bond company or its undertaking which would reduce the possibility to execute the guarantee provided thereby or due to which it would not be possible to execute such guarantee shall not be permitted if such action would harm the interests of the investors or creditors of covered bonds.

(2) A covered bond company shall be liquidated if:

1) the covered bond programme has been fulfilled;

2) the covered bond company no longer has cover assets and rights to new cover assets according to the contract for the administration of a cover pool.

(3) If another institution or court decides on the termination of the operation or liquidation of a covered bond company in accordance with other laws and regulations, liquidation of the covered bond company shall only be permitted if the provisions of Paragraph one of this Section are complied with, except when proceedings regarding the imposition of coercive measures on a legal person have been initiated in accordance with the Criminal Law and the Criminal Procedure Law.

(4) In the cases referred to in Paragraphs one and two of this Section, the consent of Latvijas Banka is required. If a court decides on the termination of the operation of a covered bond company, it shall hear Latvijas Banka before taking the decision. If another institution decides on the termination of the operation of a covered bond company, it shall be required to receive a consent of Latvijas Banka before taking the decision.

(5) The Enterprise Register of the Republic of Latvia shall delete a covered bond company from the Commercial Register after receipt of a written consent of Latvijas Banka for the liquidation of the covered bond company or a relevant court ruling.

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**Chapter III**

**Alienation of Cover Assets for a Covered Bond Company**

**Section 15. Form of a Disposal Agreement**

The issuer or alienor and a covered bond company shall enter into a disposal agreement in writing. A disposal agreement entered into without conforming to this requirement shall not be valid.

**Section 16. Legal Consequences of a Disposal Agreement**

(1) The issuer or alienor shall transfer cover assets to a covered bond company according to a disposal agreement.

(2) If the permit of Latvijas Banka for the implementation of a covered bond programme has been received, the permit specified in the Credit Institution Law for the transfer of a credit institution undertaking shall not be additionally required for the alienation of cover assets according to the disposal agreement. The provision of the Commercial Law for the joint liability of the transferor and acquirer of the undertaking shall not apply to the alienation of cover assets.

(3) A disposal agreement between the parties shall come into effect at the time of its conclusion, unless the disposal agreement provides otherwise.

(4) The right of a covered bond company to cover assets shall be valid and exercisable without any restrictions and reservations.

(5) The right of a covered bond company to return a cover asset or a set thereof to the issuer or alienor, the right to demand redress or bring a recourse action against the issuer or alienor in relation to the cover asset shall not affect the validity of the disposal agreement.

(6) At the moment of alienation of a cover asset, all performances provided by a debtor or collateral provider to the alienor or issuer in relation to the claim included in the asset and any other payments, claims, rights, and things received by the issuer or alienor in relation to the cover asset shall be attributed to this cover asset and belong to a covered bond company.

(7) The issuer or alienor shall separate the property referred to in Paragraph six of this Section from its own property and the property of other persons and transfer it to the covered bond company according to the disposal agreement or an order of the special administrator (if such has been appointed).

(8) After the alienation of cover assets to the covered bond company, the issuer and the covered bond company shall conduct an assessment of the derecognition of financial assets in respect of the accounting of cover assets in accordance with Regulation No 1606/2002.

(9) The issuer or alienor is not entitled to apply set-off to its own claims or claims of third parties against cover assets.

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**Section 17. Transfer of the Collateral Related to Cover Assets**

(1) Alienation of cover assets shall involve the transfer of the collateral related to such assets in which the issuer or alienor is the collateral taker to the covered bond company (hereinafter – the transfer of collateral).

(2) Subsequent submission of such documents which provide for changes in relation to the registration of the collateral in public registers shall not, in accordance with this Law, affect the transfer of collateral to the covered bond company and the validity thereof. If the legal acts applicable to the collateral link the use of the collateral with changes in the entries of public registers in respect of the collateral taker, the covered bond company shall use the collateral after the relevant changes in the entries of public registers have been made.

(3) A covered bond company shall ensure the registration in public registers referred to in Paragraph two of this Section on the basis of the decision of Latvijas Banka on the permit for the implementation of a covered bond programme or change of the issuer. A consent of the debtor or collateral provider for the registration of the collateral shall not be required, also if it is alienated to a new issuer.

(4) Claims related to the collateral are transferred to the covered bond company concurrently with the collateral and to the same extent as they have arisen or would arise for the alienor in accordance with this Law if the cover assets were not alienated to the covered bond company.

(5) After alienation of the cover assets to the covered bond company, the issuer or alienor shall be the financial collateral taker. The covered bond company has a pre-emptive right to the funds obtained from the realisation of the financial collateral. The procedures for realising the financial collateral for claims which have been transferred to the covered bond company shall, in conformity with this pre-emptive right, be specified in the contract for the administration of a cover pool or cover assets.

(6) The pre-emptive right referred to in Paragraph five of this Section shall also apply in the case of insolvency proceedings or liquidation, resolution or reorganisation measures of the issuer or alienor, or transfer of the credit institution undertaking or when the covered bond programme is transferred to another issuer.

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**Section 18. Rights Related to Cover Assets**

(1) If the parties do not agree otherwise in the disposal agreement, the cover assets are alienated and transferred to a covered bond company together with all existing rights, claims, and fruits, including the right to insurance indemnity which the alienor is entitled to receive in relation to cover assets in accordance with the legal acts or the concluded agreements.

(2) If the alienated cover assets include the right to insurance indemnity upon occurrence of an insurance event, claims of the alienor for the disbursement of insurance indemnity shall be included in the cover assets, unless the parties agree otherwise in the disposal agreement.

(3) The disbursements of insurance indemnity referred to in Paragraph two of this Section are included in the cover assets to the extent provided for by the laws and regulations in the field of insurance or by the contracts entered into. A covered bond company is entitled to allow the debtor or the collateral provider to use the insurance indemnity (in full or in part) for the elimination of the consequences of the insurance event.

(4) A unilateral notification of a covered bond company to the insurer that the insured cover assets have been transferred to the covered bond company on the basis of the disposal agreement shall grant the right to such company to receive the disbursement of insurance indemnity related to this cover asset.

(5) The alienation of cover assets to a covered bond company shall not form the grounds for the amendment or termination of an insurance contract.

**Section 19. Processing of Personal Data in the Alienation of Cover Assets**

In order to exercise the rights and fulfil the obligations specified in this Law, the issuer or alienor shall transfer to a covered bond company the personal data related to the cover assets in respect of which it acts as a data controller and which it processes in relation to granting of a loan (credit) the right to claim derived from which is included in the cover assets and for which it undertakes the management of the credit risk. The covered bond company shall become the data controller in respect of the received personal data without the consent of a data subject.

**Section 20. Inclusion of Information in the Credit Register and Databases of Credit Bureaus**

(1) Information on the claims included in cover assets shall be included in the Credit Register by the administrator in accordance with the Law on the Credit Register. If the administrator is not a member of the Credit Register, the information shall be included in the Credit Register by a covered bond company.

(2) If the relevant claim arises from a loan (credit) which has been provided according to a consumer credit agreement in accordance with the Consumer Rights Protection Law, the administrator as a user of credit information shall provide information to credit bureaus on a debt or liabilities in accordance with the laws and regulations prescribing the provision of such information.

**Section 21. Rights and Obligations of Debtors and Collateral Providers**

(1) The inclusion of cover assets in a cover pool in accordance with Section 16 of this Law or further alienation of cover assets in accordance with Section 27 of this Law shall not affect and change the rights and obligations of a debtor and a collateral provider, except for the cases provided for in this Law.

(2) An agreement between a debtor and an issuer under which it is prohibited or restricted to alienate or transfer cover assets to another person shall not be valid if the cover assets are alienated by the issuer or alienor in the cases specified in this Law.

(3) The provisions of such transaction by which collateral is provided which affects the validity of the collateral itself or the extent of the discharge of the liabilities of the collateral provider shall not be valid in the cases of alienation of cover assets specified in this Law.

(4) Informing or consent of the debtor or collateral provider shall not be required for the alienation of cover assets.

(5) The alienation of cover assets to a covered bond company shall not affect the rights and obligations of a debtor and a collateral provider which are provided for in the laws and regulations in the field of consumer protection.

(6) It is prohibited to set off the claims of a debtor and a collateral provider related to the cover assets.

**Chapter IV**

**Administration of Cover Assets and Action with Cover Assets**

**Section 22. Administration of Cover Assets**

(1) An issuer and a covered bond company shall enter into a contract for the administration of a cover pool in writing in accordance with that specified in Section 43 of this Law. The issuer shall inform Latvijas Banka of the entry into, amendment, or termination of the contract for the administration of a cover pool.

(2) For the purpose of administering cover assets, a contract may be entered into in writing for the administration of cover assets or the performance of specific administration activities (hereinafter – the contract for the administration of cover assets). The contract for the administration of cover assets shall be entered into by a covered bond company and an alienor who has transferred the cover assets to the covered bond company but is not the issuer, or by a covered bond company and a third party which is a credit institution or extrajudicial debt recovery service provider. The alienor or the relevant third party shall be deemed the administrator.

(3) It shall not be required for the administrator to hold a special permit (license) for the provision of a consumer credit service and an extrajudicial debt recovery service, insofar as the administrator administers the cover pool or cover assets.

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**Section 23. Separation of Cover Assets from the Property of the Administrator**

(1) Cover assets, including financial resources within the meaning of the Financial Collateral Law (hereinafter – the funds) which are administered by the administrator according to an administration contract shall not be included in the property of the administrator and are not used to cover the claims of creditors of the administrator in insolvency proceedings or liquidation, resolution or reorganisation measures. The administrator is not entitled to apply set-off to its own claims or claims of third parties against cover assets administered thereby.

(2) The administrator, including an alienor who performs the function of an administrator, shall hold, administer, and account for cover assets separately from its own property and that of third parties so that the cover assets may be identified as cover assets at any moment.

(3) If the administrator is not able to fulfil its obligations due to insolvency proceedings or liquidation, resolution or reorganisation measures of the issuer, the administrator shall immediately, upon request of a covered bond company or the special administrator, transfer the administration of the cover assets or cover pool to the covered bond company or another person indicated by the special administrator who will administer the cover assets.

**Section 24. Protection of Cover Assets**

(1) Neither compulsory enforcement may be directed against cover assets nor claims may be brought against the issuer, alienor, covered bond company, or administrator in relation to cover assets, except for the cases where it arises from the covered bond claims. This provision shall not restrict the right of third parties to direct compulsory enforcement against cover assets in cases when they bring actions against a debtor or the collateral provider itself. Compulsory enforcement may be directed against the cover assets and also claims may be brought against the issuer, alienor, covered bond company, or administrator in relation to such cover assets which remain after the discharge of liabilities of a covered bond company towards investors and creditors of covered bonds.

(2) The fact that the assets are cover assets in the covered bond programme included in the list of issuers and programmes of covered bonds may be proved or certified by a certification of a covered bond company or special administrator which is prepared on the basis of the accounting data of the list of cover assets.

(3) In the case of the cross-border programme, inclusion of cover assets in the cover pool which has been established according to a covered bond programme authorised (registered) in another Member State shall be certified by the issuer or another legal entity that owns the cover assets included in the relevant covered bond programme in Latvia or another Member State.

**Section 25. Rights of Investors and Creditors of Covered Bonds to Cover Assets**

(1) Investors and creditors of covered bonds have the right to request compulsory enforcement against the cover assets if the liabilities are not being discharged in accordance with this Law and the provisions of the covered bond programme.

(2) Investors and creditors of covered bonds shall exercise the right to claim against cover assets according to the procedures provided for in the provisions of the covered bond programme.

(3) An investor and a creditor of covered bonds individually or an individual group of investors or creditors of covered bonds is not entitled to separately require compulsory enforcement against cover assets, except for when such rights are provided for in the provisions of the covered bond programme.

**Section 26. Limitation of Liability of a Covered Bond Company**

Liability of a covered bond company for all covered bond claims shall be limited to the amount of the cover assets owned by the covered bond company.

**Section 27. Alienation of Cover Assets**

(1) A covered bond company shall alienate cover assets only in the following cases:

1) if a cover asset is replaced with another equivalent cover asset according to the contract for the administration of a cover pool or does not conform to the requirements specified for the cover asset and is replaced with another adequate cover asset;

2) upon discharge of all covered bond liabilities towards investors and creditors of covered bonds by selling the relevant asset;

3) to the issuer or alienor – if the cover assets are no longer necessary for the conformity of the cover pool with the provisions of this Law and the covered bond programme.

(2) The provisions of Paragraph one of this Section shall not restrict the right of the special administrator to alienate cover assets if the cover pool is being liquidated.

**Section 28. List of Cover Assets**

(1) A covered bond company shall constantly maintain a complete, up-to-date list of cover assets which allows to identify the cover assets included in the cover pool.

(2) A covered bond company shall compile a list of cover assets in a transparent manner and the list shall include at least information on:

1) the type of cover assets in accordance with that referred to in Sections 47, 48, and 49 of this Law;

2) the borrower, currency, loan (credit) balance, date and number of the loan (credit) agreement;

3) the collateral for cover assets and the collateral provider;

4) the maturity of the cover assets.

(3) A covered bond company shall update the list of cover assets whenever a cover asset is replaced with another cover asset, but at least once every quarter within a calendar year.

(4) Latvijas Banka has the right to determine the structure of the list of cover assets and the information to be included therein in addition to the requirements referred to in Paragraph two of this Section.

(5) Corroboration of rights in rem in the Land Register in favour of a specific person shall not change the fact that the cover asset is included in the list of cover assets. In legal relationships of a creditor with a debtor, including in the case of recovery, the corroboration of the rights in the Land Register shall prevail.

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**Chapter V**

**Obligations of a Covered Bond Company in the Covered Bond Programme**

**Section 29. Guarantee**

(1) The liabilities of the issuer towards investors and creditors of covered bonds in covered bond claims shall be secured by a guarantee of a covered bond company according to which the covered bond company undertakes to be liable towards investors and creditors of covered bonds for their covered bond claims in accordance with the provisions of the guarantee if the issuer fails to make or delays principal and interest payments specified in the covered bond programme or the payments specified in the derivative contract.

(2) The issuer and a covered bond company shall enter into a guarantee agreement in writing in accordance with the provisions of this Law and the covered bond programme. The issuer shall submit to Latvijas Banka the guarantee agreement or a copy of the guarantee agreement certified in accordance with the procedures laid down in legal acts and also any subsequent amendments and additions to the guarantee agreement.

(3) The guarantee liabilities of a covered bond company shall not exceed the amount of the cover assets owned by the covered bond company.

(4) When entering into a guarantee agreement, investors and creditors of covered bonds shall acquire an independent right to request the performance of the guarantee agreement and it shall not be necessary for investors and creditors of covered bonds to join the guarantee agreement.

(5) Investors and creditors of covered bonds are entitled to request the discharge of the liabilities arising from the guarantee agreement in accordance with this Law and the provisions of the covered bond programme.

(6) The issuer shall publish and maintain on its website the current version of the guarantee agreement so that it is available to investors and creditors of covered bonds at any moment.

(7) The guarantee shall be irrevocable.

(8) The guarantee agreement may be amended with the consent of investors and creditors of covered bonds which has been received in accordance with the procedures provided for in the provisions of the covered bond programme.

(9) From the day when the issuer allows delay in payment of the covered bond liabilities, the covered bond company has an obligation to make these payments from the cover assets. The covered bond company and the issuer have the right to apply set-off to the extent that the covered bond company has made payments to investors or creditors of covered bonds according to the guarantee agreement. Set-off shall also be allowed in insolvency proceedings or in liquidation, resolution or reorganisation measures of the issuer.

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**Section 30. Obligation of a Covered Bond Company to Disclose Information**

(1) If an issuer is not able to disclose the information referred to in Section 44, Paragraph one of this Law due to the fact that insolvency proceedings of the issuer have been declared, liquidation thereof has been commenced, resolution or reorganisation measures have been applied, the information shall be disclosed by a covered bond company, except when the covered bond programme is transferred to a new issuer.

(2) A covered bond company shall publish on its website the annual statement together with the report of a sworn auditor (if such is necessary in accordance with legal acts) immediately after approval thereof or indicate another appropriate medium or place where this information is published.

**Chapter VI**

**Representation of Interests of Investors**

**Section 31. Requirements Applicable to the Representation of Interests of Investors**

An issuer may provide for in the provisions of the covered bond programme any of the requirements referred to in this Chapter for the representation of the rights and legal interests of investors.

**Section 32. Meeting of Investors**

(1) An issuer shall convene a meeting of investors if it is provided for by the provisions of the covered bond programme in order to decide on the representation of interests of investors, insofar as it is not in contradiction with this Law.

(2) The procedures for convening a meeting of investors, the quorum of the meeting, the majority of votes necessary for deciding, the procedures for voting, also remote voting, and any other issues related to convening and conducting of the meeting shall be determined in the provisions of the covered bond programme.

(3) The meeting of investors may decide that the joint interests of investors related to covered bonds in accordance with Section 33 of this Law shall be represented by a trustee or by a person appointed by the issuer in accordance with Section 34 of this Law. The meeting of investors shall determine the rights, obligations of the trustee, the settlement, the procedures for covering expenses, and any other issues.

(4) The authorisation referred to in Paragraph three of this Section shall not be affected by the declaration of insolvency proceedings or liquidation of an investor, or the application of the proceedings for the resolution or restructuring of liabilities.

(5) The issuer shall cover all expenses related to the organisation of the meeting of investors and the taking and communication of decisions.

**Section 33. Trustee Appointed by the Meeting of Investors**

(1) The meeting of investors may decide that a trustee shall represent all investors when performing the activities specified in the authorisation. An investor may not concurrently exercise independently his or her rights conferred on the trustee.

(2) In conformity with the powers and restrictions imposed on a trustee in a decision of the meeting of investors, the trustee is entitled to initiate proceedings on behalf of all investors and defend their common interests, including in legal proceedings, without an obligation to establish the identity of investors. In exercising such rights, it shall be sufficient if the trustee indicates that it acts as a trustee and attaches a decision by the meeting of investors certifying the powers of such person and the limits of the authorisation.

(3) When protecting the interests of investors, a trustee has the right to request withdrawal of all or any of the members of the supervisory board or executive board of a covered bond company by submitting a justified submission to the issuer and Latvijas Banka. The issuer need not take such a request into account, providing the trustee and Latvijas Banka with a relevant justification as to why the submission of the trustee is not being taken into account.

(4) The issuer or the special administrator (if such has been appointed) shall, upon request of the trustee, submit to the trustee a list of the current investors and, if it has been requested by the trustee for the exercise of its powers, the list shall also include information on the amount and basis of current claims.

(5) If the covered bonds are in public circulation or are traded at a trading venue within the meaning of the Financial Instrument Market Law, the trustee is entitled to request and receive a list of investors from the central securities depository where the covered bonds have been registered.

(6) The trustee is entitled to obtain information on insolvency proceedings or liquidation of the issuer, insofar as it affects the settlement of the claims of investors applied in the insolvency proceedings or liquidation of the issuer.

(7) If the trustee has been authorised to acquire assets in the name or on behalf of investors, they are held and accounted for separately from the trustee’s own assets and from any other assets transferred under its management. Creditors of the trustee may not direct their claims against assets (also funds) which the trustee has received in the name or on behalf of investors while fulfilling the obligations of the trustee specified thereto.

[*22 June 2023*]

**Section 34. Trustee Appointed by the Issuer**

(1) A trustee – a financial institution independent of the issuer, an office of sworn advocates, a sworn auditor, or a commercial company of sworn auditors – may also be appointed by the issuer, indicating this in the provisions of the covered bond programme.

(2) If the trustee has been appointed by the issuer and it has not been authorised by the meeting of investors to represent the interests of investors, the trustee shall only have the rights referred to in Section 33, Paragraphs three, four, five, and six of this Law and also the right to participate in the meeting of investors.

**Chapter VII**

**Permit for the Implementation of a Covered Bond Programme**

**Section 35. Conditions for the Commencement of a Covered Bond Programme**

(1) An issuer is entitled to implement a covered bond programme in Latvia if a permit of Latvijas Banka has been received. The issuer shall commence the issue of covered bonds after the conditions specified in the permit for the covered bond programme have been met, the cover pool has been created and transferred to a covered bond company, the guarantee agreement has been entered into between the issuer and the covered bond company, and other conditions provided for in legal acts and the provisions of the covered bond programme have been met.

(2) If Latvijas Banka takes the decision to issue the permit for the implementation of a covered bond programme, it shall post the information on its website. The permit of Latvijas Banka shall be applicable to all issues of covered bonds of the issuer which are performed according to the covered bond programme, except for the cases specified in Section 36, Paragraph three and Section 38 of this Law.

[*22 June 2023*]

**Section 36. Submission for a Covered Bond Programme and Notification of the Intention to Issue Covered Bonds**

(1) An issuer who wishes to implement a covered bond programme shall submit a submission to Latvijas Banka. The submission shall be accompanied by the programme and other documents specified in accordance with Paragraph four of this Section.

(2) Latvijas Banka shall examine the submission and the documents appended thereto and shall take the decision to issue the permit for the implementation of a covered bond programme or to refuse to issue the permit within three months from the day when all the necessary documents have been received. Latvijas Banka has the right to extend the three-month term up to six months, notifying the issuer thereof.

(3) If more than 12 months have passed since the day when the permit has been issued for the implementation of a covered bond programme, the issuer shall, at least 30 days before the issue of covered bonds, also new issue of covered bonds, notify Latvijas Banka of its intention to issue covered bonds according to the covered bond programme so that Latvijas Banka, if necessary, could exercise the rights specified for it in Section 38, Paragraph one of this Law.

(4) Latvijas Banka shall determine the documents to be submitted and the information to be included therein which is necessary to take the decision on the permit for the implementation of a covered bond programme or to examine the notification referred to in Paragraph three of this Section and also determine the procedures for the examination of the abovementioned documents.

[*22 June 2023*]

**Section 37. Requirements for Issuing the Permit for the Implementation of a Covered Bond Programme**

(1) Latvijas Banka shall issue the permit for the implementation of a covered bond programme if all of the following conditions have been met:

1) the issuer provides for the implementation of a covered bond programme and the covered bond programme conforms to the objectives brought forward by the issuer;

2) the covered bond programme, including the expected cover pool, the procedures for the creation, substitution, and supervision thereof, the cover assets intended to be used for the establishment of a cover pool, and the cover pool monitor conform to the requirements laid down in this Law;

3) the liabilities of the issuer towards investors and creditors of covered bonds are secured by a guarantee of a covered bond company conforming to the requirements of this Law;

4) the procedures for accounting the cover assets and technical means ensure that the cover assets are segregated in accordance with the requirements of this Law;

5) the issuer has developed and introduced an appropriate, comprehensive, justified, and effective set of policies, procedures, and methodologies for the implementation of the covered bond programme, taking into account the type, scope, and complexity thereof, including a continuity plan for the implementation of the covered bond programme;

6) the issuer has ensured that the covered bond programme is implemented by competent (appropriately qualified and experienced) persons (hereinafter – the competent persons);

7) the issuer has or will have sufficient cover assets available to ensure that the cover pool conforms to the requirements of this Law, taking into account even potentially unfavourable market conditions;

8) the issuer has introduced and complies with the provisions stipulating that the cover assets – tangible items – are adequately insured against losses;

9) results of the stress testing by the issuer indicate conformity with the coverage requirements and the levels of overcollateralisation in accordance with the requirements of this Law;

10) the issuer has assessed and provided for the prevention of risks in relation to the fact that it is intended to include such assets in the cover pool which are also alienated to the covered bond company by an alienor other than the issuer, and also such assets which are located in another Member State.

(2) Latvijas Banka shall not issue the permit for the implementation of a covered bond programme if:

1) the issuer or the parent company of the issuer is subject to a resolution or group resolution;

2) the manner of and the procedures for the implementation of the covered bond programme, including the type of settlement of a civil relationship inappropriate for the programme, endanger or may endanger financial stability or restrict the rights of Latvijas Banka specified in this Law to supervise the covered bond company or the issuer;

3) the total planned amount of bonds of the covered bond programme would disproportionately increase the liabilities of the issuer and the capital available would not conform to the applicable capital requirements if the covered bonds were issued;

4) the policies, procedures, methodologies of the issuer and the set of measures intended for the management of the identified risks do not present a clear view or do not provide for appropriate organisational and technical measures for the implementation of the covered bond programme;

5) the competent persons appointed by the issuer who implement the covered bond programme do not have sufficient qualification or experience;

6) the issue of the permit for the implementation of a covered bond programme would cause damage to investors or reputation of the financial market of Latvia due to the reasons related to the issuer, covered bond company, or cover assets or their quality.

(3) If no issue of covered bonds has been performed within three years from the issuing of the permit for the implementation of a covered bond programme, the permit shall cease to be valid.

[*22 June 2023*]

**Section 38. Prohibition to Issue Covered Bonds and to Implement New Issue of Covered Bonds**

(1) Latvijas Banka has the right to prohibit an issuer from issuing covered bonds, including to implement new issue of covered bonds, according to a covered bond programme if:

1) the issue of covered bonds would disproportionately increase the liabilities of the issuer (including from bonds already issued by the issuer but not yet paid) in comparison to the assets indicated in the financial statement or consolidated financial statement of the issuer;

2) the issuer, the covered bond programme, the cover pool, the cover pool monitor, the covered bond company or the operation thereof does not conform to the requirements laid down in this Law;

3) the issuer has provided false information to Latvijas Banka in relation to the new issue of covered bonds.

(2) A prohibition to perform new issue of covered bonds shall not affect the validity of the covered bonds issued previously and the rights of investors and creditors of covered bonds according to the covered bond programme.

(3) An issuer is not entitled to perform the subsequent issues provided for in the covered bond programme starting from the day when the special administrator has been appointed for the implementation of the covered bond programme in accordance with the procedures laid down in this Law.

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**Section 39. List of Issuers and Covered Bond Programmes**

(1) Latvijas Banka shall maintain a list of issuers and covered bond programmes and shall publish it on its website.

(2) Information on the following shall be indicated in the list:

1) the covered bond programme, including:

a) the title;

b) the date when the permit was issued;

c) the currency;

d) the total nominal amount of covered bonds;

e) the central securities depository in which it is planned to register the issue;

f) the law applicable to the issue;

g) the implementation term;

h) the type of the term structure;

i) the trading venue of covered bonds;

j) other most essential characteristics of covered bonds;

2) amendments to the covered bond programme;

3) the issuer and the alienor other than the issuer;

4) the covered bond company providing a guarantee;

5) the cover pool monitor;

6) the place where the information intended for investors is available;

7) the decision of Latvijas Banka to prohibit the issue of new covered bonds.

(3) Latvijas Banka shall, upon request of the issuer, mark the covered bond programme in the list referred to in Paragraph one of this Section as completed and fulfilled, if all the liabilities of the issuer to investors and creditors of covered bonds arising from the covered bond programme have been discharged. The issuer has the obligation to submit to Latvijas Banka the information confirming this.

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**Chapter VIII**

**Obligations of the Issuer**

**Section 40. Obligations of the Issuer for Ensuring a Covered Bond Programme**

(1) The issuer shall ensure that during the entire operation of a covered bond programme:

1) the covered bond programme, the cover pool, and the cover assets conform to the requirements of this Law, and the cover pool, the cover assets, and the covered bonds issued according to the covered bond programme conform to the provisions of the covered bond programme;

2) a cover pool monitor who corresponds to the requirements of this Law has been appointed for the cover pool;

3) all structural features of the covered bonds provided for in the covered bond programme have been conformed to, including the fact that after conclusion of the disposal agreement the covered assets have been segregated from the assets of the issuer;

4) a procedure under which it is provided for that cover assets – tangible items – are adequately insured against losses has been developed and is being followed;

5) members of the supervisory board or executive board of the covered bond company conform to the provisions of this Law which apply to the activities, transactions, and actions of the covered bond company with assets;

6) the requirements for the continuity plan for the implementation of the covered bond programme are conformed to.

(2) Paragraph one, Clauses 5 and 6 of this Section shall not be applicable if the special administrator has been appointed.

**Section 41. Information to be Provided to Latvijas Banka**

(1) The issuer shall, once a quarter, provide Latvijas Banka with at least the following information on the covered bond programme:

1) the assets included in the cover pool, including:

a) the composition of the cover pool in accordance with the requirements of Section 47 of this Law, including the primary assets and substitution assets included in the cover pool in accordance with the requirements of Sections 48 and 49 of this Law;

b) the use of derivative contracts in accordance with the requirements of Section 56 of this Law;

2) the cover assets which were replaced in the previous quarter and which have been included in the cover pool;

3) the activities performed by the cover pool monitor in the previous quarter for ensuring the supervision of the cover pool in accordance with the requirements of Section 61 of this Law;

4) the conformity with the coverage requirements in accordance with Section 54 of this Law;

5) the liquidity buffers of the cover pool in accordance with Sections 57 and 58 of this Law;

6) the extendable maturity structures if they are applied in accordance with the requirements of Section 68 of this Law;

7) the stress testing and the results thereof in accordance with the requirements of Section 59 of this Law;

8) the transactions concluded by the covered bond company in accordance with the requirements of Section 11 of this Law, except when the special administrator has been appointed.

(2) Latvijas Banka has the right to determine the information to be submitted in addition to that referred to in Paragraph one of this Section and also the structure of the report to be submitted and the procedures for its submission.

(3) The issuer shall, without delay, inform Latvijas Banka if the cover pool no longer conforms to the requirements of this Law or the covered bond programme.

[*22 June 2023*]

**Section 42. Continuity Plan for the Implementation of a Covered Bond Programme**

(1) The issuer shall develop and introduce a continuity plan for the implementation of a covered bond programme specifying the procedures that ensure adequate implementation of the covered bond programme in the case the special administrator has been appointed. Latvijas Banka is entitled to request the correction of the plan if it does not conform to the requirements of this Law. The abovementioned plan shall provide for the action of a covered bond company in the case when the special administrator has been appointed or the performance of the contract for the administration of cover assets or the cover pool becomes difficult, or another reasonable obstacle or risk arises for the operation of the company.

(2) In order to ensure the costs provided for in the continuity plan for the covered bond programme, including the costs for the changes in the entries in public registers and the implementation of the covered bond programme by the special administrator, which may occur in the next 180 days, the issuer shall, in addition to the requirements of this Law for liquidity buffers, transfer the relevant funds to the covered bond company.

[*22 June 2023*]

**Section 43. Obligations of the Issuer in the Administration of the Cover Pool**

(1) A contract for the administration of a cover pool which is entered into in accordance with Section 22 of this Law shall determine at least the following obligations of the issuer:

1) to account the cover assets included in the cover pool;

2) to ensure that the amount of cover assets is sufficient in order to adequately cover the covered bond liabilities, administration costs, and operating costs of the covered bond company;

3) to make timely payments of covered bond liabilities to investors and creditors of covered bonds;

4) to ensure that the cover assets are and will be of sufficient quality, thus guaranteeing to investors and creditors of covered bonds that the risk of the covered bond company not being able to cover the covered bond claims in a timely manner remains low over the entire implementation period of the covered bond programme;

5) to ensure that the cover pool, cover assets, liquidity buffers, and derivative contracts conform to the provisions of this Law and the provisions of the covered bond programme;

6) to ensure the fulfilment of the level of overcollateralisation.

(2) The contract for the administration of a cover pool shall determine the provisions and the procedures for the use of cover assets, financing of operating costs of the covered bond company, and the obligations of the issuer if the specified financing is insufficient to cover the operating costs of the covered bond company.

(3) The costs of administrating the cover pool and the maximum permissible operating costs of the covered bond company that are covered by the issuer shall be determined by the provisions of the covered bond programme.

**Section 44. Obligation of the Issuer to Provide Information to Investors**

(1) The issuer shall, once a quarter, within 20 days after the end of the quarter, provide investors with information on the covered bond programme so that investors could assess the profile and risks of the abovementioned covered bond programme and evaluate their own investment. The issuer shall provide investors with at least the following information on the cover pool:

1) the value of the cover pool and the outstanding covered bonds;

2) the list of International Securities Identification Numbers (ISIN) in accordance with the standard stipulated by the International Organization for Standardization for all the covered bonds included in the abovementioned programme;

3) the geographical distribution and type of cover assets, and the method for measuring the ratio between the credit amount and the collateral;

4) detailed information on market risk, including interest rate risk, currency risk, and credit and liquidity risks;

5) the extendable maturity structure, including a report on the events triggering the extension of maturity;

6) the level of the required and available coverage and the level of statutory, contractual, mandatory, and voluntary overcollateralisation;

7) the proportion of loans (credits) if a default has occurred in accordance with Article 178 of Regulation No 575/2013 or if the repayment of loans (credits) is delayed for more than 90 days;

8) the amount of liquidity buffers;

9) the proportion of cover assets denominated in a foreign currency in the cover pool.

(2) Latvijas Banka has the right to set requirements for the issuer regarding the information to be disclosed to investors, the content and scope of such information in addition to the requirements of Paragraph one of this Section, and the structure of the report.

(3) The issuer shall publish on its website the information to be disclosed to investors on the covered bond programme over the entire implementation period of the covered bond programme.

[*22 June 2023*]

**Chapter IX**

**Change of the Issuer and Amendments to a Covered Bond Programme**

**Section 45. Change of the Issuer of a Covered Bond Programme**

(1) The issuer has the right to transfer a covered bond programme to another credit institution which has obtained the license (permit) for the operation of a credit institution in a Member State. The provisions laid down in the first sentence of this Paragraph shall also be applicable in resolution or reorganisation measures.

(2) The transfer of a covered bond programme referred to in Paragraph one of this Section shall be deemed the transfer of a credit institution undertaking within the meaning of the Credit Institution Law and it shall be carried out in accordance with the provisions of the Credit Institution Law for the transfer of a credit institution undertaking.

(3) If the transfer of a covered bond programme will not adversely affect the interests of the investors and creditors of covered bonds, Latvijas Banka shall take the decision to allow the transfer of the covered bond programme to another credit institution and it shall be notified to the issuer and the credit institution in writing.

(4) A credit institution which takes over a covered bond programme of the issuer shall take place of the issuer in all legal relationships arising from the covered bond programme.

(5) The issuer which transfers a covered bond programme shall, within 14 days, notify the investors and creditors of covered bonds thereof.

(6) The transfer of a covered bond programme carried out with the authorisation of Latvijas Banka shall not be deemed invalid and shall not be contested in the insolvency proceedings or liquidation of the issuer, or in the application of resolution or reorganisation measures.

(7) The provisions of this Section shall also be applicable if a covered bond programme is transferred by the special administrator in the cases provided for in this Law.

[*22 June 2023*]

**Section 46. Amendments to the Provisions of a Covered Bond Programme**

(1) The issuer shall make amendments to the provisions of a covered bond programme in accordance with the procedures specified in these provisions.

(2) If the provisions of a covered bond programme provide the right for the issuer to make amendments to these provisions, the issuer may only make such amendments upon obtaining prior consent of Latvijas Banka.

(3) Latvijas Banka shall, within 14 days, examine the amendments to the covered bond programme submitted thereto, allow to make amendments to the provisions or not allow it if the amendments to the proposed provisions of the covered bond programme could adversely affect the interests of the investors and creditors of covered bonds.

(4) Latvijas Banka may extend the term referred to in Paragraph three of this Section by 14 days, notifying the issuer of the reasons for the extension of the term.

[*22 June 2023*]

**Chapter X**

**Cover Pool**

**Section 47. Composition of the Cover Pool**

(1) The following cover assets shall be included in the cover pool:

1) funds which the issuer lends to a covered bond company in order for it to purchase primary assets and substitution assets;

2) primary assets and substitution assets;

3) transaction values of derivative contracts;

4) funds obtained from the cover assets referred to in Clause 2 or 3 of this Paragraph;

5) collateral received by a covered bond company in relation to the derivative contracts entered into by it.

(2) The assets referred to in Paragraph one, Clause 2 of this Section shall form a cover pool from the moment when they are alienated to a covered bond company.

(3) At least 85 per cent of the required value of cover assets shall consist of primary assets.

(4) It shall be permitted to include such cover assets in the cover pool which are alienated to a covered bond company by an alienor other than the issuer if these assets conform to the requirements for cover assets laid down in this Law.

(5) In addition to other requirements of this Section, the cover pool shall conform to that specified in Article 129 of Regulation No 575/2013.

**Section 48. Primary Assets**

Primary assets shall only include assets of the following classes:

1) public sector assets – the exposures referred to in Article 129(1)(a) and Article 129(1)(b) of Regulation No 575/2013;

2) residential mortgage assets – loans (credits) secured by residential immovable property, as defined in Article 129(1)(d) of Regulation No 575/2013;

3) commercial mortgage assets – loans (credits) secured by commercial immovable property, as defined in Article 129(1)(f) of Regulation No 575/2013;

4) maritime assets – loans (credits) secured by a ship mortgage, as defined in Article 129(1)(g) of Regulation No 575/2013;

5) the assets which are loans to capital companies controlled by a public entity or in cases where the law allows such capital companies to issue loans (credits) or to provide guarantees themselves – loans (credits) guaranteed by such capital companies in conformity with the provisions of Section 55, Paragraph six.

**Section 49. Substitution Assets**

Substitution assets shall include exposures that conform to the requirements of Article 129(1)(c) and (1)(a)(a), (b), (c), and (d) of Regulation No 575/2013.

**Section 50. Selection of Assets in a Covered Bond Programme**

(1) When submitting the submission for the receipt of the permit for the implementation of a covered bond programme in accordance with Section 36, Paragraph one of this Law, the issuer may request the permission for the implementation of a covered bond programme according to which covered bonds of one class or different asset classes are issued.

(2) The issuer shall determine in the provisions of a covered bond programme which subsequent amendments to the provisions shall be deemed significant in relation to changes in the risk profile related to the choice of assets, including the Member State where the assets are located, over the entire implementation period of the covered bond programme.

(3) If the issuer wants to make significant changes in the risk profile which are referred to in Paragraph two of this Section, the issuer shall submit to Latvijas Banka amendments to the covered bond programme and an assessment of the impact of such changes on successful implementation of the covered bond programme and shall request a permission from Latvijas Banka to make the relevant amendments to the provisions of the covered bond programme.

(4) Latvijas Banka shall examine the amendments referred to in Paragraph three of this Section and submitted thereto to the covered bond programme on significant changes in the risk profile in accordance with the procedures laid down in Section 46 of this Law and shall take the decision to allow to make amendments to the covered bond programme and to make changes in the risk profile or not to allow them if Latvijas Banka cannot ascertain the impact of changes in the risk profile on successful implementation of the covered bond programme.

[*22 June 2023*]

**Section 51. Requirements Applicable to the Cover Pool**

(1) Assets that include claims the repayment of which is delayed for more than 90 days may not be included in the cover pool.

(2) If default within the meaning of Article 178(1) of Regulation No 575/2013 occurs for assets after their inclusion in the cover pool, the value of the cover assets related to the outstanding loan (credit) shall be determined as follows:

1) 70 per cent of the value of the loan (credit) included in the cover pool if the repayment of the loan (credit) is delayed for more than 90 days, but for not longer than 180 days, and the ratio of the credit amount to the value of collateral is less than 50 per cent;

2) 40 per cent of the value of the loan (credit) included in the cover pool if the repayment of the loan (credit) is delayed for more than 90 days, but for not longer than 180 days, and the ratio of the credit amount to the value of collateral is greater than 50 per cent;

3) 0 per cent of the value of the loan (credit) included in the cover pool if the repayment of the loan (credit) is delayed for more than 180 days.

(3) The cover assets referred to in Section 48, Clause 1, 2, or 3 of this Law shall be included in the cover pool if the collateral is located in a Member State.

(4) The cover assets referred to in Section 48, Clause 4 of this Law shall be included in the cover pool if the relevant ship mortgage has been registered in a Member State.

(5) Latvijas Banka may, on the basis of a submission of the issuer, allow to derogate from the provisions of Paragraph two of this Section for a specific period if the issuer established that, irrespective of its will, the conformity of the cover pool with the provisions of this Law cannot be ensured in a timely manner. The issuer shall concurrently take all measures in order to ensure that the cover pool conforms to the requirements of this Section. The issuer shall, without delay, inform Latvijas Banka of the circumstances referred to in the first sentence of this Paragraph by submitting a submission.

(6) Latvijas Banka shall examine the submission of the issuer referred to in Paragraph five of this Section and take a decision within 14 days. If necessary, the term for the examination of the submission may be extended by 14 days, informing the issuer thereof.

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**Section 52. Ratio of the Credit Amount to the Value of Collateral**

(1) The ratio of the credit amount to the value of collateral for the primary assets referred to in Section 48, Clause 2 of this Law shall not exceed 70 per cent.

(2) The ratio of the credit amount to the value of collateral for the primary assets referred to in Section 48, Clauses 3 and 4 of this Law shall not exceed 60 per cent.

(3) The ratio referred to in Paragraphs one and two of this Section is determined for the cover asset on the day when it is included in the cover pool for the first time.

**Section 53. Valuation and Value Indexation of Cover Assets**

(1) The issuer shall valuate cover assets according to the requirements for the management of credit risk stipulated by Latvijas Banka, including for the applicable valuation standards, and the requirements for persons who are entitled to value assets.

(2) The valuation of cover assets shall be adjusted according to the indexation of the market value of assets which is mad at least once per calendar year, unless the provisions of the covered bond programme provide for more frequent indexation or it is required by Latvijas Banka or the cover pool monitor. The methods to be used in the valuation of cover assets and the indexation procedures for the valuation of cover assets shall be determined in the provisions of the covered bond programme.

[*22 June 2023*]

**Chapter XI**

**Coverage and Overcollateralisation**

**Section 54. Coverage Requirement**

(1) Covered bond liabilities are covered by claims arising from the cover assets included in the cover pool which ensure conformity with the coverage requirements.

(2) The conformity with the coverage requirement specified in Paragraph one of this Section shall be ensured by the following cover assets:

1) the primary assets;

2) the substitution assets;

3) the liquid assets held as liquidity buffers in accordance with that specified in this Law;

4) the claims arising from such derivative contracts which conform to the requirements of Section 56 of this Law.

(3) Unsecured claims are not used to fulfil a coverage requirement if a default of the debtor should be established in accordance with Article 178 of Regulation No 575/2013.

(4) The coverage requirement specified in Paragraph one of this Section has been met if the total remaining principal amount of the claims resulting from the loans (credits) used in the calculation of the coverage requirement and included in the cover assets and the value of the derivative are equal to or greater than the total nominal amount outstanding on the covered bonds. Equivalent (comparable) methodology shall be used for the calculation of the nominal amount on the cover assets and the outstanding covered bonds.

**Section 55. Level of Overcollateralisation**

(1) The issuer shall ensure that the total remaining principal amount of the claims resulting from the loans (credits) included in the cover assets and the value of the derivative are not less than 105 per cent of the total nominal amount outstanding on the covered bonds (hereinafter – the statutory overcollateralisation), except for that specified in Paragraph six of this Section.

(2) Latvijas Banka is entitled to request, at any time, that the issuer provides a higher level of overcollateralisation than specified in Paragraph one of this Section if the cover pool is insufficient to protect the interests of investors and creditors of covered bonds (hereinafter – the mandatory overcollateralisation).

(3) The provisions of the covered bond programme may provide that the issuer provides a higher level of overcollateralisation than the statutory overcollateralisation and the mandatory overcollateralisation (hereinafter – the contractual overcollateralisation).

(4) Voluntary overcollateralisation is overcollateralisation that exceeds the statutory overcollateralisation, the mandatory overcollateralisation, and the contractual overcollateralisation.

(5) For the calculation of overcollateralisation, all types of cover assets referred to in Section 54, Paragraph two of this Law may be taken into account.

(6) Covered bonds for which claims resulting from loans (credits) for capital companies controlled by public entities have been used as cover assets or which the abovementioned capital companies guarantee and include in the pool as primary assets shall be subject to the level of the statutory overcollateralisation in the amount of not less than 110 per cent in conformity with all of the following conditions:

1) a capital company controlled by a public entity provides public services on the basis of a permit (license) or registration which has been issued or made in accordance with the provisions of external legal acts, a concession contract, a delegation contract, or another type of authorisation granted by the State or local government institution;

2) a capital company controlled by a public entity:

a) has the right to receive grants in order to ensure its financial stability and solvency in relation to the provision of public services;

b) the procedures for determining the profit share to be disbursed in dividends have been laid down in accordance with the Law on Governance of Capital Shares of a Public Entity and Capital Companies.

(7) Within the meaning of this Section, public services are the public services, medical treatment, air traffic, public transport, and traffic safety services referred to in the law On Regulators of Public Utilities if they are provided by a capital company controlled by a public entity.

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**Chapter XII**

**Mitigation of Risks Related to Cover Assets and Liabilities**

**Section 56. Use of Derivatives**

(1) The issuer may administer market risks, including interest rate risk and foreign exchange risk, which affect cover assets by using derivatives. Derivative contracts shall be entered into only for the purpose of hedging the abovementioned risks.

(2) The issuer shall enter into a derivative contract or shall ensure that a covered bond company enters into such a contract in conformity with the following requirements:

1) the use of derivatives is adjusted to the level of risk, and, when the relevant risk no longer exists, the derivative contract may be terminated;

2) the derivative transactions are sufficiently documented;

3) the insolvency proceedings or liquidation, resolution or reorganisation measures of the issuer do not form the grounds for the termination of the derivative contract or immediate discharge of its liabilities, yet default under the relevant derivative contract may be considered a justified reason for the termination of such contract;

4) set-off is not allowed for claims arising from other derivative contracts entered into with the issuer;

5) the cover assets are not used as collateral to secure liabilities according to the derivative contract;

6) the derivative contract contains provisions which provide an obligation for the other counterparty to provide sufficient collateral for the event if its creditworthiness deteriorates to an unacceptable level. In accordance with these provisions, the counterparty shall ensure sufficient collateral or such counterparty shall be replaced.

(3) Paragraph two, Clause 5 of this Section shall not restrict the issuer from providing a covered bond company with additional necessary funds for the provision of such collateral which is necessary for entering into a derivative contract.

(4) If the obligation referred to in Paragraph two, Clause 6 of this Section is not fulfilled, the issuer shall enter into a new contract or ensure entry into such contract in accordance with the provisions of Paragraph two of this Section in order to achieve the objective specified in the abovementioned Paragraph.

(5) The issuer shall ensure and submit a written certification to Latvijas Banka that the use of derivatives satisfies the requirements of Paragraph two of this Section. The certification shall include the hedging criteria for the selection of counterparties in order to ensure theirs creditworthiness and to promote the highest possible credit rating of covered bonds, and also a certification of the fulfilment of these criteria. The certification shall be accompanied by a derivative contract.

(6) When transferring covered bond programmes, the liabilities, rights, and obligations arising from the derivatives shall be transferred to the new issuer together with the cover assets, but such a contract may not be terminated on the basis of the transfer of the covered bond programme.

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**Section 57. Liquidity Buffers**

(1) The issuer shall ensure that the cover assets always include such liquid assets, i. e. funds or financial instruments, that are available to cover the maximum cumulative net liquidity outflows specified in the covered bond programme for the next 180 days. Liquid assets shall not include funds which have been provided to the covered bond company by a counterparty to the derivative contract as a financial collateral.

(2) If extendable maturity structures are used in relation to the covered bonds, it shall be considered that the covered bonds are repurchased within the extended maturity period.

(3) Liquid assets that form liquidity buffers of the cover pool shall be protected against claims of other persons as cover assets and also they shall be segregated from other assets of the issuer, and it shall be ensured that these funds may be used at any moment to meet the requirements for liquidity buffers laid down in this Law.

(4) Liquidity buffers may be held with the issuer, but the covered bond company and the issuer shall, upon request of Latvijas Banka, without delay, but not later than within seven days, ensure that the liquidity buffers, i.e. financial instruments or funds, are transferred to another credit institution which has received the licence (permit) for the operation of a credit institution in the Member State.

[*22 June 2023*]

**Section 58. Eligible Assets for Liquidity Buffers**

(1) The liquidity buffers of the cover pool shall consist of the following:

1) assets that qualify as Tier 1, Tier 2A, or Tier 2B assets in accordance with Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (hereinafter – the Delegated Regulation No 2015/61) which are valued in accordance with the Delegated Regulation No 2015/61 and which have not been issued by the credit institution which is the issuer, a parent undertaking thereof (except when it is a public sector entity within the meaning of Article 4(1)(8) of Regulation No 575/2013), a subsidiary thereof or another subsidiary of its parent undertaking, or a securitisation special purpose entity with which the credit institution has close links (within the meaning of Article 4(1)(38) of Regulation No 575/2013);

2) short-term deposits with a credit institution corresponding to the credit quality step 1, 2, or 3, and also other short-term claims against credit institutions corresponding to the credit quality step 1 or 2 in accordance with Article 129(1)(c) of Regulation No 575/2013.

(2) In order to calculate the liquidity buffers of the cover pool, the issuer shall apply the market value of liquid assets in accordance with Article 9 of the Delegated Regulation No 2015/61.

(3) Unsecured claims in default in accordance with Article 178 of Regulation No 575/2013 shall not be included in the liquidity buffers of the cover pool.

**Section 59. Stress Testing**

(1) The issuer shall ensure an adequate, comprehensive, and risk-appropriate stress testing process by integrating stress tests into the risk management process.

(2) The issuer shall, at least once a quarter, carry out stress testing at various levels of financial turmoil and thus determine whether the cover assets are sufficient to cover the total nominal amount outstanding on the covered bonds.

(3) Stress testing shall cover all risks that can significantly affect the risk profile of covered bonds.

(4) When carrying out the stress testing indicated in Paragraph two of this Section, the issuer shall take into account certain hedging instruments, including derivative contracts and other contracts entered into to hedge risks.

(5) If, as a result of the stress testing indicated in Paragraph two of this Section, it may be concluded that the level of the statutory overcollateralisation is not met, the issuer has the obligation to ensure that additional cover assets are included in the cover pool until the level of the statutory overcollateralisation is ensured in accordance with the relevant stress testing scenarios applicable to the relevant turmoil.

**Chapter XIII**

**Supervision of Cover Assets**

**Section 60. Appointment and Removal of Cover Pool Monitor**

(1) The issuer shall, to ensure continuous supervision of the cover pool, appoint the cover pool monitor who is a sworn auditor or a commercial company of sworn auditors and is independent of the issuer and the auditor thereof.

(2) A sworn auditor or a commercial company of sworn auditors which has audited the issuer within the previous two years may not be a cover pool monitor.

(3) The issuer shall inform Latvijas Banka of a candidate for the position of cover pool monitor 30 days before the day when it starts to perform the official duties thereof.

(4) Latvijas Banka has the right not to allow the cover pool monitor to commence the performance of its official duties if it does not meet the requirements brought forward in this Law for a cover pool monitor and also order the issuer to remove the cover pool monitor without delay if it does not comply with the legal acts in the field of covered bonds or it fails to adequately perform the duties thereof.

(5) In addition to that referred to in Paragraphs four, six, and eight of this Section, the cover pool monitor shall terminate the performance of the duties in the following cases:

1) all covered bond claims have been fully settled;

2) the special administrator has been appointed.

(6) The cover pool monitor is entitled to resign from the performance of the official duties of the cover pool monitor, notifying the issuer thereof in writing at least 60 days in advance and explaining reasons for such resignation.

(7) The issuer shall enter into a written agreement with the cover pool monitor for the supervision of cover pool prior to the issue of covered bonds.

(8) The issuer has the right to remove the cover pool monitor from office on its own initiative, concurrently appointing a new cover pool monitor. In such case, the issuer shall notify the cover pool monitor in writing of the removal from office at least 30 days in advance.

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**Section 61. Activities of Cover Pool Monitor**

(1) A cover pool monitor has the following obligations:

1) regularly, at least once a year, to verify that the following corresponds to the requirements of the legal acts in the field of covered bonds:

a) the contract for the administration of a cover pool;

b) the composition of cover assets in the cover pool and the requirements applicable thereto;

c) the primary assets;

d) the substitution assets;

e) the valuation of assets;

f) the coverage requirements;

g) the overcollateralisation;

h) the liquidity buffers;

2) regularly, but at least once a year, to verify the accuracy of entries in the accounting of cover assets in relation to each cover asset in the cover pool;

3) regularly, but at least once a year, to verify that the covered bond company and the issuer conform to the requirements of this Law and adequately fulfil the obligations which are related to:

a) the use of derivative contracts;

b) the liquidity buffers and the assets corresponding thereto;

c) the stress testing;

d) the provision of information to investors;

4) to cooperate with Latvijas Banka within the scope of the cover pool supervision.

(2) The cover pool monitor shall provide a report on the cover pool to the issuer, the covered bond company, and Latvijas Banka altogether on the conformity of the fulfilment of all the requirements referred to in Paragraph one, Clauses 1, 2, and 3 of this Section with the Law. The cover pool monitor shall indicate in the report the method used for the verifications referred to in Paragraph one, Clauses 1, 2, and 3 of this Section and for drawing the relevant conclusions.

(3) The cover pool monitor shall provide the report referred to in Paragraph two of this Section within 60 days after the end of the relevant reporting period.

(4) If the issuer or the cover pool does not conform to the requirements of this Law, the cover pool monitor shall, without delay, inform the covered bond company, the trustee (if such has been appointed), and Latvijas Banka thereof.

(5) If the issuer or the covered bond company fails to provide sufficient information and explanations to the cover pool monitor in accordance with Section 62 of this Law, the cover pool monitor shall, without delay, inform Latvijas Banka thereof.

[*22 June 2023*]

**Section 62. Right to Receive Information**

While performing its functions, the cover pool monitor is entitled:

1) to access all accounting documents of the issuer and the covered bond company without delay and also other information (regardless of the medium in which the information is stored) related to the cover pool, the assets included therein, and the administration thereof;

2) to request information from:

a) any employee of the issuer or the covered bond company;

b) any person who provides services to the issuer or the covered bond company which are related to the activity of the covered bond company.

**Section 63. Liability of Cover Pool Monitor for Losses**

A cover pool monitor shall be liable towards investors for any losses incurred by them due to gross negligence or wrongful intent of the cover pool monitor. Claims regarding the compensation for the losses referred to in this Section shall lapse within three years.

**Chapter XIV**

**Special Administrator**

**Section 64. Appointment of the Special Administrator**

(1) Latvijas Banka shall appoint the special administrator to a covered bond company for the implementation of a covered bond programme in the following cases:

1) the liquidation of the issuer has been initiated (declared) or the insolvency proceedings of the issuer have been declared;

2) the license (permit) of a credit institution has been revoked for the issuer;

3) the resolution or group resolution is applied to the issuer;

4) the coverage requirement laid down in Section 54, Paragraph one of this Law is not fulfilled;

5) there are special circumstances which indicate that adequate functioning of the issuer or the covered bond company or the implementation of the covered bond programme is endangered.

(2) Latvijas Banka shall notify the issuer of the decision to appoint the special administrator not later than on the day after taking the decision and shall publish the decision on its website.

(3) Upon the appointment of the special administrator, rights of the issuer in relation to the implementation of the covered bond programme and the right to exercise the voting rights of the issuer and other rights of a shareholder or stockholder of the covered bond company in the covered bond company are suspended. The abovementioned rights, including to the alienation of shares or stocks of the covered bond company to another issuer, shall be exercised by the special administrator.

(4) Upon the appointment of the special administrator on the basis of this Law, the rights of members of the executive board and supervisory board of the covered bond company are terminated. The special administrator shall submit changes in the composition of the executive board or supervisory board of the covered bond company to the Enterprise Register of the Republic of Latvia, appending the decision of Latvijas Banka to appoint the special administrator.

[*22 June 2023*]

**Section 65. Requirements for a Candidate for the Office of Special Administrator**

(1) A person who has the right to be a liquidator of credit institutions in accordance with Section 131, Paragraph one of the Credit Institution Law shall be appointed as the special administrator.

(2) Latvijas Banka shall determine the procedures for selecting a candidate for the office of special administrator and assessing the suitability of a candidate and the information necessary for such assessment.

[*22 June 2023*]

**Section 66. Status of the Special Administrator**

(1) The special administrator shall not depend on the issuer, creditors of the issuer, investors, and creditors of covered bonds, and the instructions of the abovementioned persons shall not be binding to him or her.

(2) While fulfilling the obligations and exercising the rights specified in this Law, the special permit (license) for the provision of consumer credit services or for the provision of debt recovery services shall not be required for the special administrator.

**Section 67. Rights and Obligations of the Special Administrator**

(1) The special administrator shall act on behalf and in the interests of all investors and creditors of covered bonds in order to achieve the fullest possible settlement of the claims of all covered bonds. The special administrator shall represent the issuer or the covered bond company in the implementation of the covered bond programme.

(2) The special administrator is entitled to administer the cover pool and exercise all rights of the administrator according to the contract entered into for the administration of a cover pool until the transfer of the administration activities of the cover pool to another administrator.

(3) The special administrator also has the right to alienate or otherwise use cover assets in accordance with that specified in this Law, enter into loan (credit) agreements, and use derivatives in accordance with that specified in Section 56 of this Law.

(4) The special administrator shall exercise the voting rights of the issuer in a covered bond company, take decisions to appoint or remove officials of the supervisory board or executive board of the covered bond company, and also is entitled to alienate shares or stocks of the covered bond company owned by the issuer to a new issuer who takes over the covered bond programme.

(5) The special administrator shall ensure that payments to investors and creditors of covered bonds are made according to the provisions of the covered bond programme. If a covered bond company does not have sufficient funds to make payments, the special administrator shall decide on the necessary activities for obtaining the funds.

(6) The special administrator shall verify that the set of cover assets is sufficient to cover all covered bond liabilities. The value of the set of cover assets shall be calculated in accordance with Section 53 and Section 54, Paragraph four of this Law.

(7) In conformity with the interests of investors and creditors of covered bonds and when trying to achieve as advantageous solution for the issuer as possible in relation to the transfer of the covered bond programme of the new issuer, the special administrator shall take the necessary measures to transfer the covered bond programme and the cover pool to another issuer. Such action shall also be considered necessary on a priority basis even if the cover pool and cover assets conform to the requirements of this Law, the set of cover assets according to the valuation is sufficient to cover the covered bond liabilities, but the transfer of the covered bond programme and the cover pool is necessary to complete the insolvency proceedings or liquidation of the issuer in accordance with Section 77, Paragraph eight of this Law.

(8) The special administrator is entitled to bring a claim for the annulment of the alienation of cover assets if the transaction has not been concluded according to the provisions of the programme and causes losses to investors and creditors of covered bonds.

(9) In addition to the rights and obligations referred to in this Section and also the activities performed by the special administrator in the name of or on behalf of the issuer, the special administrator shall also have the following rights and obligations:

1) to perform, enter into, amend, and terminate the contracts necessary for the administration of a cover pool, including to enter into contracts for the administration of cover assets, and also to bring claims in relation to the contracts referred to in this Clause;

2) without a special authorisation, to enter into, amend, and terminate transactions involving cover assets in the name of the covered bond company, and also to exercise all the rights of the covered bond company related to the cover assets and collateral thereof in the name of or on behalf of the covered bond company;

3) to prepare and submit to Latvijas Banka amendments to the provisions of the covered bond programme;

4) to supervise and perform the necessary activities so that the covered bond programme, the cover pool, and the cover assets conform to the requirements of the laws and regulations in the field of covered bonds and the covered bond programme;

5) to take loans from a credit institution if it is necessary for the fulfilment of the covered bond claims according to the provisions of the covered bond programme and to act the cover assets in order to secure the loans referred to in this Clause;

6) to invite specialists in order to receive accounting, auditing, and legal services, and also to ensure representation of the special administrator in State administration and judicial institutions and to receive other services necessary to ensure the performance of the functions of the special administrator specified in this Law;

7) once a quarter, and also upon expiry of the powers, to submit to Latvijas Banka a report on its activity in accordance with Section 73, Paragraph four of this Law;

8) upon expiry of the powers, to transfer documents and other files in accordance with Section 75, Paragraph six of this Law, subject to prior agreement thereupon;

9) in the case of declaring the insolvency proceedings or liquidation of the issuer, to submit a list of investors and creditors of covered bonds to the administrator of the insolvency proceedings of the issuer.

(10) An issuer, an alienor, a covered bond company, and outsourced service providers attracted by them shall provide the special administrator with all the information, documents, and explanations necessary for the performance of the functions thereof in relation to the implementation of the covered bond programme.

[*22 June 2023*]

**Section 68. Application of the Extendable Maturity Structure**

(1) The issuer may not extend the maturity of covered bonds at its discretion, also in the case provided for in Paragraph two of this Section.

(2) It may be provided for in the provisions of the covered bond programme that the covered bonds are issued with such extendable maturity structure which determines a one-off extension of the maturity of payment liabilities. Investors and creditors of covered bonds are informed thereof according to the procedures provided for in the provisions of the programme.

(3) The special administrator has the right to use the extendable maturity structure if it is so provided for in the covered bond programme in conformity with the following conditions:

1) both trigger events causing the extension of the maturity have occurred:

a) the declaration of the insolvency proceedings or liquidation of the issuer, the application of resolution or reorganisation measures;

b) the circumstances that give reason to believe that it will not be possible for the issuer to make current payments to investors within the specified terms;

2) the information provided to investors on the extendable maturity structure is sufficient to be able to assess the risks related to the discharge of the covered bond liabilities and the information shall include a description of the following:

a) the events causing extension of the maturity;

b) the consequences of the declaration of the insolvency proceedings or liquidation of the issuer, the imposition of resolution or reorganisation measures on the extension of the maturity of the covered bonds;

3) the extended (final) maturity of the covered bonds is determined as a specific date.

(4) In the case of declaration of the insolvency proceedings or liquidation of the issuer, application of resolution or reorganisation measures, the extension of the maturity shall not affect the priority of covered bond claims and also shall not change the procedures (order) for paying cover bonds specified initially in the covered bond programmes.

(5) The extension of the maturity shall not affect the rights of investors and creditors of covered bonds specified in this Law to request the discharge of covered bond liabilities from the issuer and the covered bond company in case of declaration of insolvency proceedings or liquidation of the issuer, resolution or reorganisation measures.

**Section 69. Decision of the Special Administrator on Early Redemption of Covered Bonds**

By taking into account the restrictions specified in Section 81 of this Law, the special administrator has the obligation to take the decision on early redemption of covered bonds and liquidation of the cover pool if, according to the valuation, the set of cover assets is not sufficient to cover all covered bond liabilities and liabilities of a covered bond company (if the issuer is not able to discharge them, there is no new issuer that could take over the covered bond programme, and the special administrator has failed to reduce the amount of these liabilities), and the covered bond company does not have sufficient liquid assets to secure net cash outflows according to the provisions of the covered bond programme for at least the next 180 days, and it is not expected that the abovementioned flow would be ensured after such short-term difficulties.

**Section 70. Subordination of a Covered Bond Company to the Special Administrator**

A covered bond company and members of its supervisory board or executive board shall be bound by instructions of the special administrator in all matters which, in accordance with this Law, are within the competence of the special administrator.

**Section 71. Cooperation Between the Issuer and the Special Administrator**

(1) The issuer shall continue to administer the cover pool until the moment when the administration of the cover pool is taken over by the special administrator or another administrator.

(2) Upon request of the special administrator, the issuer shall continue to perform individual administration activities of the cover assets until the moment when performance of the relevant administration activities is taken over by the special administrator or a manager appointed thereby.

(3) The special administrator is entitled to continue to use software, databases, intellectual property rights, and licenses necessary for the implementation of the covered bond programme and the management of cover assets on the basis of the same provisions, including in respect of the fee, which were used by the issuer.

(4) The issuer shall transfer to the special administrator all information, contracts, and documents related to the covered bond programme, cover assets, and the administration thereof.

**Section 72. Supervision of the Special Administrator**

(1) Latvijas Banka shall supervise the activities of the special administrator and the conformity thereof with the requirements of this Law.

(2) Latvijas Banka has the right to become acquainted with all documentation at the disposal of the special administrator and related to a covered bond programme.

(3) Latvijas Banka has the right to request explanations from the special administrator and to receive any other information necessary in relation to the fulfilment of the obligations of the special administrator and the covered bond programme.

[*22 June 2023*]

**Section 73. Expenses of the Special Administrator**

(1) Expenses of the special administrator over the entire period of the activities thereof shall not exceed 0.15 per cent a year from the value of the cover pool on the day when the special administrator is appointed. Expenses of the special administrator are covered from the income obtained from the cover assets.

(2) Expenses of the special administrator shall include all expenses necessary for the performance of the rights and obligations of the special administrator, including his or her monthly remuneration in accordance with Paragraph three of this Section and any other expenses incurred by the special administrator in relation to the performance of his or her rights and obligations.

(3) Monthly remuneration of the special administrator shall correspond to the amount of the average monthly work remuneration of those employed in the financial and insurance field in the year before last published in the official statistical notification of the Central Statistical Bureau which is rounded up to full euros and to which a coefficient of 5 is applied.

(4) The special administrator shall, once a quarter, and also upon termination of his or her term of office, submit a report on the activities thereof to Latvijas Banka. The report shall include information on the amount of remuneration received, the covered administration costs of the covered bond programme, the fulfilment of the covered bond obligations, the condition of the cover pool, the used cover assets and other information that provides a true and complete view of the activities of the special administrator.

[*22 June 2023*]

**Section 74. Liability for Losses**

The special administrator shall be liable towards the issuer, investors, creditors of covered bonds, and creditors of a covered bond company for the losses incurred by them as a result of the activities of the special administrator. Claims regarding the compensation for the losses referred to in this Section shall lapse within three years.

**Section 75. Resignation, Removal, and Expiry of Powers of the Special Administrator**

(1) Latvijas Banka shall take the decision that the powers of the special administrator are terminated in the following cases:

1) when the special administrator resigns;

2) in accordance with Paragraph three of this Section;

3) when the implementation of the covered bond programme is completed;

4) when the covered bond programme is transferred to another issuer.

(2) The special administrator shall notify Latvijas Banka in writing of the intention to resign from the fulfilment of the duties of the special administrator at least 60 days in advance.

(3) Latvijas Banka shall take the decision to remove the special administrator if:

1) his or her non-conformity with the requirements of Section 65, Paragraph one of this Law is established;

2) he or she fails to adequately fulfil the obligations specified in this Law or the requirements of other laws and regulations in respect of a covered bond programme;

3) it is established that the circumstances referred to in Section 64, Paragraph one, Clause 3, 4, or 5 of this Law do not exist anymore.

(4) The liquidator which has been appointed for the liquidation of a covered bond company, the issuer, or such issuer to which the covered bond programme has been transferred shall, as a shareholder or stakeholder of the covered bond programme or a newly appointed special administrator, apply changes in the Enterprise Register of the Republic of Latvia in the composition of the supervisory board or executive board of the covered bond company, appending the decision of Latvijas Banka to remove the special administrator, appoint a new special administrator, or transfer the covered bond company to a new issuer, or appending a document of Latvijas Banka for the consent to the termination of the operation of the covered bond programme.

(5) Latvijas Banka shall notify the decision to remove the special administrator to the issuer in accordance with the procedures laid down in Section 64, Paragraph two of this Law for the notification of the decision on the appointment.

(6) The special administrator shall transfer documents and other files to the person indicated by Latvijas Banka within the term indicated by Latvijas Banka.

[*22 June 2023*]

**Chapter XV**

**Procedures for the Settlement of Claims and Protection of Investors and Creditors of Covered Bonds in the Insolvency Proceedings of the Issuer**

**Section 76. Procedures for the Settlement of Claims**

(1) The claims of investors and the claims of creditors of covered bonds against the issuer and the covered bond company in the liquidation of the cover pool in accordance with Section 69 of this Law and in the insolvency proceedings of the issuer shall be mutual claims of one round, and claims of investors shall not have a particular advantage in comparison to the claims of the creditors of covered bonds.

(2) The claims of investors and creditors of covered bonds referred to in Section 77, Paragraph three of this Law in the insolvency proceedings of the issuer shall be claims of one round as the claims of other legitimate creditors in accordance with Section 139.3, Clause 1 of the Credit Institution Law.

**Section 77. Claims of Investors and Creditors of Covered Bonds in the Insolvency Proceedings of the Issuer**

(1) If the insolvency proceedings of the issuer have been declared, the amount of claims of investors and creditors of covered bonds against a covered bond company shall be limited by the cover assets owned by the covered bond company.

(2) If the cover assets are not sufficient to cover the claims of all investors and creditors of covered bonds, the claims of the investors and creditors of covered bonds shall be settled from the cover assets in proportion to the claims of all investors and creditors of covered bonds.

(3) Investors and creditors of covered bonds shall have the right to claim in the insolvency proceedings of the issuer against the issuer to the extent in which the claims of investors and creditors of covered bonds are not covered by cover assets.

(4) The special administrator shall, immediately after his or her appointment or upon request of Latvijas Banka or the administrator of the insolvency proceedings of the issuer, value the cover assets and notify Latvijas Banka and the administrator of the insolvency proceedings of the issuer of such valuation. The special administrator shall immediately inform the administrator of the insolvency proceedings of the issuer of the amount of the covered bond claims which, according to the valuation made, is not covered by the cover assets.

(5) The special administrator shall approve and submit to the administrator of the insolvency proceedings of the issuer a list of investors and creditors of covered bonds in the following cases:

1) according to the valuation made by the special administrator, the set of cover assets is not sufficient to cover all covered bond claims;

2) the covered bond claims have not been settled in full amount.

(6) The administrator of the insolvency proceedings of the issuer shall include the relevant investors and creditors of covered bonds in the list of creditors of the issuer. It shall not be required for investors and creditors of covered bonds to take any additional activities to submit their claims in the insolvency proceedings of the issuer.

(7) The special administrator shall, upon request of the administrator of the insolvency proceedings of the issuer, provide information to the administrator of the insolvency proceedings of the issuer on the amount of the non-settled covered bond claims, the progress of the transfer of the covered bond programme, further alienation or use of cover assets, and any other information necessary for the insolvency proceedings of the issuer.

(8) Insolvency proceedings or liquidation proceedings of the issuer may be completed and settlement of the claims of the creditors of the issuer referred to in Section 76, Paragraph two of this Law and those following them shall be permitted if the covered bond programme is transferred to another issuer or covered bond claims have been settled from the cover assets. If the covered bond programme has not been transferred to another issuer and the covered bond claims have not been settled from the cover assets, they shall be settled in conformity with Section 76, Paragraph two of this Law after the special administrator has submitted information to the administrator of the insolvency proceedings of the issuer on non-settled covered bond claims.

(9) In order for the settlement of the covered bond claims from the cover assets not to protract in case of insolvency of the issuer and the interests of other creditors of the issuer not be affected, the special administrator shall consult with the administrator of the insolvency proceedings of the issuer on the impact of the activity of the special administrator on insolvency proceedings of the issuer. The special administrator shall act without delay and submit non-settled covered bond claims to the administrator of the insolvency proceedings of the issuer in accordance with Paragraphs four and seven of this Section, conforming to the extent possible with the term for the submission of claims of creditors specified in the Credit Institution Law and not exceeding them without a justified reason.

[*22 June 2023*]

**Chapter XVI**

**Characteristics of the Application of the Laws and Regulations Governing Insolvency Proceedings or Liquidation, Resolution or Reorganisation Measures**

**Section 78. Non-Application of Separate Legal Provisions to the Issuer**

(1) The legal acts that restrict, suspend, amend, terminate, or reduce the liabilities of the issuer in the insolvency proceedings or liquidation of the issuer, resolution or reorganisation measures shall not be applicable to the liabilities of the issuer arising from covered bonds.

(2) Any restrictions specified in the legal acts which are applicable to the activities of the issuer in relation to the administration of cover assets shall not be applicable during the insolvency proceedings or liquidation of the issuer or during the application of resolution or reorganisation measures, except for the case specified in Section 71, Paragraphs one and two of this Law.

**Section 79. Insolvency Proceedings of a Covered Bond Company**

(1) The Insolvency Law shall be applicable to a covered bond company insofar as it is not provided for otherwise in this Law.

(2) Legal protection proceedings shall not be applicable to a covered bond company registered in Latvia.

(3) The application for the insolvency of a covered bond company may be submitted to a court and a court may only declare the company insolvent after all covered bond claims have been settled in full.

(4) Transactions involving cover assets entered into by the special administrator may not be contested and recognised as invalid in the insolvency proceedings of a covered bond company.

**Section 80. Cover Assets in the Insolvency Proceedings or Liquidation, Resolution or Reorganisation Measures of an Alienor**

(1) Insolvency proceedings or liquidation, resolution or reorganisation measures of an alienor shall not affect the validity of the disposal agreement and the right of a covered bond company to the cover assets alienated thereto.

(2) Cover assets, including the funds obtained by the alienor in relation to the administration of the alienated cover assets after entry into effect of the disposal agreement shall not be part of the property of the alienor and shall not be used to cover the claims of creditors of the alienor in insolvency proceedings or liquidation, resolution or reorganisation measures.

(3) Insolvency proceedings or liquidation, resolution or reorganisation measures of the alienor shall not affect the obligation of the alienor to transfer the cover assets held by the alienor at the moment of the commencement of the insolvency proceedings or liquidation, resolution or reorganisation measures or received by the alienor after commencement thereof. The administrator of the insolvency proceedings of the alienor shall transfer the cover assets referred to in this Paragraph to a covered bond company upon request of the covered bond company or the special administrator.

**Section 81. Restrictions on Immediate Discharge of Liabilities**

(1) Declaration of the insolvency proceedings or liquidation of the issuer, application of resolution or reorganisation measures shall not form the grounds for immediate discharge of the liabilities of the issuer arising from a covered bond programme.

(2) Legal acts, provisions of a covered bond programme, or terms and conditions of a contract determining immediate discharge of the liabilities of the issuer or covered bond company shall not be applicable to the payment liabilities of the issuer arising from the provisions of the covered bond programme.

(3) Legal acts or terms and conditions of a contract determining immediate discharge of the liabilities of a covered bond company shall not be applicable to the liabilities of the covered bond company towards investors and creditors of covered bonds.

**Section 82. Prohibition of Set-off**

The set-off of claims of the issuer, investors, and creditors of covered bonds is prohibited from the moment when the insolvency proceedings or liquidation of the issuer are declared, or resolution or reorganisation measures are applied.

**Chapter XVII**

**General Provisions for the Implementation of the Cross-border Programme**

**Section 83. Applicability of the Laws and Regulations of Latvia in the Cross-border Programme**

(1) This Law and other legal acts of Latvia shall govern the following issues in the cross-border programme:

1) the protection of non-disclosable information and the personal data processing in conformity with the directly applicable legal acts of the European Union, in respect of the cover assets and collateral which is or was located in Latvia until transfer of assets to a covered bond company of another Member State or an issuer of another Member State;

2) the protection of cover assets located in Latvia against claims of third parties, the imposition of compulsory enforcement, and the prohibition of set-off against claims in respect of cover assets;

3) the provisions for the consent of a debtor and a collateral provider to the alienation of cover assets or the provision of information in the case of alienation of a cover asset, the rights and obligations of a debtor and a collateral provider in relation to the use of cover assets within the scope of a covered bond programme if the relevant cover asset is located in Latvia;

4) segregation of the funds which belong to the cover pool and have been transferred into the account of a credit institution in Latvia from the property of the account holder in the insolvency proceedings of the account holder, except where the account holder is a branch of a credit institution of a Member State in Latvia;

5) other issues in accordance with the Civil Law and other legal acts binding in Latvia.

(2) The provisions of Sections 5 and 19 of this Law for the personal data processing and the transfer of non-disclosable information in the case of the cross-border programme shall also be applicable to the transfer of the relevant information and data to the persons and institutions involved in the implementation or supervision of this programme the rights and obligations of which conform to the rights and obligations of the persons and institutions referred to in Sections 5 and 19 of this Law.

(3) If, according to a covered bond programme authorised (registered) in another Member State, the cross-border programme is implemented in Latvia and the explanation of terms provided in this Law does not conform to that specified in the law of the programme country, the provisions of the law of this country where the relevant covered bond programme has been authorised (registered) shall be applied.

**Section 84. Special Administrators from other Member States**

(1) If the special administrator is required for the implementation of a covered bond programme authorised (registered) in a Member State, his or her powers to carry out activities in Latvia shall be confirmed by a decision of the supervisory authority of the Member State or another confirmation corresponding to the legal acts of the relevant Member State.

(2) The rights and obligations of the special administrator appointed by the supervisory authority of another Member State which he or she may exercise in Latvia shall be determined by the law of a Member State insofar as it is not in contradiction with Section 83 of this Law.

(3) The activities referred to in Paragraph one of this Section in relation to the implementation of a covered bond programme may be carried out by a person authorised by the special administrator if it is provided for in the legal acts of a Member State.

**Section 85. Supervision of the Implementation of a Covered Bond Programme in the Cross-Border Programme**

(1) Latvijas Banka shall have the supervisory functions and powers in the cross-border programme which have been specified in this Law if the implementation of the relevant covered bond programme has been authorised (registered) in Latvia.

(2) The supervisory authority of a covered bond programme of a Member State is entitled to perform the supervisory activities of a covered bond programme in Latvia which have been specified in the legal acts of a Member State in relation to the part of the cover pool located in Latvia under a covered bond programme authorised (registered) in a Member State and a covered bond company registered in Latvia which, in accordance with a covered bond programme authorised (registered) in the relevant Member State, includes cover assets in Latvia or part thereof in the cover pool.

(3) The supervisory authority of a covered bond programme of a Member State shall inform Latvijas Banka of the performance of the planned activities of the covered bond programme in Latvia in the cases referred to in Paragraph two of this Section.

(4) Latvijas Banka and the supervisory authority of the covered bond programme of another Member State shall consult and cooperate on the matters which are related to the supervision of the cross-border programme.

[*22 June 2023*]

**Chapter XVIII**

**Characteristics of the Implementation of the Cross-border Programme in Cases where Cover Assets have been Alienated to a Covered Bond Company of a Member State or the Issuer of a Member State does not Form a Covered Bond Company**

**Section 86. Special Provisions for the Activity of a Covered Bond Company of a Member State in Latvia**

(1) The exceptions to the licensing requirements specified for a covered bond company registered in Latvia in Section 10 of this Law, the provisions for the administration and protection of cover assets, and also other applicable laws and regulations of Latvia, in accordance with that specified in Section 83 of this Law, shall be applicable to the issuer of a Member State or a covered bond company of a Member State when administering the cover assets included in the cover pool which have been registered or the collateral of which is located or has been registered in Latvia.

(2) If secondary insolvency proceedings have been initiated against a covered bond company of a Member State in Latvia in accordance with Regulation (EU) No 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings, the provisions of Section 79 of this Law shall be applied to the covered bond company of a Member State in these proceedings.

**Section 87. Characteristics of the Cross-border Programme without Alienating Cover Assets and without Forming a Covered Bond Company**

(1) An issuer of another Member State may include in the cover pool the assets located in Latvia also if, in accordance with the legal acts of the programme country, the issuer is authorised to conduct segregation of cover assets in the covered bond programme without the alienation of cover assets to the covered bond company.

(2) The inclusion of cover assets in the cover pool of an issuer of another Member State which is carried out by a branch of a credit institution of that issuer in Latvia shall be permitted without forming a covered bond company if the branch of the issuer of the Member State ensures that the transferred assets are administered in Latvia.

(3) An issuer of a Member State which, in the case referred to in Paragraph one of this Section, includes in the cover pool the assets transferred to a Latvian branch of this issuer shall segregate these cover assets in the Latvian branch in accordance with the legal acts of the programme country and other requirements for the segregation of cover assets specified in this Law shall not be applied thereto.

(4) When applying this Law in the case referred to in Paragraph one of this Section, it shall be deemed that the segregation of cover assets is considered equivalent to the alienation of cover assets, including Section 21 of this Law.

(5) In addition to that referred to in Section 16, Paragraph two of this Law, the permit of Latvijas Banka shall not be required also if, in accordance with the legal acts of the programme country, the cover assets are transferred to the special administrator or another person specified in the legal acts of a Member State.

(6) Any liquidation of the cover pool and insolvency proceedings or a similar procedure within the meaning of the legal acts of the programme country shall be conducted in accordance with the legal acts of the abovementioned Member State, irrespective of whether the collateral is located or registered in Latvia. If the legal acts of the programme country provide for liquidation, bankruptcy (within the meaning of the legal acts of a Member State), or similar procedures of the cover pool as a group of things in accordance with the abovementioned legal acts, the relevant proceedings in Latvia shall be considered as the insolvency proceedings of a credit institution of the Member State.

[*22 June 2023*]

**Chapter XIX**

**Alienation of Assets in the Cross-border Programme**

**Section 88. Alienation of Assets to an Issuer of Another Member State or to a Covered Bond Company**

(1) An alienor is entitled to alienate assets to an issuer of another Member State or a covered bond company for inclusion in the cover pool of such covered bond programme which is authorised (registered) in another Member State if the alienated assets may be used as cover assets in accordance with the legal acts of the programme country, the purpose of the transfer of assets has been stated clearly in the disposal agreement, and the permit of Latvijas Banka referred to in the Credit Institution Law has been received for the transfer of credit institution undertakings.

(2) In the cases referred to in Paragraph one of this Section, the alienor shall ensure the following:

1) after alienation the assets are still administrated in Latvia and the alienation of assets does not deteriorate the legal position of debtors and collateral providers in comparison with what it would have been if the assets were alienated to a covered bond company operating in Latvia;

2) documents and other information related to the alienated assets are available upon request to legal entities that are entitled to become acquainted with them in accordance with legal acts.

[*22 June 2023*]

**Section 89. Inclusion of Cover Assets Located in Another Member State in the Cover Pool**

(1) The issuer shall, in accordance with the provisions of a covered bond programme, include in the cover pool the cover assets located in another Member State, including assets transferred to a branch of the issuer’s credit institution located in another Member State if they conform to the cover assets requirements laid down in this Law. Such a covered bond programme shall be implemented in accordance with the provisions laid down in this Law, taking into account the provisions of Paragraphs two and three of this Section.

(2) If the provisions of a covered bond programme provide for the inclusion of the cover assets located in another Member State in the cover pool, the issuer shall, prior to including the cover assets in the cover pool, ascertain whether the legal acts of the Member State:

1) do not prohibit the inclusion of these cover assets in the cover pool in a covered bond programme outside the Member State;

2) ensure the protection of the rights of cover assets, investors, and creditors of covered bonds to cover assets which is equivalent to the protection of cover assets specified in this Law;

3) do not provide for a framework impeding or restricting performance of the functions of the cover pool monitor specified in this Law.

(3) Latvijas Banka may, upon request of the issuer, including in order to prevent a disproportionate administrative burden on the issuer, allow to include in the cover pool the cover assets located in another Member State which meet the quality requirements for the cover assets of the cover pool laid down in Chapter X of this Law, irrespective of whether procedures different from those laid down in the laws and regulations of Latvia, but which do not cause damage to the interests of investors and creditors of covered bonds, are laid down in the Member State for the valuation, supervision of cover assets, or any other procedural activities related to the cover assets.

[*22 June 2023*]

**Chapter XX**

**Issue of Covered Bonds in a Credit Institution Group**

**Section 90. Use of Covered Bonds as Cover Assets**

(1) A credit institution which is registered in Latvia, has received the licence (permit) for the activities of a credit institution and belongs to a credit institution group is entitled, in accordance with this Law, to issue covered bonds for sale within the group (hereinafter – the covered bonds issued internally) so that another credit institution belonging to this group could use these bonds as cover assets if it is thus provided for in the legal acts of the programme country and the covered bond programme authorised (registered) in that Member State.

(2) A credit institution which is registered in Latvia, has received the licence (permit) for the activities of a credit institution and belongs to a credit institution group may not use the covered bonds issued internally in the group of another credit institution of this group as cover assets for the implementation of a covered bond programme authorised (registered) in Latvia.

**Section 91. Requirements for Cover Assets**

(1) The covered bonds issued internally in the group shall, at the moment of issue, correspond to the credit quality step 1, as referred to in Part Three, Title II, Chapter 2 of Regulation No 575/2013, and the cover assets of the covered bonds shall conform to Sections 47, 48, and 49 of this Law. If, in the event of deterioration in the credit quality, the covered bonds henceforth correspond to the credit quality step 2 in accordance with Regulation No 575/2013, Latvijas Banka may allow that these covered bonds continue to be part of the covered bonds included in the cover pool of the credit institution group in case when the deterioration in the credit quality step is not related to a violation of the requirements to be met in order to receive the permit referred to in Section 37 of this Law.

(2) Latvijas Banka shall inform the European Banking Authority of the decisions taken in accordance with Paragraph one of this Section.

[*22 June 2023*]

**Chapter XXI**

**Supervision**

**Section 92. General Provisions of Supervision**

(1) Latvijas Banka shall supervise the implementation of a covered bond programme, including monitor the issue of covered bonds by verifying and assessing the compliance with the requirements laid down in this Law.

(2) In the supervision process, before taking the decisions provided for in this Law, Latvijas Banka shall also assess the potential impact of the relevant decisions on the stability of the financial system of Latvia and other Member States.

(3) Latvijas Banka has the obligation, without delay, to take supervisory measures in accordance with this Law in order to prevent deficiencies in the activities of an issuer, an alienor, and a covered bond company which endanger or could endanger the stability of the financial system or could cause significant losses to the economy of the whole country.

[*22 June 2023*]

**Section 93. Payments to Latvijas Banka**

(1) The issuer shall provide in the provisions of a covered bond programme that the covered bond company shall make payments to Latvijas Banka.

(2) The covered bond company shall make payments to Latvijas Banka in the amount of up to 0.001 per cent per year of the nominal value of the covered bonds issued, but not less than EUR 5000 per year.

[*22 June 2023*]

**Section 94. Functions of Latvijas Banka**

Latvijas Banka shall perform the following functions:

1) before taking the decision to issue the permit for the implementation of a covered bond programme, verify that the issuer has introduced adequate and effective operating procedures, that the issuer has ensured that the covered bond programme is implemented by competent persons, that the restrictions referred to in Section 11, Paragraph one of this Law and applicable to a covered bond company and the conditions specified for the issuer in Section 37, Paragraph one of this Law have been complied with;

2) supervise whether the cover assets conform to the eligibility and asset valuation criteria specified in this Law;

3) supervise whether the cover assets are sufficient according to the coverage requirements;

4) assess the candidate for the office of cover pool monitor and, in the cases specified in this Law, instruct the issuer to remove the cover pool monitor;

5) appoint the special administrator in accordance with Section 64 of this Law and remove the special administrator in the cases specified in Section 75 of this Law;

6) perform any other functions specified in this Law, the Law on Latvijas Banka, and other legal acts.

[*22 June 2023*]

**Section 95. Rights of Latvijas Banka**

In addition to the rights specified for Latvijas Banka in the Law on Latvijas Banka and other legal acts, Latvijas Banka is entitled to take the following actions in the supervision of the implementation of a covered bond programme:

1) to request that violations of legal acts and operational deficiencies be eliminated, including the preparation and implementation of plans for the elimination of the consequences of such violations or deficiencies within the term set by Latvijas Banka;

11) to request a review of the continuity plan for the implementation of the covered bond programme or other policies, procedures, and methodologies;

2) to request the issuer, the covered bond company, and the cover pool monitor, and also any other persons related to the implementation of the covered bond programme to provide information, including restricted access information, which is necessary for the performance of the supervisory functions specified in this Law;

3) to carry out on-site and remote inspections;

4) to inform the issuer or the covered bond company of the need to take measures for the liquidation of the covered bond company if the covered bond programme has been fulfilled, the existence thereof is no longer necessary, and the issuer has not liquidated it itself.

[*22 June 2023*]

**Section 96. Cooperation Between the Supervisory Institutions of Member States**

(1) In order to ensure supervision of such issuers which implement a covered bond programme, Latvijas Banka shall cooperate with the supervisory institutions and resolution institutions of the relevant Member State if the resolution is applied to the credit institution issuing covered bonds, and also shall provide to and receive from those institutions the information necessary for the supervision. Latvijas Banka may disclose the following within the scope of this cooperation:

1) information on the basis of a request from the supervisory institution of a Member State;

2) information relevant to the supervisory institution of a Member State on its own initiative. Within the meaning of this Section, information shall be considered essential if it could affect the protection of investors in relation to the issue of covered bonds in another Member State.

(2) Latvijas Banka may enter into contracts with the supervisory institutions of Member States on cooperation and exchange of information.

(3) Latvijas Banka is entitled to inform the European Banking Authority if the supervisory institution of another Member State does not cooperate or, upon justified request of Latvijas Banka, does not provide information or does not provide it within a reasonable term.

[*22 June 2023*]

**Section 97. Information on Covered Bonds to be Published on the Website of Latvijas Banka**

In addition to the obligation referred to in Section 39, Paragraph one of this Law, Latvijas Banka shall publish the following information on its website:

1) on the legal acts in the field of covered bonds and also, in accordance with Section 103 of this Law, information on the administrative acts which have been issued in accordance with this Law;

2) a list of the issuers and covered bond programmes which are permitted to use the term “European covered bond”.

[*22 June 2023*]

**Section 98. Informing of the European Banking Authority**

Latvijas Banka shall, on an annual basis, submit to the European Banking Authority a list of the credit institutions and covered bond programmes included in the list of issuers and covered bond programmes.

[*22 June 2023*]

**Section 99. Reporting on Potential and Actual Violations**

(1) Any person may report to Latvijas Banka on potential and actual violations of this Law, the regulations of Latvijas Banka issued on the basis of this Law, and also Regulation No 575/2013.

(2) Latvijas Banka shall create and maintain a safe reporting system which includes at least the following elements:

1) the procedures for the receipt of reports on violations;

2) personal data protection of such person who is reporting on the violation and also personal data protection of such natural person who is allegedly responsible for committing the violation;

3) safeguarding the confidentiality of the person who is reporting on the violation, except when the disclosure of such information is provided for in the laws and regulations of the Republic of Latvia.

(3) The procedures for reporting on potential and actual violations of this Law, the regulations of Latvijas Banka issued on the basis of this Law, and also Regulation No 575/2013 and the procedures for processing the reports received by Latvijas Banka shall be determined in the regulations of Latvijas Banka.

(4) Reporting which, in accordance with Paragraphs one and five of this Section, may be conducted by the employees of the issuer, alienor, and covered bond company shall not be considered as the violation of the prohibition to disclose information specified in the contract and any legal act, and the person may not be held liable for such reporting. Discriminatory or other unfair activities may not, due to such reporting, be directed against the employees of the issuer, alienor, and covered bond company who report on potential and actual violations.

(5) The issuer, alienor, and covered bond company shall develop a procedure according to which an independent and special internal channel for reporting a violation shall be established and shall ensure that employees of the issuer, alienor, and covered bond company can report on possible and actual violations of this Law, the regulations of Latvijas Banka issued on the basis of this Law, and also Regulation No 575/2013. The procedure developed by the issuer, alienor, and covered bond company for the establishment of an internal channel for reporting a violation shall ensure conformity with the requirements of Paragraph two, Clauses 2 and 3, and also Paragraph four of this Section.

[*22 June 2023*]

**Chapter XXII**

**Liability**

**Section 100. Sanctions and Administrative Measures Imposed by Latvijas Banka**

(1) Latvijas Banka may impose the following sanctions for the violations referred to in Section 101 of this Law:

1) to revoke the permit for the implementation of a covered bond programme;

2) to make a public statement, indicating the person responsible for the violation and the nature of the violation;

3) to issue a warning for operational deficiencies and violations;

4) to impose the fine specified in Section 102 of this Law;

5) [22 June 2023];

6) to impose on the issuer or a covered bond company the obligation to recall or remove a member of the supervisory board or executive board of the covered bond company, the cover pool monitor, and also any other person whose duties include the implementation of a covered bond programme and activities related to cover assets.

(2) Latvijas Banka may impose the following administrative measures for the violations referred to in Section 101 of this Law:

1) to request the natural or legal person responsible for the violation to cease the relevant activity;

2) to impose on the issuer, a member of the supervisory board or executive board of the covered bond company, or another natural person responsible for the violation a temporary prohibition to perform his or her official duties until the day when the final ruling enters into effect, but not longer than for two years.

(3) When taking the decision to impose sanctions and administrative measures on persons who have violated the laws and regulations governing the financial market, and on the amount of a fine, Latvijas Banka shall take into account the circumstances specified in the Law on Latvijas Banka and also the measures taken by the person to prevent the recurrence of the violation and to mitigate the possible systemic consequences of the violation and the extent of the damage caused to third parties thereby, and also assess the proportionality, effectiveness, and deterrent nature of the sanctions and administrative measures to be imposed.

[*22 June 2023*]

**Section 101. Imposition of Sanctions and Administrative Measures**

Latvijas Banka may impose the sanctions and supervisory measures specified in Section 100 of this Law for the violations of Articles 129 and 178 and Title II, Chapter 2 of Regulation No 575/2013 or of the regulations of Latvijas Banka issued on the basis of Section 28, Paragraph four, Section 36, Paragraph four, Section 41, Paragraph two, Section 44, Paragraph two, Section 65, Paragraph two, and Section 99, Paragraph three of this Law, including for the following violations:

1) the credit institution issues covered bonds without receiving the permit for the implementation of a covered bond programme;

2) the credit institution has received the permit for the implementation of a covered bond programme by providing false information or using other illegal means;

3) the issuer issues such covered bonds which do not ensure conformity with the rights of investors and creditors of covered bonds in the insolvency proceedings of the issuer or in the resolution of the issuer;

4) the issuer issues such covered bonds in respect of which the requirements applicable to the cover assets, including the requirements for the list of cover assets, have not been complied with;

5) the issuer issues such covered bonds which are secured by assets located outside the Member State;

6) the credit institution group issues the covered bonds issued internally, violating the requirements for the use of cover assets in the credit institution group;

7) the issuer or covered bond company fails to ensure the conformity of the cover pool to the requirements of this Law;

8) the issuer or covered bond company fails to comply with the requirements for the use of derivative contracts;

9) the issuer or covered bond company fails to ensure the requirements for the segregation of cover assets;

10) the issuer or covered bond company violates the information disclosure requirements or fails to provide complete or accurate information to Latvijas Banka, including on the liabilities of the issuer, and also to the cover pool monitor or the special administrator;

11) the issuer or covered bond company fails to maintain liquidity buffers of the cover pool on a long-term basis;

12) the issuer which issues covered bonds by applying extendable maturity structures or the covered bond company has failed to comply with the conditions for the extendable maturity structures;

13) the issuer violates the information disclosure requirements or fails to provide complete or accurate information to the investor;

14) the issuer, alienor, or covered bond company fails to comply with the requirements for reporting on potential and actual violations;

15) violations of Article 129 of Regulation No 575/2013 in relation to exposures in the form of covered bonds;

(16) the default of a debtor laid down in Article 178 of Regulation No 575/2013.

[*22 June 2023*]

**Section 102. Fine**

1) For the violations referred to in Section 101, Clauses 1, 2, 4, 6, 7, 9, 10, 11, 12, 13, 15, and 16 of this Law, Latvijas Banka is entitled to impose on a legal person a fine of up to 10 per cent of the sum of net income of the previous financial year which conforms to the sum which, in accordance with Regulation No 575/2013, is used in order to calculate the own funds requirements for operational risk according to the basic indicator approach.

(2) A fine of up to 10 per cent of the annual income may be imposed for the violations referred to in Paragraph one of this Section also on such natural person who is responsible for committing the violation and is a member of a management body of the issuer or covered bond company or an employee thereof at the moment of committing the violation.

(3) The imposition of the sanctions referred to in Paragraph one of this Section on a legal person shall not release members of the supervisory board or executive board and the natural persons responsible for committing violations from civil, administrative, and criminal liability provided for in laws and regulations.

[*22 June 2023*]

**Section 102.1 Statute of Limitation**

(1) Latvijas Banka is entitled to initiate proceedings not later than within five years from the day of committing the violation but in case of a continuous offence – from the day of terminating the violation.

(2) The calculation of the statute of limitation specified in Paragraph one of this Section shall be stopped from the day when the proceedings have been initiated.

(3) Latvijas Banka may take the decision on the imposition of the sanctions and administrative measures specified in this Law within two years from the day when the proceedings have been initiated.

(4) Latvijas Banka shall terminate the proceedings if the decision on the imposition of sanctions and administrative measures provided for in this Law has not been taken within the term specified in Paragraph three of this Section.

[*22 June 2023*]

**Section 103. Publication of the Sanctions and Administrative Measures Imposed**

(1) Latvijas Banka shall publish on its website information on the sanctions and administrative measures imposed on persons, indicating information on the person (for a natural person – the given name, surname; for a legal person – the name and registration number), the violation committed thereby (the type, the imposed sanction, administrative measure, the date of entry into effect of the decision), and also the information on the appeal against the administrative act issued by Latvijas Banka and the given court ruling. The information shall be published without delay after the addressee has been informed of the sanctions and administrative measures imposed.

(2) Latvijas Banka may publish the information referred to in Paragraph one of this Section without identifying the person if, after prior assessment, it has been ascertained that the disclosure of the data of the natural person on whom a sanction or an administrative measure has been imposed is not commensurate or that the disclosure of the data of the natural or legal person may jeopardise the stability of the financial market or the course of initiated criminal proceedings, or cause incommensurate damage to the persons concerned.

(3) If it is expected that the circumstances referred to in Paragraph two of this Section may cease to exist within a reasonable period, the publication of the information referred to in Paragraph one of this Section may be delayed for this period.

(4) The information published in accordance with the procedures laid down in this Section shall be available on the website of Latvijas Banka for at least five years from the date of the publication of information. The personal data contained in the publication shall be kept on the website only for as long as necessary, but for no longer than five years.

(5) Latvijas Banka shall inform the European Banking Authority of the sanctions and administrative measures imposed on persons.

(6) Latvijas Banka has the right, in accordance with the procedures laid down in Paragraph one of this Section, to publish information on other decisions which it has taken in accordance with this Law if such decisions may affect the interests of investors and creditors of covered bonds but do not pose a threat to the stability of the issuer, the alienor, the covered bond company, or the financial market.

[*22 June 2023*]

**Section 104. Appeal of an Administrative Act Issued by Latvijas Banka**

(1) When appealing an administrative act issued by Latvijas Banka, the application shall be submitted to the Regional Administrative Court. The court shall examine the case as the court of first instance. The case shall be examined in the composition of three judges. The judgement of the Regional Administrative Court may be appealed by filing a cassation complaint.

(2) The appeal of the administrative act referred to in Paragraph one of this Section, except for an administrative act on the imposition of a fine, shall not suspend the operation of this act.

[*22 June 2023*]

**Transitional Provisions**

1. With the coming into force of this Law, the Law on Mortgage Bonds (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs,* 1998, No. 21; 2000, No. 13, 2001, No. 16; 2002, No. 22; 2006, No. 21) is repealed.

2. Section 21, Paragraph two of this Law shall also apply to an agreement between a debtor and an issuer which has been entered into prior to the day of coming into force of this Law.

**Informative Reference to European Union Directives**

The Law contains legal norms arising from Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU.

The Law has been adopted by the *Saeima* on 27 May 2021.

President E. Levits

Adopted 9 June 2021