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

1 June 2000 [shall come into force from 4 July 2000];

24 October 2002 [shall come into force from 27 November 2002];

18 March 2004 [shall come into force from 1 May 2004];

8 March 2007 [shall come into force from 10 April 2007];

29 May 2008 [shall come into force from 1 July 2008];

19 June 2008 [shall come into force from 23 July 2008];

23 October 2008 [shall come into force from 1 January 2009];

11 March 2010 [shall come into force from 14 April 2010];

13 October 2011 [shall come into force from 16 November 2011];

9 July 2013 [shall come into force from 7 August 2013];

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

4 February 2016 [shall come into force from 29 February 2016];

30 March 2017 [shall come into force from 26 April 2017];

26 October 2017 [shall come into force from 9 November 2017];

25 October 2018 [shall come into force from 28 November 2018];

20 June 2019 [shall come into force from 16 July 2019].

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:

**On Investment Management Companies**

[*18 March 2004*]

**Chapter I. General Provisions**

**Section 1. Terms Used in this Law**

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

1) **fund investor** – a person who owns an investment certificate of the investment fund;

2) **fund property** – assets the aggregate of which forms an investment fund;

3) **investment certificate** – a transferable security certifying participation of a fund investor in an investment fund or in a sub-fund and the rights arising from such participation;

4) **investment fund** (hereinafter also – the fund) – aggregate of assets formed by investments made in return for investment certificates, and also assets obtained in transactions with investment fund property;

5) **investment object** – transferable securities, money market instruments, deposit in a credit institution, and other financial instruments which, in accordance with the provisions of this Law, an investment management company is entitled to purchase for the fund property;

6) **company officials** – board members of an investment management company, investment fund managers, and also other persons who are authorised to issue orders in respect of the fund property or to dispose of them on behalf of this company;

7) **stakeholders of the company** – council members, officials, shareholders of an investment company who own 10 and more per cent of the voting shares of the company, and also spouses, parents, or children of all natural persons referred to in this Clause;

8) **risk spreading principle** – reduction of the financial losses risk by dividing the investment fund property into investment objects and complying with transaction restrictions, and also preserving the possibility to gain the largest expected income;

9) **custodian bank** – a person who keeps the fund assets, performs registration thereof, transactions with fund monetary assets and other duties specified in this Law and the custodian bank agreement;

10) **stakeholders** **of the custodian bank** – members of the council and board, shareholders of a custodian bank who own 10 and more per cent of the voting shares of the custodian bank, and also spouses, parents, or children of all natural persons referred to in this Clause;

11) **transferable securities** – capital securities (shares and other capital securities which certify participation in the issuer’s capital); bonds and other debt securities; other securities, the alienation rights of which are not restricted and with the attaching rights to acquire the transferrable securities referred to by means of subscription or exchange;

12) **money market instruments** – liquid debt liabilities which may be precisely assessed at any time and which are normally traded on the money market;

13) [30 March 2017];

14) **financial derivative instruments** – financial instruments the value of which changes depending on the fixed interest rate, price of securities, foreign exchange rate, price and rate index, credit rating or changes of similar variable value and under influence of which one or several financial risks, characteristic to the primary financial instrument which is at the basis of the financial derivative instrument, are transferred between the persons involved in the transaction. In order to acquire a financial derivative instrument no primary investment is required or a small primary investment is required if compared with other agreements which in a similar manner depend on the changes of market conditions, moreover, settlements connected with the performance of the agreement take place in the future;

15) **management services** – management of investment funds, management of the assets of the State funded pension schemes and the assets of the pension plans established by private pension funds;

16) **home state of the management company** – country in which the investment management company is registered (in which the management company has its registered office);

17) **host state of the management company** – country within the territory of which a management company has a branch or within the territory of which the management company provides management services;

18) **control** – control of a person over the commercial company, if:

a) such person has a decisive influence on the basis of a contract on the participation or the group of companies in accordance with the laws and regulations governing groups of companies;

b) the relationship analogous to the relationship referred to in Sub-clause “a” of this Clause exists between the person and the commercial company;

19) **parent company** – a commercial company controlling another commercial company;

20) **subsidiary company** – a commercial company which is controlled by another commercial company;

21) **close links** – a mutual link of two or more persons:

a) in the form of a participation – direct participation, comprising 20 per cent and more of the voting rights and the equity capital, or the control over the voting rights or the equity capital of such volume,

b) by control,

c) with one and the same person in the form of control;

22) **sub-fund** – separated part of the investment fund property which is comprised of the investments made against the investment certificates, and also the assets obtained in transactions with this property and on the basis of the rights to this property;

23) [9 July 2013];

24) **Group of Ten** – countries that have agreed to participate in the General Arrangements to Borrow with the International Monetary Fund;

25) **qualifying holding** – a holding acquired directly or indirectly by a person or several persons acting in concerted action on the basis of the agreement, which comprises 10 per cent and more of the equity capital or the number of voting shares of a commercial company or which makes it possible to exercise a significant influence over the determination of the financial and operational policy of the commercial company;

26) **critical situation analysis** – analysis which is carried out by the investment management company in order to identify and assess the potential influence of various extraordinary, but potential influence of possibly adverse events or changes of market conditions to the investment plan portfolio of assets of the state funded pension scheme;

27) **cross-border management of the fund** – a management service which is provided in a state which is not the home state of the fund management company;

28) **Member State** – a European Union Member State or a state of the European Economic Area;

29) **home state of the fund** – the country where the fund is registered;

30) **host state of the fund** – the country which is not the home state of the fund, but in the territory of which the public circulation of the investment certificates of this fund is allowed;

31) **branch** – territorially or otherwise separated structural unit of the investment management company which has no legal personality and which provides the management services, which this investment management company is entitled to provide in compliance with the license issued to the competent authority of the Member State;

32) **fund merger** – the aggregate of the legal actions as a result whereof:

a) the merging fund – one or several funds or a sub-fund – is merged to the receiving company – other existing fund or a sub-fund. The merging fund transfers all of its assets and liabilities to the receiving fund and ceases to exist without liquidation procedure. The investors of the merging fund in exchange to investment certificates of the merging fund receive the investment certificates of the merging fund and a cash payment which does not exceed 10 per cent of the net asset value of those investment certificates;

b) the merging fund – one or several funds or a sub-fund which, by ceasing to exist without the liquidation procedure, transfer all of their assets and liabilities to the receiving fund – newly founded fund or a sub-fund. The investors of the merging fund in exchange of their investment certificates receive the investment certificates of the receiving fund and a cash payment which does not exceed 10 per cent of the net asset value of those investment certificates;

c) the merging fund – one or several funds or a sub-fund which continues to exist until the liabilities have been discharged, transfers all of its assets to the receiving fund – the sub-fund of the same fund, newly founded fund, or another existing fund or the sub-fund thereof;

33) **cross-border merger of funds** – the merger of such funds:

a) at least two of which are registered in different Member States;

b) which are registered in one Member State and which are merged into one newly founded fund, registered in another Member State;

34) **domestic merger of funds** – merger of two or more investment funds registered in Latvia;

35) **durable medium** – any instrument that enables an investor to store information addressed personally to him/her so, as to ensure the availability and use of information in an unchanged form for the period of time necessary to provide that information;

36) **transactions of master and feeder structures** – mutual structure transactions of the master and feeder fund, performed between two investment funds as a result whereof the feeder fund invests at least 85 per cent of its assets into the master fund;

37) **feeder fund** – the investment fund or the sub-fund thereof which has received the permit for performance of master and feeder structure transaction and which, notwithstanding the limitations of the investments into investment funds specified in this Law, is entitled to invest at least 85 per cent of its assets into another investment fund or sub-fund;

38) **master fund** – the investment fund or the sub-fund thereof the investor of which is another investment fund that has invested at least 85 per cent of its assets into this fund or the sub-fund;

39) **a person associated to the company** – an official of the company, employee of the company, and also another natural person involved in the provision of those management services which are provided by the company, and the actions whereof are controlled by the company, or a natural person who is directly involved in the provision of a delegated service to a company which provides the management services;

40) **client** – investment fund, alternative investment fund, investment plan of the assets of the state funded pension schemes, pension plan established by the private pension funds receiving the management services provided by the investment management company, or a person receiving the investment services provided by the investment management company referred to in Section 5, Paragraphs two and three of this Law.

41) **investment management company** (hereinafter also – the management company or company) – a commercial company the core activity of which is investment fund management or management of State funded pension scheme assets;

42) **money market fund** – an investment fund to which the requirements laid down by Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds (Text with EEA relevance) (hereinafter – Regulation No 2017/1131) shall be applicable.

(2) The term “financial instruments” used in this Law shall mean the financial instruments to which the Financial Instrument Market Law is applicable.

[*1 June 2000; 24 October 2002; 18 March 2004; 8 March 2007; 19 June 2008; 11 March 2010; 13 October 2011; 9 July 2013; 30 March 2017; 25 October 2018*]

**Section 2. Purpose of this Law**

The purpose of this Law is to prescribe the legal status of investment management companies and investment funds, the rights, obligations, and responsibility thereof, the procedures for the foundation and operating principles thereof, to govern the requirements for the investment fund management and performance of investments, and also the supervision of conformity with laws and regulations.

[*9 July 2013*]

**Section 3. Activities Governed by the Law**

(1) This Law governs the procedures for the public attraction of monetary assets in Latvia and for the performance of collective investment thereof on behalf of the attractor.

(2) Investment of monetary assets acquired in accordance with the procedures provided for in Paragraph one of this Section shall only be permitted in the investment objects specified in this Law.

(3) The activities referred to in Paragraph one of this Section may only be performed by:

1) a commercial company registered in Latvia which in accordance with the procedures specified in this Law has received the licence for provision of management services;

2) an investment management company licensed in the Member State in accordance with the procedures laid down in Section 77 of this Law.

[*1 June 2000; 18 March 2004; 13 October 2011*]

**Chapter II. Investment Management Company**

[*18 March 2004*]

**Section 4. Taking Up of a Business of Investment Management Company**

(1) An investment management company in Latvia shall be established in the form of a joint stock company. The investment management company shall operate in accordance with this Law, the Commercial Law, other laws and regulations, and the articles of association thereof.

(11) The company shall be considered to be the financial and capital market participant within the meaning of the Law on the Financial and Capital Market Commission, and it shall be subject to the norms of the Law on the Financial and Capital Market Commission.

(2) The company shall have registered shares only.

(3) The company is entitled to commence provision of management services only after the Financial and Capital Market Commission (hereinafter – the Commission) in accordance with the procedures laid down in this Law has issued the licence thereto for the provision of the management services (hereinafter – the licence).

(4) The licence shall specify those management services which the company is entitled to provide in accordance with Section 5 of this Law.

(5) The Commission shall issue the licence for unlimited time period.

(6) The Commission shall ensure that the laws and regulations governing the activities of the company and of the investment fund are available on the website thereof.

[*13 October 2011; 30 March 2017*]

**Section 5. Types of Activities of the Company**

(1) The core activity of a company shall be the management of the investment funds and the management of the assets of the State funded pension scheme. The activity of the company in respect of managing the assets of the State funded pension scheme shall be governed also by the Law on State Funded Pensions. Management of investment funds shall include the following services:

1) managing the fund investments;

2) administrative management of the fund, comprised of the following activities:

a) arrangement of legal affairs and accounting of the fund;

b) provision of information upon request of the fund investors or other clients of the company;

c) determination of the fund value and the price of investment certificates;

d) supervision of conformity with the requirements governing the operation of the fund;

e) fund income distribution;

f) issuance and repurchase of insurance certificates;

g) settlement of payment for contractual liabilities;

h) maintenance of accounting of transactions related to fund assets;

i) maintenance of the register of holders of the fund investment certificates;

3) marketing of the fund (advertising, distribution of investment certificates, market research and other similar services).

(2) In addition to the management of investment funds, a company may carry out individual management of the financial instrument portfolio of the investor according to the authorisation of the investor, if such portfolio is comprised of one or several financial instruments referred to in Section 3, Paragraph two of the Law on the Financial and Capital Market Commission.

(3) A company which in accordance with the procedures laid down in this Law has been issued a licence for the provision of the services referred to in Paragraph two of this Section may provide advice concerning investments into financial instruments referred to in Section 3, Paragraph two of the Law on the Financial and Capital Market Commission and perform the custody and administration of investment certificates of the investment funds.

(4) A company may not provide solely the services referred to in Paragraph two of this Section, and also the non-core services referred to in Paragraph three of this Section, if in accordance with this Law it is not entitled to provide the services referred to in Paragraph two of this Section.

(5) In addition to the activities referred to in the first sentence of Paragraph one of this Section, a company may carry out the management of the assets of the pension plans established by private pension funds in accordance with the law On Private Pension Funds and the management of alternative investment funds in accordance with the Law on Alternative Investment Funds and Managers Thereof.

(6) A company is not entitled to provide management services in a Member State in accordance with the procedures laid down in Section 76 of this Law, if it has chosen solely the management of the assets of the State funded pension scheme as its core activity.

(7) A company is not entitled to provide services not referred to in this Section.

[*19 June 2008; 11 March 2010; 13 October 2011; 9 July 2013*]

**Section 6. Location and Firm Name of a Company**

(1) The board of a company (seat of a company) registered in Latvia shall be located in Latvia.

(2) The firm name of a company shall contain a word combination “*ieguldījumu pārvaldes sabiedrība*” [investment management company] or its abbreviation “*IPS*”.

(3) Commercial companies which do not perform the activity provided for in this Law may not use in their firm name any additions which are directly or indirectly indicative of a company.

**Section 7. Requirements to the Shareholders of a Company**

(1) A shareholder of a company may be only a person:

1) whose identity can be verified;

2) who has an impeccable reputation;

3) whose financial standing is sound and it can be documentary proved.

(2) When assessing the repute and the financial standing of a person, the Commission shall verify the identity and criminal record of the persons referred to in Paragraph one of this Section, and the documents on their financial standing that allow to ascertain free capital adequacy in the amount of investments made in the capital of a company, and also whether the invested assets have not been obtained as a result of unusual or suspicious transactions.

(3) A natural person and the shareholders and owners (actual beneficiaries) of a legal person to whom the restrictions specified in Section 9, Paragraph three, Clauses 1, 2, 3, and 5 of this Law may apply may not be the shareholders of a company.

(4) The Commission has the right to verify the identity of a company’s shareholders but, where the shareholders of a company are legal persons, information on their shareholders and owners (actual beneficiaries) until information is obtained on the owners (actual beneficiaries) who are natural persons. The abovementioned persons have an obligation to provide such information to the Commission if it is not available on the public registers from which the Commission is entitled to receive such information.

[*11 March 2010*]

**Section 7.1 Acquisition, Reduction, and Termination of a Qualifying Holding**

(1) A person who meets the requirements determined for the shareholders of a company, and also ensures the fulfilment of the criteria laid down in Paragraph seven of this Section may acquire a qualifying holding in a company.

(2) A person who intends to acquire a qualifying holding in a company shall notify the Commission thereof in writing in advance. The notification shall indicate the amount of the holding to be acquired as a percentage of the company’s equity capital or number of voting shares. The notification shall be appended by information provided for in the statutory regulations of the Commission, necessary to assess the person’s compliance with the criteria specified in Paragraph seven of this Section. The list of information to be appended to the notification shall be published on the website of the Commission.

(3) The Commission has the right to request information on the persons who intend to acquire a qualifying holding (the persons having acquired a qualifying holding or suspected of acquiring a qualifying holding), including on the owners (actual beneficiaries) of legal (registered) persons who are natural persons in order to assess the compliance of such persons with the criteria specified in Paragraph seven of this Section.

(4) If a person intends to increase qualifying holding thereof, reaching or exceeding 20, 33, or 50 per cent of the company’s equity capital or number of voting shares, or if a company becomes a subsidiary of such person, the relevant person shall notify the Commission thereof in writing in advance. The notification shall indicate the amount of the holding to be acquired as a percentage of the company’s equity capital or number of voting shares. The notification shall be appended by information provided for in the statutory regulations of the Commission, necessary to assess the person’s compliance with the criteria specified in Paragraph seven of this Section. The list of information to be appended to the notification shall be published on the website of the Commission.

(5) Within two working days after the day of receipt of the notification referred to in Paragraph two or four of this Section or within two working days after receiving the additional information requested by the Commission, the Commission shall notify the person in writing regarding receipt of the notification or of additional information and regarding the final date of the assessment period.

(6) During the assessment period specified in Paragraph seven of this Section, but not later than on the fiftieth working day of the assessment period, the Commission has the right to request additional information on the persons referred to in this Section in order to assess compliance of such persons with the criteria laid down in Paragraph seven of this Section.

(7) Not later than within 60 working days from the day when the information referred to in Paragraph five of this Section on receipt of the notification has been sent to the person, the Commission shall assess the free capital adequacy of a person, soundness and financial feasibility of the planned acquisition of a holding in order to ensure sound and prudent management of the company in which the holding is planned to be acquired and consider the possible influence of such person on the management and activities of the company, and also the following criteria:

1) the good repute of the person and compliance with the requirements laid down for the shareholders of the company;

2) the good repute and the experience of the person who, as a result of the planned acquisition of a holding, will manage the activities of the company;

3) the financial soundness of the person, in particular in relation to the type of the economic activity pursued or intended in the company in which the holding is planned to be acquired;

4) whether the company will be able to comply and will in future comply with the regulatory requirements laid down in this Law and in other laws and regulations and whether the group of its commercial companies within the composition of which the company will join has a structure that does not restrict the Commission’s possibilities to exercise the supervisory functions vested to it by law, to ensure an efficient exchange of information among competent authorities of a company and to determine the allocation of supervisory responsibilities among the competent authorities of a company;

5) whether there are reasonable suspicions that, in connection with the planned acquisition of a holding, money laundering or terrorist financing has been committed or it is attempted to commit such activities or that the planned acquisition of a holding could increase such risk.

(8) When requesting additional information referred to in Paragraph six of this Section, the Commission has the right to interrupt the assessment period once until the day when such information is received, but not more than for 20 working days. The Commission has the right to extend the interruption of the assessment period for up to 30 working days, if a person who intends to acquire, has acquired, intended to increase, or has increased a qualifying holding thereof in a company is not subject to the supervision of the activities of insurance companies, reinsurance companies, credit institutions, investment management companies, managers of alternative investment funds or investment brokerage firms, or if the place of domicile (registration) of such person is not in a Member State. If the Commission has interrupted assessment period of 60 working days, the period of interruption shall not be included in the assessment period.

(9) Within the time period referred to in Paragraph seven of this Section, the Commission shall take a decision on prohibiting the person from acquiring or increasing a qualifying holding in a company, if:

1) the person fails to meet the criteria specified in Paragraph seven of this Section;

2) the person does not submit or refuses to submit to the Commission the information specified in this Law or the additional information requested by the Commission;

3) due to circumstances beyond the control of the person, he or she is unable to provide the information specified in this Law or the additional information requested by the Commission.

(10) Within two working days from the taking of the decision referred to in Paragraph nine of this Section, but not exceeding the assessment period referred to in Paragraph seven of this Section, the Commission shall send that decision to the person who has been prohibited from acquiring or increasing a qualifying holding in a company.

(11) If the Commission, within the time period referred to in Paragraph seven of this Section, fails to send to the person a motivated decision by which it prohibits the person from acquiring or increasing a qualifying holding in a company, the Commission shall be deemed to have agreed that the person acquires or increases a qualifying holding in a company.

(12) The provisions of Paragraph seven, Clause 3 of this Section shall not apply to a legal person if the shares thereof are listed on the regulated market in Latvia or in another Member State or on the regulated market of a market maker who is a lawful member of the International Federation of Bourses, and that legal person provides to the Commission information on the shareholders thereof having a qualifying holding therein.

(13) If the Commission has agreed that a person acquires or increases a qualifying holding in a company, such person shall acquire or increase the qualifying holding in the company not later than within six months after the date of sending of a written confirmation referred to in Paragraph five of this Section on receipt of the notification or of the additional information. If, until expiry of this time period, the person fails to acquire or increase a qualifying holding in a company, the Commission’s consent for acquiring or increasing a qualifying holding in the company is no longer effective. Upon motivated request of the person in writing, the Commission has the right to decide on extending the abovementioned time period.

(14) Upon assessing the notifications referred to in Paragraphs two and four of this Section, the Commission shall consult the competent authorities of the relevant Member State, if a qualifying holding is acquired by an insurer, a reinsurer of a Member State, a credit institution, an investment management company, an alternative investment fund manager, an investment brokerage firm registered in a Member State, or a parent company of an insurer of a Member State, of a reinsurer of a Member State, of a credit institution, an alternative investment fund manager, an investment management company or an investment brokerage firm registered in a Member State or a person controlling an insurer of a Member State, a reinsurer of a Member State, a credit institution, an alternative investment fund manager, an investment management company or an investment brokerage firm registered in a Member State and if, as a result of acquiring or increasing the qualifying holding by the relevant person, the company becomes a subsidiary of such person or comes under the control thereof.

(15) Upon assessing the soundness of financial standing of a person, the requirements of a free capital adequacy shall not be applicable to the credit institutions and insurance companies.

(16) If an influence of a person who has acquired the qualifying holding over the company jeopardizes or might jeopardize the financially sound, prudent management of a company which conforms to the laws and regulations, the Commission has the right to request immediate termination of such influence, change of the composition of the council or officials of the company, or to prohibit the relevant person from exercising all or part of his or her voting rights.

(17) A person who intends to terminate the control (decisive influence) of the parent company over a company licensed by the Commission, to reduce the amount of a qualifying holding in the company to less than 20, 33, or 50 per cent, or to terminate a qualifying holding in the company, shall notify the Commission thereof in writing prior to alienation of the shares. The notification shall indicate the amount of the holding what the person will have in the company after the reduction of the holding.

(18) A company shall, not less than once in a 12-month period, submit to the Commission a list of the shareholders of the company with which it has had a qualifying holding, indicating the amount of the holding.

[*11 March 2010; 13 October 2011; 9 July 2013; 30 March 2017*]

**Section 7.2 Holding Acquired Indirectly**

Upon determining the amount of a holding that a person has indirectly acquired in a company, the following voting rights acquired by the relevant person (hereinafter – the particular person) in a company shall be taken into account:

1) the voting rights that may be exercised by a third party with whom the particular person has signed an agreement, imposing an obligation on the third party to coordinate the policy of exercising the voting rights and long-term action policy in relation to the company's management;

2) voting rights which may be exercised by a third party according to an agreement that has been entered into with the specific person and provides for temporary transfer of the voting rights;

3) voting rights which arise from stocks (shares) which the specific person has received as security, if he or she may exercise the voting rights and has expressed his or her intention to exercise them;

4) the voting rights that the particular person is entitled to exercise for unlimited time period;

5) voting rights which may be exercised by a commercial company controlled by the specific person or which may be exercised by such commercial company in accordance with the provisions of Clauses 1, 2, 3, and 4 of this Section;

6) the voting rights arising from the shares transferred into the holding of the particular person and that may be exercised by the particular person at his or her discretion, unless that person has received specific instructions;

7) voting rights which arise from shares held in the name of third parties and for the benefit of the specific person;

8) the voting rights that the particular person may exercise in the capacity of a proxy holder when he or she is entitled to exercise the voting rights at his or her discretion, unless that person has received specific instructions;

9) the voting rights arising from the shares that the particular person has acquired in any other indirect way.

[*13 October 2011*]

**Section 7.3 Consequences of Failure to Give Notice**

(1) If a person that is suspected of having acquired a qualifying holding in a company does not provide or refuses to provide information referred to in Section 71, Paragraph three of this Law and his or her holding in total amounts to 10 per cent and more of the company’s equity capital or number of voting shares, it may not exercise the voting rights attached to all shares he/she owns. The Commission shall immediately notify the respective shareholders and the company to this effect.

(2) If a person disregards the Commission’s prohibition and acquires or increases a qualifying holding, it is not entitled to exercise voting rights attached to all shares he or she owns, and the decisions of the shareholders meeting that have been taken by using the voting rights of those shares shall be invalid as of the moment of taking thereof and making of entries in the commercial register or other public registers may not be requested by reference to those decisions.

[*13 October 2011*]

**Section 8. Capital of a Company**

(1) The minimum initial capital of a company shall be EUR 125 000.

(2) The initial capital shall be determined by 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).

(3) If the amount of assets under management of the company exceeds EUR 250 000 000, the company shall ensure an additional own funds in the amount of 0.02 per cent of the amount by which the value of the assets under management exceeds EUR 250 000 000. The requirements laid down in this Paragraph shall not apply to a company the own funds of which are equal EUR 10 000 000 or more.

(4) [9 July 2013]

(5) Upon determining the conformity of a company’s own funds with the requirements of this Law, the following shall be regarded as assets under management:

1) assets of investment funds and alternative investment funds under management of the company, including assets which it has transferred for managing to another company, but excluding assets which it has received for managing from another company, provided that the abovementioned funds are not established as legal persons;

2) assets of investment funds and alternative investment funds managed by the company, provided that the abovementioned investment funds are established as legal persons.

3) assets of the pension plans established by private pension funds and of investment plans of the State funded pension scheme managed by the company.

(6) The own capital of a company may at no time fall below one of the following amounts, whichever is larger:

1) sum total of the minimum initial capital and the additional own capital calculated in accordance with the requirements of Paragraph three of this Section;

2) 25 per cent of the total amount of the fixed costs or the fixed overheads of the full previous reporting year to be calculated in accordance with Regulation No 575/2013.

(7) Upon receipt of the Commission’s authorisation, the company may ensure up to 50 per cent of the additional own capital referred to in Paragraph three of this Section with a guarantee of the same amount issued by:

1) a credit institution that has obtained a licence for the operation of a credit institution in a Member State or in a member state of the Organisation for Economic Co-operation and Development which is also in the Group of Ten;

2) an insurance company registered in a Member State or a branch of an insurer of a non-Member State that has obtained a licence for the provision of insurance.

(8) If a company is entitled to provide the services referred to in Section 5, Paragraphs two and three of this Law, it shall in its operation observe and comply with the capital requirements and the consolidated supervisory requirements specified for investment brokerage companies. The abovementioned requirements shall not apply to managing the assets of the State funded pension schemes in accordance with the law On State Funded Pensions and to managing assets of the pension plans established by private pension funds in accordance with the law On Private Pension Funds.

(9) Regulation No 575/2013 shall determine own funds and the calculation thereof.

(10) [9 September 2013]

[*8 March 2007; 19 June 2008; 13 October 2011; 9 July 2013; 19 September 2013; 30 March 2017*]

**Section 9. Requirements for Council Members and Officials of a Company**

(1) A person meeting the following requirements may be an official of a company:

1) he or she has sufficient competence in the field for which the abovementioned person will be responsible;

2) he or she has a higher education and corresponding professional experience of not less than three years;

3) he or she has an impeccable reputation;

4) he or she has not been suspended the right to perform commercial activities.

(2) A person who is competent in financial management matters and meets the requirements laid down in Paragraph one, Clauses 3 and 4 of this Section may become a council member of a company.

(3) A person may not become a council member and be an official of a company in the following cases:

1) he or she is convicted for the committing of an intentional criminal offence;

2) he or she has been convicted for the committing of an intentional criminal offence (also where the person has been released from serving the sentence due to prescription, clemency, or amnesty);

3) he or she has been held criminally liable for the committing of an intentional criminal offence (also where the criminal case against the person has been terminated but the person has not been rehabilitated);

4) he or she has provided false information on himself or herself by submitting documents to the Commission in order to obtain a licence for operation of a company or another activity in the financial and capital market;

5) he or she has performed duties of a member of the board or council of a company or of another financial institution that has been declared insolvent at the time the relevant person was performing the abovementioned duties, or he or she has performed duties of a member of the board or the council of another company and, due to negligence or deliberately, has led the company to insolvency or bankruptcy subject to criminal liability.

(4) Upon assessing the repute of a company’s officials and council members, the Commission shall consider the information provided by these persons, references received from previous employers, and other information on the previous professional experience of the abovementioned persons.

**Section 10. Documents and Information to Be Submitted for Receipt of a Licence**

(1) In order to receive a licence, a company shall submit to the Commission a submission for the receipt of the licence. The submission shall be accompanied by documents on the registration of the company, shareholders, council members and officials, the procedures and policies developed for ensuring the functioning of the company’s internal control system, and also other documents referred to in this Section.

(2) The following documents shall be submitted to the Commission regarding the company and shareholders thereof:

1) document confirming the payment of the initial capital;

2) list of the shareholders of the company and the following information on the shareholders:

a) on natural persons – a copy of the page of the passport or another identity document on which personal identification data [given name, surname, year and date of birth, personal identity number (if any)] are specified,

b) on legal persons – firm name, registered office, registration number and place. Legal persons registered in a foreign state shall also submit copies of registration documents,

c) documents confirming the existence and origin of financial assets of the company’s shareholders (having a qualifying holding in the company), for them to be able to make contributions in the company’s capital;

d) information on the owners of the company’s shareholders (having a qualifying holding in the company) (until the natural person on whom information shall be provided in compliance with Sub-clause “a” of this Clause).

(3) The following documents and information shall be submitted to the Commission on the company’s council members and officials:

1) notification to be filled in by each council member and each official. The following information shall be indicated in the notification:

a) firm name of the company and the office the person stands for as a candidate,

b) the given name, surname, year and date of birth, personal identity number (if any) and citizenship;

c) education (academic degree);

d) raising of qualification;

e) criminal record;

f) whether the right to perform commercial activities has been suspended;

g) the previous places of employment during the preceding 10 years and a short description of the work duties;

2) copy of the page of passport or another identity document on which personal identification data [given name, surname, year and date of birth, identity number (if any)] are specified;

3) copies of documents confirming education.

(4) The authenticity of information provided for in the notification referred to in Paragraph three, Clause 1 of this Section shall be confirmed by a signature of a person, of whom the notification has been prepared, and the chairperson of the board of the company.

(5) A list of stakeholders of the company shall be submitted to the Commission. The list shall include the given name and surname of each person, personal identity number, education, offices held by him or her over the last five years and the provisions of a contract concluded between the company and the relevant person applicable to the job description. A legal person shall indicate the firm name, registration number and members of the management bodies thereof, and also submit the annual account for the last year to the Commission.

(6) The following documents shall be submitted to the Commission regarding the company’s internal control system:

1) a description of the organisational chart with clearly stated duties and authorities of the council and officials, and also precisely determined and allocated tasks of the company’s structural units and responsibilities of heads of the structural units. If the company is planning to establish a branch, a description of the organisational chart of branches and the duties of branch managers shall be submitted to the Commission;

2) a description of the management information system;

3) key principles of accounting policy and organisation of accounting records;

4) a description of policies and procedures for the material operational risk management;

5) information system protection regulations, and also regulations for the protection of a register for investment certificates of the fund and a database for the accounting of other financial instruments under management of a company;

6) a description of the internal audit system, and also regulations for the verification of transactions effected by the company and its employees on their own account and the compliance thereof with the requirements for the prevention of conflicts of interest;

7) a description of identification procedures for unusual and suspicious financial transactions;

8) a description of the procedures for the examination of submissions and complaints (disputes) of fund investors regarding the provision of management services by the company;

9) policy for the prevention of conflicts of interest;

10) transaction execution policy;

11) a description of the procedure regarding the procedures for internal reporting in relation to violations of this Law and the regulatory provisions of the Commission issued on the basis thereof, and also the procedures for examining the reports received.

(7) The operational plan developed for at least three next years of operation and approved by the shareholders meeting of the company shall be submitted to the Commission on the planned operation of the company, reflecting in detail the company’s operational strategy (indicating also the none-core services which the company intends to provide in addition to the core activity), and the financial forecasts including draft report disclosing the financial standing as at the end of the year for at least three next years of operation, draft financial performance report for at least three next years of operation, draft capital adequacy calculation and the forecasted amount of annual fixed costs, a description of market research and any other information that provides a clear and fair presentation of the operations planned by the company.

(71) The company shall submit to the Commission a document describing and explaining how the investment strategy of the manager includes exercising of the rights of a shareholder in the management of that joint stock company (hereinafter – the engagement policy), if the investment policy provides for investing of the assets of an investment fund, a State funded pension scheme, or a pension plan established by a private pension fund into the shares of a joint stock company the registered office of which is in a Member State and the shares of which are included on the regulated market of a Member State.

(8) The Commission has the right to request the company to update the submitted documents and information.

(9) If, by the time a decision is taken on the issuing of a licence, any amendments are made to the information or documents submitted to the Commission, the company has an obligation to, without delay, submit to the Commission the new information or the full text of relevant documents including amendments made thereto.

(10) The Commission shall consult with the competent authorities of Member States prior to issuing a licence to a company, if the company is:

1) a subsidiary of a company, an investment brokerage firm, a credit institution, or an insurance company licensed in a Member State;

2) a subsidiary of a company the subsidiary of which is a company, an investment brokerage firm, a credit institution, or an insurance company licensed in a Member State;

3) a company controlled by a person who simultaneously controls another company, investment brokerage firm, credit institution, or insurance company licensed in a Member State.

[*11 March 2010; 13 October 2011; 30 March 2017; 20 June 2019*]

**Section 11. Provisions for Issuing a Licence**

(1) The Commission shall take a decision to issue the licence within three months after receipt of all the documents specified in this Law necessary for taking of the decision, prepared and drawn up in accordance with the requirements laid down in the laws and regulations.

(2) The Commission shall issue a licence within 10 days as of the day the decision to issue a licence has been taken.

(3) The Commission shall not issue a licence, if:

1) when establishing the company, this Law and other laws and regulations have not been conformed to;

2) council members and officials of the company do not meet the requirements laid own in this Law;

3) the company’s capital does not meet the requirements laid down in this Law;

4) close links of the company with third parties endanger or may endanger financial soundness thereof or restrict the right of the Commission to perform supervisory functions specified in this Law;

5) foreign laws and other laws and regulations pertaining to persons who have close links with the company restrict the Commission’s right to perform the supervisory functions specified in this Law;

6) it is impossible to ascertain the identity, repute, and soundness of the financial standing of persons having a qualifying holding in the company;

7) the Commission determines that the financial assets invested in the company’s capital have been obtained in unusual or suspicious financial transactions or the legal origin of these financial assets does not have any documentary proof.

(4) If the Commission takes a decision on refusal to issue a licence, a submission for the receipt of a licence may be submitted repeatedly after the prevention of deficiencies indicated in the refusal.

(5) The Commission shall notify the European Securities and Markets Authority regarding issuing a licence.

[*11 March 2010; 13 October 2011*]

**Section 12. Change of Management Services Specified in a Licence**

(1) If a company wishes to supplement the management services specified in a licence issued thereto with the new ones or wishes to refuse from any of the management services specified in the licence, it shall submit a corresponding submission to the Commission.

(2) If the company wishes to commence the provision of a new management service, concurrently with a submission it shall submit to the Commission:

1) a supplement to the activity plan;

2) amendments to descriptions of the internal control system required to ensure the provision of the service in accordance with the requirements of this Law.

(3) The Commission shall take a decision on the change of the management services specified in the company’s licence within 15 days after receipt of all the documents referred to in this Law, prepared and drawn up in accordance with the requirements laid down in the laws and regulations.

(4) No State fee shall be paid for the change of the management services specified in the licence.

**Section 13. General Provisions of Operation of a Company**

(1) A company shall, during the term of validity of the licence issued thereto, conform to and fulfil the following requirements:

1) ensure that the requirements governing the operation of the company would be conformed to in accordance with this Law and the regulations issued by the Commission;

2) ensure establishment and functioning of a comprehensive and efficient internal control system, corresponding to the nature, volume, and complexity of the management services thereof, by including the following key elements in this system:

a) organisational chart commensurate to the size of the company and operational risks thereof, with clearly stated duties and allocation of powers of the council and officials of the company in respect of carrying out and controlling the company’s business, and precisely determined and allocated tasks of the company’s structural units and the duties of the managers of structural units,

b) the system for identifying, managing, monitoring, and reporting risks existing in and potential to the company’s activities,

c) internal control procedures,

3) ensure in its operation the conformity with the rules, policies, and procedures developed for the functioning of the internal control system, including the procedures stipulated by the company for the performance of personal transactions or transactions in financial instruments at the company’s expense, and also the procedures for the execution of applications for buying and repurchasing of investment certificates;

4) ensure the accounting records commensurate to the provided management services, and also the establishment of such mechanism for storage, protection, and control of electronic data in order it would be possible to reconstruct the transactions made with fund assets according to the origin thereof, parties involved therein, transaction essence, time and place of execution, and also in order to monitor the conformity of fund investments with the fund prospectus, management rules, and the requirements of this Law;

5) ensure the archiving of source documents of transactions for 10 years, and also conformity with other requirements laid down in the laws and regulations with respect to the completion and storage of source documents;

6) ensure that an efficient policy for prevention of conflicts of interest of the company is established, implemented, and followed. The company shall take all necessary measures in order to identify and prevent any conflicts of interest that may arise during the provision of services and, when they cannot be prevented, ensure equal treatment of the funds under the management thereof;

7) ensure that the financial instruments and monetary assets of the company itself and of its clients are held, recorded and accounted separately;

8) ensure that an efficient procedure for the examination of submissions and complaints (disputes) of fund investors is established, implemented, and followed according to which the submissions and complaints (disputes) of investors and potential investors are registered and examined, and the information regarding measures which are taken in respect to these complaints (disputes) is registered;

9) ensure such remuneration policy and practice of officials and employees which conforms to prudent and efficient risk management and contributes thereto but does not contribute to risk-taking above the permissible risk-taking level specified by the company;

10) ensure that a dedicated and independent reporting channel is established which provides employees with the opportunity to anonymously report on violations of this Law and the regulatory provisions of the Commission issued on the basis thereof within the framework of the management company, and also ensure that efficient procedures for examining the reports received are being implemented.

(11) A company that maintains a register of the holders of investment certificates shall be responsible for any loss arising to fund investors and to third parties where the company has failed to conform to the obligations specified in the laws and regulations for maintaining the register of the holders of investment certificates.

(12) A company that manages a fund established in another Member State or distributes investment fund certificates in another Member State shall, in addition to the requirements of Paragraph one of this Section, develop and conform to the procedure for ensuring the availability of information upon request of the competent authority of the home state of the fund. In this procedure the company shall determine the contact person fulfilment responsible for the requests for information referred to in this Paragraph.

(13) A company shall ensure that key investor information of the respective fund is provided free of charge to investors before acquisition of investment certificates irrespective of whether the investment certificates are offered to be acquired or advice concerning investment in this fund is provided by the company itself or any other legal person or natural person authorised by the company to perform such activities. The company shall be responsible for conformity with the requirements of this Paragraph.

(2) If a company provides the investment services referred to in Section 5, Paragraphs two and three of this Law, in addition to the requirements laid down in Paragraph one of this Section, it shall conform and fulfil the following requirements:

1) [13 October 2011];

2) prior to commencement of the service provision, it shall enter into a written contract with the client for the provision of service;

3) prior to entering into a contract for the provision of service, and also during the entire term of the contract, it shall ensure that the client has sufficient information enabling him or her to assess the essence of the provided service and the financial risks related thereto;

4) prior to entering into a contract, inform the client of the types of disputes provided for in the contract which will be resolved in accordance with extrajudicial procedures, and the procedures for the examination of such disputes;

5) it shall participate in the investor protection system in accordance with the laws and regulations governing this field;

6) it shall follow and comply with other requirements which in accordance with Chapter XII of the Financial Instrument Market Law are determined for investment brokerage firms that perform individual management of investors’ financial instruments according to the authorisation of investors, provide investment advice concerning financial instruments, and perform holding of financial instruments;

7) it shall follow and comply with the requirements laid down in the Financial Instrument Market Law for investment brokerage firms in respect of delegation of outsourcing services;

8) ensure such remuneration policy and practice of officials and employees which conforms to prudent and efficient risk management and contributes thereto but does not contribute to risk-taking above the permissible risk-taking level specified by the company.

(3) A company shall, insofar as it is necessary for the ensuring and protection of the client’s interests and in conformity with the nature and volume of the service provided to the client, request from a client information on:

1) the client’s experience and knowledge regarding transactions to be performed during the provision of services;

2) the objectives the client intends to achieve by the relevant transactions;

3) the financial standing of the client.

(4) If a client refuses to provide information referred to in Paragraph three of this Section, and also does not inform of the changes in information provided to the company, the company shall not be liable to the client for the consequences arising from the fact that the company does have such information at the disposal thereof.

(5) [13 October 2011]

(6) Upon performing activities related to fund management, also upon exercising the voting rights of the shares (capital shares) belonging to the fund property, a company shall not require the consent of fund investors.

(7) A company has an obligation to bring actions by fund investors against a custodian bank or third parties on its own behalf, if this arises from the relevant circumstances and does not create duplication of actions or unequal treatment towards the fund investors. However it shall not restrict the right of fund investors to bring such claims on their own behalf.

(8) A company shall be liable for the losses caused to fund investors by company officials or authorised persons as a result of violating the provisions of this Law, the fund prospectus, or the fund management rules, by abusing the powers conferred on them or negligently performing their obligations.

(9) A company has an obligation to inform the Commission in writing of any amendments to the lists of stakeholders of the company and the custodian bank, and also of any amendments and supplements to the documents and information submitted to the Commission within 10 days from the date of introduction of amendments.

(10) Within 30 days of the receipt of the submission and the documents specified in this Law regarding council members and officials of the company, the Commission has the right not to allow these persons to commence the fulfilment of their obligations, if the abovementioned persons fail to comply or the Commission cannot verify their compliance with the requirements of this Law.

(11) A company that manages the assets of the State funded pension scheme shall draw up the critical situation analysis of investment plans at least once a year to determine and assess the potential impact of various extraordinary, but potentially adverse events or changes in market conditions on the investment plan portfolio, by analysing and recording the possible development scenarios. The sensitivity tests and scenario analysis shall be used for the analysis of critical situation. Sensitivity tests shall be carried out to determine the effect of the adverse changes caused by a separate factor on the investment plan portfolio. Scenario analysis shall be carried out to determine the effect of the adverse changes caused by several factors on the investment plan portfolio by detecting the cause of those extraordinary, but potentially adverse events or changes.

(12) The board of the company shall approve the results of the critical situation analysis and take a decision on the activities to be performed in case of occurrence of the events or the changes referred to in the critical situation analysis. The critical situation analysis approved by the board and the decision on the activities to be taken shall be submitted to the Commission.

(13) The Commission has the right to determine additional requirements and procedures for carrying out the critical situation analysis, establishing potential factors and scenarios to be tested.

(14) In addition to the requirements laid down in Paragraph eleven of this Section, the Commission has the right to request that the company carries out extraordinary critical situation analysis and submits it to the Commission.

(15) The requirements for establishing the internal control system of the company shall be determined by the Commission.

(16) The requirements in relation to the remuneration policy and practice referred to in this Section shall be determined by the Commission.

[*8 March 2007; 19 June 2008; 11 March 2010; 13 October 2011; 30 March 2017*]

**Section 13.1 Obligations of a Company upon Providing Management Services**

(1) Upon providing management services, a company has an obligation to act fairly and independently of the custodian bank and as an honest, careful, and diligent manager and to ensure that the relevant services are provided with due professionalism and diligence solely in the interests of the fund and the fund investors and recipients of the management services and without threatening the stability of the financial market.

(11) A company may not operate simultaneously as a management service provider and as a custodian bank.

(2) In the interests of fund investors and recipients of management services the company shall ensure:

1) use of clear, accurate, and transparent valuation techniques of financial instruments in order to prove that the value of portfolios under the management thereof has been appropriately measured;

2) that no unjustified costs are charged to fund investors and recipients of management services.

(3) The company shall ensure equal and fair treatment of investors of the funds under the management thereof without favouring the interests of any fund investor or any group of fund investors over others.

(4) The company shall develop and follow the procedure for the prevention of wilful misconduct that may affect the financial market stability in order to avoid a situation when, as a result of activities performed in the interests of individual fund investors, other fund investors are unfairly treated or stability and integrity of the financial market are threatened.

(5) In relation to the management or administrative management of an investment fund, managing investment of investment plans of the State funded pension schemes, or managing investments of pension plans established by private pension funds, the company is prohibited from paying or accepting an inducement, and also providing or accepting any other type of a benefit other than the payments:

1) paid or received by the recipient of a management service or a person acting on its behalf or other type of a benefit that is provided or received by the recipient of a management service or a person acting on its behalf;

2) paid or received by a third party or a person acting on behalf of a third party or the benefit that is provided or received by the third party or a person acting on its behalf, if:

a) the existence, nature, and amount or, where the amount cannot be established, the method for calculating the payment or the benefit is explained to the recipient of the management service before provision of the relevant service in a comprehensive, accurate, and understandable manner. That information may be provided as a summary, but a fund investor is entitled to receive also detailed information,

b) the intent of performance of the payment or provision of other benefit is to enhance the quality of the respective service and this intent does not affect the obligation of the company to act in the interests of clients;

3) which ensure the provision of the relevant service or are necessary for the provision of such service, including custody costs of financial instruments, payment and trading venue costs, administrative fees or legal fees, if such payments in terms of their nature cannot contradict the company’s obligation to act honestly, fairly, and professionally in the interests of clients.

[*13 October 2011; 30 March 2017*]

**Section 13.2 Due Diligence during the Provision of Management Services**

(1) The company shall select and manage investments with due diligence not only in the interests of the recipients of management services, but also in order to ensure that stability and integrity of the financial market are not threatened.

(2) The company shall ensure that:

1) the chairman of the board thereof and at least one more member of the board, and also the fund manager are persons competent in the investment issues;

2) investments are made only in those financial instruments the essence of which is clear to the company’s officials and the information necessary for the risk assessment thereof is available to them.

(3) The company shall develop and document the procedures for the execution and control of transactions in order to ensure that the investment decisions taken on behalf of the recipients of investment management services are assessed and executed with due diligence and according to the investment objective indicated in the fund prospectus, investment policy, and investment limits.

(4) The company shall take decisions with due diligence on delegating the risk management function or terminating the receipt of the delegated service. To this effect the company shall develop and conform to the procedures for the assessment and verification of a person to whom the risk management function will be delegated, the competence and capacity of such person to manage the fund risks trustworthily, professionally, and efficiently, and also an on-going procedure for the assessment of performance of such person.

[*13 October 2011*]

**Section 13.3 Ensuring of the Best Results**

(1) Upon fulfilling the decisions on the execution of transactions within the scope of managing the investment portfolios, a company shall take all necessary measures to ensure best possible results to the recipients of management services, considering the transaction price, costs, speed of execution, likelihood of execution and settlement, size and nature of transaction, or any other considerations related to the execution of a transaction order.

(2) Upon assessing the importance of the factors referred to in Paragraph one of this Section for the execution of transaction orders, the following criteria shall also be considered:

1) the investment objective, investment policy and risks specified in the fund prospectus or the management rules;

2) the type of the order;

3) the type of the financial instrument forming the object of order;

4) the possible place of execution of the transaction order (a regulated market, multilateral trading facility, systematic internaliser, market maker, or other liquidity provider). The company shall develop and implement the transaction execution policy, providing for the procedures for the assessment of the abovementioned criteria and the factors referred to in Paragraph one of this Section in order to ensure the best possible results to the recipients of management services.

(3) The requirements of Paragraphs one and two of this Section shall also be applied to the execution of transaction orders transferred for execution to a person entitled to provide investment services in accordance with the requirements of the Financial Instrument Market Law (hereinafter in this Section – the person).

(4) In its transaction execution policy the company, for each type of financial instruments, shall indicate a person to whom transaction orders may be transferred for execution. The company is entitled to enter into agreement with that person regarding the execution of transactions provided that all requirements of this Section are met.

(5) To be able to detect deficiencies and prevent the detected deficiencies, the company shall regularly assess the transaction execution policy and the efficiency of procedures related thereto, in particular the quality of the execution of orders placed for execution to another person on behalf of the recipients of management services. The company shall review the transaction execution policy on an annual basis or in case, when there are significant changes that affect the company’s ability to ensure the best possible result to the recipients of management services also in the future.

(6) A company which plans to provide management services for a fund registered in another Member State and established as a commercial company has an obligation to obtain the fund’s consent for the developed transaction execution policy prior to commencing the provision of management services.

(7) The company shall publish the transaction execution policy on the website thereof, and also information on material changes introduced to the policy.

(8) The company has an obligation to prove that the transaction orders executed on behalf of a recipient of management services, including the transaction orders transferred to another person for execution, conform to the execution policy.

[*13 October 2011*]

**Section 13.4 Provisions for Execution of Transaction Orders**

(1) A company shall develop procedures and implement the necessary measures in order to ensure instant, fair, and prompt execution of those transaction orders involving the assets of the recipients of management services. Acting on behalf of the recipients of management services, the company shall ensure the fulfilment of the following requirements:

1) orders executed on behalf of the recipients of management services are promptly and accurately recorded;

2) comparable orders of the recipients of management services are executed instantly according to the sequence of submission thereof, unless the specifics of the order or market conditions make them unenforceable in such manner or the interests of the referred to persons require other action;

3) financial instruments or monetary assets received as a result of transaction are immediately and fully credited to the financial instrument account or the monetary assets account of the recipient of the management services.

(2) The company, and also the persons related thereto may not misuse information at the disposal thereof on pending orders of the recipients of management services.

(3) The company has the right to consolidate the transaction order on behalf of the client with the transaction order on behalf of the company itself or on behalf of another client only, if it has developed and it implements order consolidation and allocation policy. Order consolidation and division policy may be incorporated in the transaction execution policy and it shall provide:

1) to consolidate the orders only, if it is unlikely that the order consolidation might harm the interests of the clients the orders of which are consolidated;

2) fair allocation of consolidated orders and an explanation on how the volume and the price of orders affect the allocation and execution of orders;

3) the procedures for the allocation of transactions related to the consolidated order, if the consolidated order is executed partially;

4) the procedures that ensure the fulfilment of the requirements of Paragraphs four and five of this Section in respect of allocation or reallocation of the orders on behalf of the recipients of management services or other clients and orders on transactions on behalf of the company itself.

(4) If the company has consolidated the orders on transactions on its own behalf with one or more orders on behalf of the clients, it shall allocate or reallocate the relevant transaction without prejudice to the clients’ interests.

(5) If the company consolidates the order on behalf of the client with the order on transaction on its own behalf and the consolidated order is executed partially, the company shall allocate the relevant orders in the order of priority – first for the benefit of the client and then – for the company. If the company can reasonably prove that without such consolidation it could not have executed the order under such advantageous terms or could not have executed the order at all, it may apply the proportional income distribution in respect of the transaction on its own behalf.

[*13 October 2011*]

**Section 13.5 Examination of Submissions and Complaints (Disputes)**

(1) A company shall ensure that the procedure for the examination of submissions and complaints (disputes) of fund investors regarding management services provided by the company is freely available at its location and accessible in an electronic form on the website of the company, if any.

(2) Fund investors and potential investors may submit submissions and complaints regarding the received management services free of charge at the location of provision of services specified by the company.

(3) The company shall provide an answer in writing within 30 days of receipt of a written submission or a complaint (dispute) regarding a management service. If due to objective circumstances it is not possible to meet this deadline, the company is entitled to extend it by notifying the submitter of the submission or complaint (dispute) thereof in writing.

(4) A company that provides management services in another Member State or distributes investment certificates of the investment fund registered in Latvia in another Member State shall ensure the translation of the procedure for the examination of submissions and complaints (disputes) regarding provision of management services of the company and the examination of the relevant submissions and complaints (disputes) in the language stipulated by the host state of the company and of the fund.

(5) Fund investors considered as consumers, within the meaning of the Consumer Rights Protection Law, are entitled to submit to the Consumer Rights Protection Centre submissions and complaints regarding violations of the requirements of this Law and other laws and regulations of consumer rights protection, if they are related to the provision of management services.

(6) If a fund investor incurs losses due to incorrect information provided by the company or due to a failure of the company to fulfil the requirements of this Law, the fund investor has the right to claim compensation of losses in accordance with general procedures laid down in laws.

[*13 October 2011; 9 July 2013*]

**Section 14. Conflicts of Interest**

(1) A company shall ensure such internal control system that reduces to a minimum the possibility of a conflict of interest between:

1) the company and clients thereof;

2) funds under the management of the company;

3) clients of the company;

4) clients of the company and the funds under the management of the company;

5) alternative investment funds or fund investors and investment funds under the management of the company or investment fund investors;

6) the company and a joint stock company in the shares of which the company invests the assets of an investment fund, a State funded pension scheme, or pension plans established by a private pension fund, if the registered office of such joint stock company is in a Member State and its shares are included on the regulated market of a Member State.

(2) To identify the types of conflicts of interest that may arise in the provision of management services and the performance of activities that might harm the fund’s interests, the company shall take into account situations when the company or the person related thereto, or a person (directly or indirectly) controlling the company:

1) could obtain profit or avoid financial losses at the expense of the fund;

2) is interested in the outcome of a service provided to the fund or to another client or of a transaction carried out on behalf of the fund, and it is contradiction with the interests of the fund;

3) has a financial or other interest in acting for the benefit of another client or a group of clients rather than in the fund’s interests;

4) carries out the same activities in the interests of the fund and of the client or of a group of clients other than the fund;

5) receives or will receive an inducement from a person other than the fund for the management services provided to the fund that will be in the form of cash, goods, or services other than standard fee or commission for that service.

(3) Upon identifying the types of conflicts of interest, the company shall take into account the following:

1) interests of the company, including interests arising from its belonging to a group or from the performance of services and activities, and the interests of clients and the company’s obligation towards the fund;

2) interests of two or more funds under the management of the company.

(4) In order to ensure that the requirements of Paragraph one of this Section are fulfilled, the company shall develop the policy for the prevention of conflicts of interest that is commensurate to its size and organisational chart, and also nature, scope, and complexity of transactions thereof. Where a company is a member of a group of commercial companies, the policy for the prevention of conflicts of interest shall also provide for the prevention of such conflicts of interest that may arise due to the activities or the structure of another commercial company in the group.

(5) In its policy for the prevention of conflicts of interest the company shall:

1) identify the circumstances that give rise or might give rise to a conflict of interests, create material threat or harm to the fund or interests of one or several clients in relation to the management services provided by the company or a third party on the company’s behalf;

2) determine the procedures and measures necessary for the prevention of conflicts of interest.

(6) Upon determining the procedures and measures for the prevention of conflicts of interest, the company shall ensure that they are commensurate with the size of the company itself or with the size and professional activities of the group to which the company belongs, and also the materiality of harm to the interests of clients.

(7) For the purposes of fulfilling the requirements laid down in Paragraph five, Clause 2 of this Section, the company according to its structure and types of services provided, shall provide:

1) efficient procedures for preventing or controlling information exchange between those persons associated to the company who are involved in the provision of management services and the activities of which involve a risk of a conflict of interest, where such information exchange may harm the interests of one or several clients;

2) separate supervision of the persons associated to the company, the principal duties of which are providing management services on behalf of clients or providing management services to clients or to fund investors the interests of which may be into conflict or who otherwise represent different interests that may come into conflict, including with the interests of the company;

3) prevent any direct link between the remuneration or income gained by the persons associated to the company the activities of which are related to the provision of different management services, where the conflict of interest may arise in relation to the activities carried out while providing management services;

4) measures to prevent or limit inappropriate influence of third parties on management services and which are carried out by a person associated to the company;

5) measures to prevent or control simultaneous or sequential involvement of persons associated to the company in various activities related to the process of providing management services where such involvement may impair the management of conflicts of interest;

6) other additional procedures and measures which are necessary and appropriate in order to prevent a conflict of interest, if the organisational or administrative measures stipulated by the company for the management of conflicts of interest in accordance with the requirements of this Section are insufficient.

(8) The company shall store and update, on a continuous basis, information on the activities of investment fund management which it has performed itself or which were performed on its behalf and which have given rise to or, if these activities are on-going, may give rise to a conflict of interest that materially harms the interests of one or several funds or other clients.

(9) The persons involved in the provision of management services shall inform the board of the company on any events when the organisational or administrative measures stipulated by the company for the management of conflicts of interest in accordance with the requirements of this Section are insufficient to ensure, with due confidence, that the risk of harm to the interests of the fund or the holders of its investment certificates will be prevented. After the board is informed of the event referred to in this Paragraph, it shall take appropriate decisions that are necessary to ensure the protection of interests of the fund and the holders of its investment certificates.

(10) The company shall inform investors of the events referred to in Paragraph nine of this Section and the decision taken by means of any appropriate durable medium.

(11) The company shall ensure that one and the same employee of the company carries out only one of the following obligations:

1) management of financial instruments owned by the company and the execution or transferring for execution of the tasks related thereto;

2) individual management of the fund investments and of the financial instruments of clients and the execution or transferring for execution of the tasks related thereto;

3) registration of transactions in financial instruments.

(12) The company has an obligation to develop the procedures for exercising voting rights arising from the financial instruments in the fund investment portfolio. The abovementioned procedures shall determine the activities necessary in order to:

1) supervise and ensure the exercising of voting rights that shall only be in accordance with objectives and policy of the relevant fund investments;

2) prevent or manage all conflicts of interest arising from the exercising of voting rights.

(13) The company shall publish a brief summary of the procedures referred to in Paragraph twelve of this Section on the website thereof and upon request it shall inform the fund investors free of charge of any activities carried out on the basis of that procedures.

(14) The company has no right to invest own assets in another company, and also to acquire the investment certificates of a fund managed thereby.

(15) The restrictions specified in Paragraph fourteen of this Section in respect of acquisition of investment certificates of a fund managed by the company shall not be applicable to cases where the company takes over the management of a fund established by another company. In such case, within six months of the date of completion of the takeover, the company shall take relevant measures to ensure conformity of further activities thereof with the provisions of Paragraph fourteen of this Section.

(16) If the company manages individual financial instrument portfolios of clients, including assets of pension plans established by private pension funds, it shall not invest assets of this portfolio in the funds managed thereby, unless such authorisation has been expressly granted by an agreement entered into with the client for the provision of such service.

[*13 October 2011; 9 July 2013; 20 June 2019*]

**Section 14.1 Restrictions for Provision of Personal Transactions**

(1) A personal transaction is a trade transaction in financial instruments that is performed by a person associated to the company or on behalf of such person, provided that at least one of the following conditions is effective:

1) the transaction has been performed outside the scope of work duties or professional activity of the person associated to the company;

2) the transaction has been performed by means of assets owned by a person associated to the company;

3) the transaction has been performed by means of assets owned by the spouse, a child, a step-child (a child of the spouse that is not the child of that person) or another relative of a person associated to the company who has shared the household with the abovementioned person at least one year before performance of the transaction;

4) the transaction has been performed by means of assets owned by another person who has a direct or indirect material interest in the outcome of the transaction, other than the fee for execution of the transaction.

(2) Persons associated to the company may not:

1) perform a personal transaction on the basis of such internal information in accordance with the Financial Instrument Market Law that is available to the person, when performing work duties or professional activity in the company, and perform a personal transaction by using or disclosing information containing transaction secret, or perform a personal transaction that is contrary to the requirements laid down for the company in this Law;

2) advise a third party to perform such transaction in financial instruments which in respect of a person advising the transaction would qualify as a personal transaction which is subject to restrictions referred to in Clause 1 of this Paragraph or Section 127.2, Paragraph three, Clauses 1 and 2 of the Financial Instrument Market Law, or that gives rise to abusing information available to it on pending orders of a client, except for where a transaction has been advised by performing work duties or professional activity;

3) disclose information to a third party or express an opinion, where the person disclosing information knows or ought to have known that as a result of the disclosing of information the third party will make or is likely to make or advise another person to make a transaction in financial instruments that would qualify as a personal transaction to the person disclosing information and to which the restrictions referred to in Clause 1 of this Paragraph or Section 127.2, Paragraph three, Clauses 1 and 2 of the Financial Instrument Market Law apply or that would otherwise give rise to abusing information available to it on pending orders of a client, except for where information has been disclosed or opinion has been expressed by performing work duties or professional activity. Upon applying reference Section 127.2, Paragraph three, Clauses 1 and 2 of the Financial Instrument Market Law, the reference to the persons indicated in Section 101, Paragraph 3.1 of the Financial Instrument Market Law shall be understood as a reference to the persons associated to the company specified in this Law.

(3) Persons associated to the company shall notify the company of the personal transactions performed thereby.

(4) The company shall ensure that persons associated to the company are notified of the obligation specified in this Section to inform the company of personal transactions made and of the restrictions specified for making personal transactions.

(5) The company has the right to determine that a person associated to the company must obtain the permission issued by the company for making personal transactions.

(6) The company shall monitor the compliance of persons associated to the company with the requirements of this Section.

(7) The company shall establish and maintain a register in which information on the transactions made by persons associated to the company on the basis of information either provided by the relevant persons or discovered during supervision. Where the company delegates the provision of any management service, the outsourcing contract shall contain the procedures for maintaining the register of personal transactions of persons associated to the company and the procedures whereby the company may receive information from the provider of the delegated service on personal transactions made by these persons.

(8) If the company has determined that a permission is necessary for the performance of personal transactions, it shall store information on the permissions issued for the performance of personal transactions or refusals to issue the permission.

(9) The provisions of this Section shall not apply, if:

1) a personal transaction has been made within the scope of individual management of the financial instruments portfolio of investor and there has been no prior communication in connection with the transaction between the portfolio manager and the person associated to a company or other person on behalf of which the transaction has been made;

2) a personal transaction has been made with investment certificates and the person associated to the company or other person on behalf of which the transaction has been made is not involved in the fund management.

[*13 October 2011; 9 July 2013*]

**Section 14.2 Independence of the Operation of a Company and a Custodian Bank**

(1) A company, upon managing an investment fund, shall ensure that the requirements of Article 24 of Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council with regard to obligations of depositaries (Text with EEA relevance) (hereinafter – Regulation No 2016/438) are complied with.

(2) If the company, upon managing the assets of a State funded pension scheme, is included in the same group of commercial companies as the custodian bank, the company shall fulfil one of the following requirements:

1) comply with the requirements of Article 24 of Regulation No 2016/438;

2) submit to the Commission an annual report of a sworn auditor in which the sworn auditor shall, according to the recommendations (guidelines) issued by the Commission in accordance with Paragraph three of this Section, provide an opinion on whether or not the placement of the custodian bank and the company in one group of commercial companies has an adverse effect on responsible and efficient management of the investment plans of the assets of a State funded pension scheme and diligent performance of the obligations of the custodian bank, including an assessment of the division of obligations and responsibility between the company and the custodian bank.

(3) The Commission shall issue recommendations (guidelines) regarding the criteria which a sworn auditor shall take into account when providing an opinion on the determination of the circumstances referred to in Paragraph two, Clause 2 of this Section.

(4) The company shall submit the report referred to in Paragraph two, Clause 2 of this Section to the Commission by 1 April of the following year.

[*30 March 2017 /* *Paragraphs two, three, and four shall come into force on 1 September 2017.* *See Paragraph 37 of Transitional Provisions*]

**Section 15. Delegation of Fund Management Services**

(1) On the basis of a contract, a company may delegate the rights to provide separate services related to the fund management (hereinafter – fund management services) to another person having the appropriate qualification and experience in the provision of referred to services.

(11) If the company which manages an investment fund registered in another Member State wishes to delegate any fund management service, upon receipt of the relevant submission from the company, the Commission shall immediately inform the competent authority of the home state of the fund thereof.

(2) The company may delegate the right to manage fund investments only to another company or to the provider of management services that has received a licence in another Member State.

(3) The right to manage fund investments may not be delegated to the company which is simultaneously a stakeholder of the custodian bank, a stakeholder of the company, or any other person the interests of which might prejudice the interests of the company or fund investors.

(4) Prior to delegating fund management services to another person, the company shall develop the relevant policy and procedure for delegating services that determine:

1) the procedures for the taking of decisions on delegation of the services by the company;

2) the procedures for the conclusion, supervision of fulfilment, and termination of the contract on delegation of the fund management services (hereinafter – the delegation contract);

3) the persons (officials and employees) and the structural units that are responsible for the cooperation with the provider of the delegated fund management service (hereinafter – the service provider) and for the monitoring the volume and the quality of the received fund management service, and also rights and responsibilities of these persons;

4) the procedures for the assessment and management of risks related to the receipt of the fund management services;

5) the action of the company, if the service provider does not fulfil or will not be able to fulfil the provisions of the delegation contract.

(5) The company shall submit to the Commission the policy and the procedure referred to in Paragraph four of this Section, before delegating the fund management services to another person. The Commission shall review and assess the conformity of the abovementioned documents with the requirements of this Law within 30 days of the receipt thereof.

(6) If the management of the fund investments is delegated, the company shall submit to the Commission a motivated submission regarding the necessity to delegate the service and the original of the delegation contract or a copy thereof, the authenticity whereof is certified by a company’s official, and also the document referred to in Paragraph four of this Section, unless the company has already provided it to the Commission before.

(7) The company shall submit to the Commission all amendments to the documents to be submitted to the Commission in accordance with this Law, if any are introduced in relation to the delegation of the fund management services.

(8) The service provider may start providing the fund investment management services to the company, if the Commission, within 30 days after receipt of the documents referred to in Paragraphs four and six of this Section, has not sent to the company a decision prohibiting the company from receiving the planned fund investment management service from the relevant service provider.

(9) In case of delegation of administrative management or marketing services of the fund, the company shall inform the Commission thereof within five working days from the entering into the delegation contract, and submit to the Commission the original of the delegation contract or a copy thereof the authenticity whereof is certified by a company's official.

(10) The company shall include at least the following provisions in the delegation contract:

1) a description of the fund management service to be received;

2) the exact requirements of the volume and quality of the fund management service to be received;

3) the rights and obligations of the company and of the service provider, including:

a) the company’s rights to monitor, on a regular basis, the quality of the provision of the delegated fund management service,

b) the company’s rights to give mandatory enforceable instructions to the service provider in the issues related to honest, quality, timely fulfilment of the delegated fund management service conforming to the laws and regulations,

c) the company’s rights to request from the service provider to immediately terminate the delegation contract upon receipt of a written request;

4) the rights of the Commission to become acquainted with the documents referred to in Paragraph thirteen of this Section and to request other information from the service provider related to the delegation of the fund management services and necessary for the performance of the functions of the Commission.

(11) The Commission prohibits to delegate the fund management services, if:

1) delegation of the fund management service interferes with a full-fledged management of the fund by the company and may infringe upon the interests of the fund investors;

2) delegation of the fund management service interferes with the supervision of the company’s activities by the Commission;

3) delegation contract does not conform to the requirements laid down in this Law and does not provide clear and fair presentation of the expected cooperation between the company and the service provider during the term of the delegation contract;

4) the fund prospectus does not mention the service which the company intends to delegate to another person;

5) after delegation of the services, the company no longer provides any of the services included in the fund management.

(12) The company shall ensure that, not later than 10 days before another person starts providing the delegated fund management service, the fund investors are informed thereof in accordance with the procedures specified in the fund rules or the fund prospectus. In the notification to the fund investors, the company shall indicate the type of the delegated fund management service and information on the service provider referred to in Section 57, Paragraph three, Clause 22 of this Law.

(13) The Commission has the right to carry inspection of the activities of the service provider at the location thereof or at the place of provision of the service, become acquainted with all documents, record keeping and accounting registers, make copies thereof and request that the service provider submits information related to the provision of the delegated fund management service and necessary for the performance of the functions of the Commission.

(14) The Commission is entitled to request that the company which has delegated the fund management services to another person to immediately terminates the effective delegation contract, if it detects that:

1) the company does not perform the on-going supervision of the quality of the provision of the delegated fund management service, or performs irregularly and insufficiently;

2) the company does not perform the management of risks pertaining the delegated fund management service, or performs it irregularly and in poor quality;

3) there are material deficiencies in the activity of the service provider that threaten or might threaten the fulfilment of the company's obligations;

4) any of the circumstances referred to in Paragraph eleven of this Section has occurred.

(15) The delegation of a management service to another person shall not release the company from the responsibility for the fund management as specified in this Law.

[*8 March 2007; 11 March 2010; 13 October 2011; 9 July 2013*]

**Section 16. Transfer of the Fund Management Rights to Another Company**

(1) A company may transfer the management of fund established by it to another company upon authorisation of the Commission only.

(2) In order to receive authorisation from the Commission for the transfer of the fund management, the company shall submit to the Commission a motivated submission. The submission shall be accompanied by the following documents:

1) a fund transfer contract;

2) amendments to the fund prospectus, key investor information and the fund rules, and also amendments to the custodian bank agreement which are necessary to be introduced due to the change of the company.

(3) The Commission shall, within one month after receipt of all the documents referred to in this Section, take a decision on authorisation to transfer the fund management to another company, if the following conditions have been met:

1) transfer of the fund management does not infringe upon the interests of fund investors;

2) documents submitted for the transfer of the fund management have been prepared in accordance with the requirements laid down in this Law;

3) the company to which the fund management has been transferred meets the requirements laid down in this Law for the capital of the company.

(4) The company transferring the fund management, after receipt of the Commission’s decision, in accordance with the procedures specified in the fund rules, shall without delay inform all fund investors of the change of the company, and also shall publish an announcement regarding the transfer of the fund management to another company in the official gazette *Latvijas Vēstnesis* and in at least one daily newspaper. The announcement shall include the firm name, registration number, and location of the board of the relevant company.

(5) The contract for the transfer of the fund management to another company shall enter into effect no earlier than one month after publishing of the announcement referred to in Paragraph four of this Section. Amendments to the fund prospectus, key investor information, the fund rules and the custodian bank agreement shall enter into effect concurrently with the contract for the transfer of the fund management.

(6) Upon entering into effect of the contract for the transfer of the fund management, all rights and liabilities related to the investment fund shall devolve to the new company.

(7) If the company wishes to transfer the fund management rights to a company licensed in another Member State, the company to which it is planned to transfer these fund management rights shall conform to the provisions of Section 77.1 of this Law in addition to the provisions of this Section.

[*8 March 2007; 13 October 2011; 9 July 2013*]

**Section 17. Transfer of the Fund Management Rights to a Custodian Bank**

(1) In case of expiry of the rights of a company to manage a fund, the rights to manage the fund shall devolve to the custodian bank of this fund, except for the case specified in Section 16 of this Law.

(2) The custodian bank shall, without delay, submit an announcement regarding the transfer of the fund management rights for publication in the official gazette *Latvijas Vēstnesis* and at least one daily newspaper. The announcement shall indicate:

1) the firm name of the company under management of which the relevant fund was;

2) the name of the investment fund;

3) the firm name and location of the board of directors of the custodian bank.

(3) The company the fund management rights of which have expired otherwise than by the transfer of the fund management rights to another company shall, without delay, transfer to the custodian bank all documents related to the fund management.

(4) A custodian bank to which the investment fund management rights have been transferred has all the rights of the company, except for the right to issue fund investment certificates under the management thereof and to perform repurchase of the certificates.

(5) Within three months from the day of transfer of the fund management rights, the custodian bank shall transfer the fund management rights to another company. The Commission may extend this time period up to six months.

(6) The fund management rights shall be transferred to another company only upon consent of the Commission.

(7) If the custodian bank fails to transfer the fund management rights to another company within the time periods specified in Paragraph five of this Section, the custodian bank shall perform the liquidation of the fund.

[*9 July 2013*]

**Section 18. Expiry of the Fund Management Rights**

The rights of a company to manage an investment fund shall expire:

1) upon transfer of the fund management rights to another company;

2) upon cancellation of the licence;

3) [9 July 2013];

4) upon completion of the fund liquidation, if performed by the company itself;

5) upon the moment when the Commission appoints a fund liquidator in accordance with the provisions of Section 35, Paragraph six of this Law.

[*9 July 2013*]

**Section 19. Reorganisation and Liquidation of a Company**

(1) A company may be reorganised or liquidated only upon authorisation of the Commission. Upon assessing the reorganisation process of the company, the Commission may, in order to ensure protection of interests of investors, impose an obligation to fulfil particular reorganisation conditions on the company in addition to the obligations referred to in the Commercial Law.

(2) The company shall be reorganised or liquidated in accordance with the Commercial Law.

(3) [19 June 2008]

(4) [19 June 2008]

(5) [19 June 2008]

(6) The company may not complete the liquidation thereof prior to the expiry of its rights to manage all investment funds under the management thereof and the settlement of all liabilities to its other clients.

[*19 June 2008*]

**Chapter III. Investment Fund**

**Section 20. Legal Status of an Investment Fund and Property Thereof**

(1) An investment fund is an open-ended fund aimed at uniting the publicly attracted monetary assets for investing in the investment objects specified in this Law conforming to the risk spreading principle and investment limits specified in this Law, and where the company managing such fund has an obligation, upon request of fund investors, to repurchase the investment certificates not later than within one month. An investment fund is not a legal person.

(2) The fund property is the joint property of investors of the fund or its sub-funds (if the fund has been established as the fund with sub-funds) and it shall be kept, registered, and managed separately from the property of the company, of other funds or sub-funds under its management (if the fund has been established as the fund with sub-funds), and also of the custodian bank. The fund property (if the fund has been established as the fund with sub-funds) is the joint property of sub-funds. Such fund may not have property that does not fall within any of the sub-funds.

(3) A fund investor has no right to request division of the fund. The pledgee of the pledged property of the investor, creditor, or administrator of the insolvency proceedings of the investor shall not have such rights, either.

(4) The fund property shall not be included in the property of the company, custodian bank, or third party to which the custodian bank holds the fund assets transferred to it, as in the debtor’s property, and distributed or disposed of for the benefit of creditors, if the company, custodian bank, or the relevant third party has been declared insolvent or the liquidation of the debtor has been initiated.

(5) Claims against a fund investor in respect of his or her liabilities may be directed against his or her investment certificates but not against the fund property.

[*8 March 2007; 9 July 2013; 30 March 2017*]

**Section 21. Types of Funds**

[9 July 2013]

**Section 22. Establishment of a Fund**

(1) A company shall establish a fund, by approving a fund prospectus, key investor information, and the fund rules and entering into a custodian bank agreement.

(2) The decision on the approval of the fund prospectus, key investor information, and the fund rules shall be taken by the management body specified in the articles of association of the company.

(3) The company may commence the issue of investment certificates and the fund management only after registration of the fund with the Commission.

(4) An investment fund may be established as a fund with sub-funds.

(5) The fund prospectus may specify different investment policy, payment terms for management services, and currency of payment for each sub-fund.

(6) The requirements laid down in this Law in respect of an investment fund and the restrictions in relation to an investment fund with sub-funds shall apply to each sub-fund separately.

(7) The company which establishes and manages a money market fund shall comply with the requirements governing the activity thereof which are laid down in Regulation No 2017/1131, this Law, and the regulatory provisions of the Commission.

(8) The Commission shall examine a submission of a company licensed in another Member State for establishing an investment fund in accordance with the procedures laid down in Section 77.1 of this Law.

[*9 July 2013; 25 October 2018*]

**Section 23. Registration of a Fund**

(1) In order to register a fund, a company shall submit a submission to the Commission. The following shall be attached to the submission:

1) the fund prospectus (two original copies);

11) key investor information (two original copies);

2) the fund rules (two original copies);

3) the custodian bank agreement;

4) a list of employees of the custodian bank who will be responsible for the performance of functions of the custodian bank (indicating the employee’s given name, surname, personal identity number, and work experience within the last three years).

(2) The company shall submit the documents referred to in Paragraph one of this Section to the Commission in one of the following ways:

1) in electronic form in accordance with the laws and regulations regarding the development and drafting of electronic documents;

2) in printed form (in such case the documents are submitted also in electronic form, sending them to the electronic mail address of the Commission).

(3) The Commission shall, within 60 days after receipt of all the documents which have been prepared in accordance with the requirements of the laws and regulations, take a decision on the registration of the fund.

(4) The Commission shall not register a fund in following cases:

1) the company’s own funds do not meet the requirements laid down in this Law;

2) documents submitted for the registration of the fund do not meet the requirements laid down in this Law;

3) employees of the custodian bank who will be responsible for the fulfilment of obligations of the custodian bank lack the appropriate experience to ensure qualified fulfilment of obligations of the custodian bank;

4) the fund rules or the fund prospectus provides that investment certificates may not be publicly traded in Latvia;

5) the company does not have a valid licence for the provision of management services.

[*24 October 2002; 18 March 2004; 8 March 2007; 13 October 2011; 9 July 2013*]

**Section 24. Name of a Fund**

(1) The name of a fund shall include the word combination “*ieguldījumu fonds*” or “*investīciju fonds*” [investment fund] or its abbreviation “*IF*”. These word combinations and the abbreviation may not be included in the firm names of merchants.

(2) The name of a fund must differ significantly from the names of other funds the investment certificates of which or securities comparable thereto are distributed in Latvia.

[*24 October 2002*]

**Section 25. Rights of Fund Investors**

(1) A fund investor has the following rights:

1) to transfer his or her investment certificates without restriction, unless otherwise provided for in the law;

2) in proportion to the number of investment certificates in accordance with the law and fund prospectus, to participate in allocation of income obtained in transactions with the fund property;

3) in proportion to the number of investment certificates, to participate in the allocation of proceeds from fund liquidation.

(2) A fund investor has the right to request that the company repurchases his or her investment certificates.

(3) [9 July 2013]

(4) Other rights of fund investors shall be determined in the law and the fund prospectus.

[*9 July 2013*]

**Section 26. Limitation of Liability of Fund Investors**

(1) A fund investor shall not be liable for the liabilities of the company.

(2) A fund investor shall be liable for claims which may be directed against the fund property only in the amount of the fund shares owned by him or her.

(3) Agreements which are in contradiction with the provisions of this Section shall be null and void from the moment of entering into thereof.

**Section 27. General Meeting of Closed-Ended Fund Investors**

[9 July 2013]

**Section 28. Fund Management Rules**

(1) The fund management rules (hereinafter – the rules) shall determine the procedures for fund management and investment limits.

(2) The rules shall be freely accessible to all fund investors upon their request.

(3) The rules shall specify:

1) the name of the fund;

2) the firm name, registration number, registered office, and licence number of the company;

3) the general principles of and procedures for the fund management, in particular, indicating decision-taking competences and procedures for dealing with the fund property;

31) fund investment limits;

4) procedures for servicing of fund investors, in particular, indicating the procedures for:

a) the issue of the fund prospectus and key investor information;

b) [24 October 2002];

c) [24 October 2002];

d) provision of information in respect of those changes in the allocation of income obtained in the transactions with the fund property which affect the fund operation, and similar events;

e) performance of the issue, repurchase, and redemption of investment certificates;

5) principles for calculation of the fund value, sale and repurchase prices of investment certificates, and also fund income;

51) the fact that the assets of the different share classes of investment certificates of a fund (if such share classes of investment certificates have been established) are invested according to the investment policy specified in the fund prospectus and in conformity with the investment restrictions specified. The rights and liabilities attached to investment certificates shall cover all the property of the fund. Equal rights shall be attached to the same share class of investment certificates of the same fund;

52) the typical characteristics of the investment certificates of each share class, the attached rights and the special nature of transactions for the implementation of these rights, and also provide a reference regarding division of the fund income and fixed fee which are not directly related to the transactions of the investment certificates of the relevant share class;

53)the procedures for the accounting of the fund transactions to ensure that the operating surplus of transactions within one share class of investment certificates does not affect the attached rights and interests of investors in another share class of investment certificates, and also the procedures for exchanging one share class of investment certificates for another share class of investment certificates, if such an option is provided for;

6) the procedures for fund liquidation;

7) the procedures for the performance of the transfer of fund management rights and property to the custodian bank or other persons;

8) the procedures for the performance of collaboration of the company with the custodian bank in respect of fund management;

9) [9 July 2013];

10) a list of the payment types within the competence of the fund and the procedures for the calculation thereof;

11) the procedures for giving public announcements and publicly available information;

12) the procedures for amending the rules.

(4) The rules may also include other provisions which are not in contradiction with the law or the regulations of the Commission.

(5) If the rules are amended, the company shall submit to the Commission a submission for the registration of the amendments to the rules. The following shall be attached to the submission:

1) a decision taken by the management body of the relevant company to approve the amendments to the rules;

2) the amendments to the rules and the text of the rules incorporating the amendments. The amendments to the rules and the text of the rules shall be submitted to the Commission in one of the ways referred to in Section 23, Paragraph two of this Law.

3) [11 March 2010]

(6) The Commission shall review the submitted amendments and, within 15 working days, register amendments if they meet the requirements of this Law and are not in contradiction with the lawful interests of fund investors.

(7) Amendments to the rules shall enter into effect no earlier than 10 days after registration thereof with the Commission or within any other time period stipulated by the Commission which may not exceed three months as from the date of registration of the amendments and is determined, taking into account the contents of amendments to the rules and interests of the fund investors.

(8) If the company wishes to amend the information which is provided in accordance with Paragraph three, Clause 2 of this Section, the company shall introduce the corresponding amendments to the rules without prior registration thereof with the Commission and shall submit to the Commission the full text of the rules in accordance with Paragraph three, Clause 2 of this Section. The amendments to the rules shall take effect after approval thereof by the management body of the company.

[*24 October 2002; 18 March 2004; 8 March 2007; 19 June 2008; 11 March 2010; 13 October 2011; 9 July 2013; 30 March 2017*]

**Section 29. Fund Manager**

(1) The board of a company shall appoint a manager to each investment fund (hereinafter – the fund manager) who shall deal with the property of the managed fund according to the articles of association of the company and the fund management rules.

(2) The fund manager may work only in one investment company.

(3) The fund manager may manage several funds under the management of one company.

**Section 30. Fund Value and Fund Share Value**

(1) The fund value (hereinafter also – the net value of fund assets) is the difference between the value of assets and the value of liabilities of the fund. The sub-fund value is the difference between the value of assets and the value of liabilities of the sub-fund.

(2) A fund share is the claim right attached to one investment certificate in conformity with the fund share value. If the fund has different share classes of investment certificates, the claim rights attached to an investment certificate shall be determined separately for each share class in conformity with the provisions of the fund prospectus or the fund management rules.

(3) The fund share value is the fund value divided by the number of investment certificates issued, but not repurchased. The sub-fund share value is the sub-fund value divided by the number of investment certificates issued, but not repurchased. If the fund has different share classes of investment certificates, the value of investment certificates of each share class shall be calculated, taking into account the rights attached to the investment certificates of the respective share class.

(4) The company shall establish the fund share value on a daily basis.

(5) [9 July 2013]

[*8 March 2007; 9 July 2013*]

**Section 31. Remuneration to a Company, Custodian Bank and Third Parties**

(1) Remuneration to a company, custodian bank, and third parties, and also any other payments, covered by the investment fund, shall be paid from the fund property in conformity with the provisions of the fund prospectus.

(2) If the assets of investment funds are invested in investment funds managed by the company itself or by another company to which management service has been delegated or having close links with the company or a qualifying holding in the company, none of those companies has the right to receive a commission and a compensation for transactions related to investing fund property in the investment certificates of such funds or their repurchase.

(3) The commercial companies shall be considered as belonging to one group, if the financial statements of such commercial companies are subject to consolidation in accordance with internationally recognised accounting standards.

[*8 March 2007; 13 October 2011; 9 July 2013*]

**Section 32. Transactions with Fund Property**

A company shall perform transactions with the fund property in accordance with this Law, the fund prospectus, and the fund management rules.

**Section 33. Transaction Restrictions**

(1) A company does not have the right to undertake liabilities at the expense of fund property if such liabilities do not directly relate to the fund.

(2) The company may not perform transactions with the fund property without compensation.

(3) Claims against the company and claims included in the fund property shall not be subject to set-off.

(4) The fund property may not be pledged or otherwise encumbered with rights in rem, except if:

1) it serves as a collateral when receiving loans in accordance with the procedures laid down in Paragraphs nine and ten of this Section;

2) sales transactions with repurchase (repo) are performed at the expense of the fund property;

3) it serves as a collateral when performing transactions with the financial derivative instruments referred to in Section 65 of this Law.

(5) The company may not, by direct agreement, transfer the fund property in favour of:

1) the company managing such fund and its stakeholders;

2) [24 October 2002];

3) other funds managed by the same company.

(6) The company may not, by direct agreement, purchase property from persons referred to in Paragraph five of this Section at the expense of the fund.

(61) The restrictions on transactions with stakeholders of the company, referred to in Paragraph five, Clause 1 and in Paragraph six of this Section, shall not apply to transactions with the stakeholders of the company that are credit institutions registered in Latvia or in another Member State.

(7) The fund property may be used for the acquisition of the securities issued by any person referred to in Paragraph five, Clause 1 of this Section only through the mediation of the regulated market.

(8) The following activities may not be performed at the expense of the fund:

1) to fulfil the liabilities of the company which have occurred on its behalf and at its expense;

2) to issue securities, except for investment certificates;

3) to undertake liabilities arising from surety agreements;

4) to grant loans. The abovementioned prohibition shall not apply to asset reverse repurchase transactions (reverse repo) that may be performed provided that the restrictions referred to in this Law are conformed to.

(9) The company may take loans at the expense of the fund if such loans are taken for a period up to three months and the total amount thereof does not exceed 10 per cent of the fund value.

(10) [9 July 2013]

(11) The company may not take loans at the expense of an open-ended fund from persons referred to in Paragraph five of this Section, except for interest-free loans from the company and loans from the custodian bank at an interest rate which does not exceed the average credit interest rate of the financial market at the moment of taking the loan.

(12) The company may not sell financial instruments at the expense of the fund or undertake liabilities for selling financial instruments, if these financial instruments are not the fund property at the time of entering into the transaction.

(13) The company may not purchase property at the expense of the fund for a price above the market price or to transfer the fund property for a price below the market price.

(14) Shareholders of a company having a qualifying holding in the company may make investments in the investment fund established by the company, if, by the shareholder investing assets in the fund or withdrawing from the fund, the legitimate interests of other fund investors are not infringed.

(15) If a shareholder of a company having a qualifying holding in the company has invested assets in accordance with the provisions of Paragraph fourteen of this Section, the statements of the fund shall provide information on the volume of such investments.

(16) Upon managing a fund and receiving collateral according to the concluded financial collateral contracts, receiving guarantees, performing repurchase transactions of assets and also when lending securities or making other transactions in transferable securities and money market instruments, the company shall ascertain whether these transactions ensure an efficient management of the fund investment portfolio.

(17) An efficient management of the fund investment portfolio is ensured, if transactions referred to in Paragraph sixteen of this Section meet the following criteria:

1) the use thereof is feasible and economically beneficial;

2) the use thereof is intended for achieving at least one of the following aims:

a) risk spreading,

b) cost reduction,

c) increase of the fund net value or income in accordance with the fund investment risk profile and the investment limits referred to in Section 66 of this Law;

3) the risks pertaining thereto are adequately integrated into the fund risk management process.

[*1 June 2000; 24 October 2002; 18 March 2004; 8 March 2007; 19 June 2008; 11 March 2010; 13 October 2011; 9 July 2013*]

**Section 34. Reorganisation of a Fund**

(1) Division of a fund shall not be permitted.

(2) Investment funds and sub-funds may be merged as specified in Section 1, Clause 32 of this Law, in the form of both domestic merger and the cross-border merger.

(3) [9 July 2013]

(4) The Commission shall authorise the domestic and the cross-border merger of funds or sub-funds, if the merging fund involved in the cross-border merger has been registered in Latvia.

(5) According to the merger of investment funds specified in Section 1, Clause 32, Sub-clause “a” of this Law:

1) all assets and liabilities of the merging fund shall be transferred to the receiving fund or the custodian bank of the receiving fund;

2) investors of the merging fund shall become the investors of the receiving fund and, if the terms of the merger provide so, they are entitled to a cash payment not exceeding 10 per cent of the net asset value of the investment certificates of the merging fund owned thereby;

3) upon the moment when the merger enters into effect, the merging fund shall be deemed as liquidated.

(6) According to the merger of investment funds specified in Section 1, Clause 32, Sub-clause “b” of this Law:

1) all assets and liabilities of the merging fund shall be transferred to the newly established receiving fund or to the custodian bank of the receiving fund;

2) investors of the merging fund shall become the investors of the newly established receiving fund and, if the terms of the merger provide so, they has the right to a cash payment not exceeding 10 per cent of the net asset value of the investment certificates of the merging fund owned thereby ;

3) upon the moment when the merger enters into effect, the merging fund shall be deemed as liquidated.

(7) According to the merger of investment funds specified in Section 1, Clause 32, Sub-clause “c” of this Law:

1) net assets of the merging fund shall be transferred to the receiving fund or to the custodian bank of the receiving fund;

2) investors of the merging fund shall become the investors of the receiving fund;

3) the merging fund shall continue to exist until the liabilities will have been discharged in full.

(8) The management company of the receiving fund shall develop the procedure that includes the procedures by which the custodian bank of a fund is notified of a completed transfer of assets and, where applicable, liabilities.

(9) Six months after receipt of an authorisation for a merger the receiving fund may exceed the investment limits specified in Section 66 of this Law, except for those referred to in Paragraphs seven and thirteen thereof.

(10) Investors of the funds involved in the fund merger process have the right to request repurchase of their investment certificates without any charge other than the charge retained by the funds to cover costs for reducing or selling of investment or, where possible, to convert them into the investment certificates of another fund that has a similar investment policy and is managed by the same company or another company that has close links with the company or a qualifying holding in the company. These rights shall take effect when the investors of the merging fund and of the receiving fund are informed of the proposed merger in accordance with Section 34.1, Paragraph four or Section 34.2, Paragraph nine of this Law and they shall cease to exist five business days before the date for calculating the exchange ratio referred to in Section 34.1, Paragraph sixteen of this Law.

(11) During the fund merger, the Commission has the right, for the purposes of protection of legitimate interests of the investors, to require or allow the company to carry out temporary suspension of the sale, repurchase, or redemption of the investment certificates of funds. If the Commission has taken the decision referred to in this Paragraph, it shall not release the company from an obligation to ensure conformity with the requirements of Paragraph ten of this Section, whereas during the validity of the decision it is entitled not to conform to the requirements laid down in Section 54, Paragraph one of this Law.

(12) The companies involved in the merger shall ensure that all costs related to the merger are covered from own assets of the companies.

[*13 October 2011; 9 July 2013*]

**Section 34.1 Domestic Merger of Funds**

(1) To receive the authorisation from the Commission for a merger of funds or sub-funds, the company managing the merging fund shall submit to the Commission the following documents:

1) the common draft terms of the proposed merger, approved by the management companies of the merging funds and of the receiving funds;

2) a statement by the custodian bank of the merging fund and of the receiving fund, confirming that information on the fund referred to in Paragraph seven, Clauses 1, 6, and 7 of this Section conforms to the requirements of this Law, the relevant fund prospectus, and the management rules;

3) information that the merging fund and the receiving fund intend to provide to investors thereof regarding the proposed merger;

4) amendments to the custodian bank agreement, if needed.

(2) The companies involved in the merger shall ensure that information prepared for investors of the merging fund and of the receiving fund that is specified in Paragraph one, Clause 3 of this Section gives a fair presentation of the merger in order the investors could assess the impact of the merger on their investment and take a decision on the exercise of the rights provided for investors as specified in Section 34, Paragraph ten of this Law.

(3) The information indicated in Paragraph one, Clause 3 of this Section shall contain the following:

1) a description and basis of the proposed merger;

2) the potential impact of the proposed merger on investors of both the merging fund and the receiving fund, including material differences in respect of investment policy and strategy, costs, expected outcome, drawing up of periodic reports and potential performance, and, where taxes or fees applicable to investors change, information on the procedures for further application of taxes or fees;

3) the rights granted to investors in relation to the proposed merger, including the rights to obtain additional information, the right to obtain a copy of the opinion referred to in Paragraph nine of this Section, and the right to request the repurchase or, in conformity with Section 34, Paragraph ten of this Law, the conversion of their investment certificates without a charge and the date by which that right may be exercised;

4) the essential aspects of the merger procedure and the day of entering into effect of the planned merger of funds;

5) key investor information of the receiving fund.

(4) Information shall be provided to the investors of the merging fund and of the receiving fund after the Commission has authorised the proposed merger in accordance with Paragraph twelve of this Section. Information shall be provided at least 30 calendar days before the last day when the investors may exercise their rights specified in Section 34, Paragraph ten of this Law to request repurchase of their investment certificates of funds or sub-funds or, where appropriate, convert them into other investment certificates without a charge.

(5) If the Commission detects that information prepared for investors fails to conform to the requirements of this Law, the fund prospectus, or the management rules, the Commission may request in writing that such information is adjusted.

(6) If investment certificates of the merging fund or of the receiving fund are distributed in another Member State, the fund management company shall prepare information referred to in Paragraph one, Clause 3 of this Section also in the official language of the host state of the fund or in the language accepted by the competent authority of that state. A person who is entitled to take decisions on behalf of the merging fund shall certify the conformity of the information specified in the translation with the information specified in the documents drawn up in the original language.

(7) The common draft terms of the merger shall include the following information:

1) the type of merger and of the funds involved;

2) a description and basis of the proposed merger;

3) the expected impact of the proposed merger on the investors of both the merging fund and the receiving fund;

4) the criteria adopted for valuation of the assets and, where appropriate, the liabilities on the date for calculating the exchange ratio, and which are specified in accordance with the procedures referred to in Paragraph sixteen of this Section;

5) the calculation method of the exchange ratio of investment certificates;

6) the day when the entering into effect of the merger is intended;

7) the rules applicable, respectively, to the transfer of assets and the exchange of investment certificates;

8) if the merger is in accordance with Section 1, Clause 32, Sub-clauses “b” and “c” of this Law, draft of fund prospectus of the newly established fund, fund management rules and key investor information.

(8) The information not specified in Paragraph seven of this Section may additionally be included in the common draft terms of the merger.

(9) The companies involved in the merger shall authorise one of the custodian banks of the fund or auditors to prepare an opinion on:

1) the criteria adopted for valuation of the assets and, where appropriate, the liabilities on the date for calculating the exchange ratio in accordance with Paragraph sixteen of this Section;

2) the amount of cash payment per one investment certificate;

3) the calculation method of the exchange ratio, and also the actual exchange ratio specified at the date for calculating the abovementioned ratio in accordance with Paragraph sixteen of this Section.

(10) The opinion referred to in Paragraph nine of this Section shall be submitted to the Commission and, upon request and free of charge, it shall also be provided to investors of the merging fund and of the receiving fund.

(11) The Commission has the right to request that the company adjusts the documents and information referred to in Paragraph one of this Section that have been submitted to the Commission. The Commission shall request that referred to additional information be submitted to it within 10 working days after receipt of the documents referred to in Paragraph one of this Section.

(12) The Commission shall take a decision on the authorisation or prohibition to merge funds within 20 working days after receipt of all the documents referred to in Paragraphs one, nine, and eleven of this Section that have been prepared and drafted in accordance with the requirements of the laws and regulations. Upon taking a decision to authorise the merger of funds in accordance with Section 1, Clause 32, Sub-clause “b” or “c” of this Law the Commission shall simultaneously take a decision on the registration of the newly established fund.

(13) The Commission shall take a decision to authorise the fund merger provided that the following conditions are met:

1) the submitted documents meet the requirements of this Law;

2) the fund merger does not infringe upon the legitimate interests of investors of the funds to be merged;

3) the receiving fund is allowed to distribute its investment certificates in the home state of the merging fund and also in all Member States in which the merging fund has received an appropriate authorisation for the distribution of investment certificates;

4) information that the merging fund and the receiving fund intend to provide to their investors on the proposed merger meets the requirements of this Law, the fund prospectus, and the fund management rules.

(14) The Commission’s decision to authorise the merger of funds or sub-funds and register a newly established fund shall take effect on the fortieth calendar day after notifying the company of the decision. After the effective date of this decision, the merger may not be declared null and void.

(15) After receiving the authorisation of the Commission the company shall send the information referred to in Paragraph one, Clause 3 of this Section on the proposed merger to investors of the funds or sub-funds according to the procedures specified in the fund prospectuses, and before commencing the merger of funds or sub-funds it shall also repurchase investment certificates from those investors who have requested to repurchase their investment certificates of the fund or of the sub-fund.

(16) On the day when the decision referred to in Paragraph fourteen of this Section enters into effect the exchange ratio shall be calculated for exchange of investment certificates of the merging fund into investment certificates of the receiving fund and, where the terms of the merger provide for a cash payment, the day for determining the relevant net asset value for cash payments shall be specified.

(17) The Commission shall determine detailed content, format, and manner of providing information to the investors of the merging fund and of the receiving fund.

[*13 October 2011; 9 July 2013*]

**Section 34.2 Cross-border Merger of Funds**

(1) In order to perform a cross-border merger of funds, the applicable type of fund merger shall be the one allowed by the laws and regulations of the home state of the merging fund. In the cross-border merger of funds the company shall conform to the procedures laid down in Sections 34 and 34.1 of this Law, unless it is in contradiction with the provisions of this Section.

(2) If the merging fund involved in a cross-border merger has been registered in Latvia, the management company of the merging fund, before commencing the merger, shall submit to the Commission the documents referred to in Section 34.1, Clause 1 of this Law, and also the most recent version of the receiving fund’s prospectus, fund management rules, or a document equivalent to fund management rules and key investor information.

(3) The documents referred to in Section 34.1, Paragraph one of this Law and in Paragraph two of this Section shall be submitted to the Commission in both the Latvian language and in the official language of the home state of the receiving fund or in the language accepted by the respective competent authority.

(4) When all documents referred to in Section 34.1, Paragraph one of this Law and in Paragraph two of this Section, drafted in accordance with the requirements of this Law, have been submitted to the Commission, the Commission shall immediately send copies of those documents to the competent authority of the home state of the receiving fund.

(5) If the competent authority of the home state of the receiving fund requests to adjust the investor information of the receiving fund, the Commission shall take a decision on the fund merger only after the submitted documents have been adjusted according to the instructions of the competent authority of the home state of the receiving fund.

(6) If the receiving fund involved in a cross-border merger has been registered in Latvia, the Commission may request, within 15 working days after receipt of the documents from the competent authority of the home state of the merging fund, that the company managing the receiving fund adjusts investor information. In such case the Commission shall inform the competent authority of the home state of the merging fund thereof and within 20 working days after receiving the adjusted information it shall send it to the competent authority of the home state of the merging fund.

(7) In case of a cross-border merger of funds, the Commission, upon taking the decision referred to in Section 341, Paragraph twelve of this Law, shall take into account the information provided by the competent authority of the home state of the receiving fund on the conformity of investor information of the receiving fund with the requirements of the laws and regulations of that country. If within 20 working days after the day when the Commission, in accordance with Paragraph four of this Section, has sent copies of documents to the competent authority of the home state of the receiving fund, the Commission has not received any instruction regarding the need to adjust key investor information of the receiving fund, the Commission may take a decision to authorise or prohibit the fund merger.

(8) The Commission shall inform the competent authority of the home state of the receiving fund of its decision to authorise or prohibit the fund merger.

(9) In case of a cross-border merger of funds, information on the proposed merger referred to in Section 34.1, Paragraph one, Clause 3 of this Law shall be provided to investors of the merging fund and of the receiving fund after the competent authority of the home state of the merging fund has authorised the proposed merger.

(10) In case of a cross-border merger of funds, a copy of the opinion referred to in Section 34.1, Paragraph nine of this Law shall be provided upon request and free of charge to the competent authorities of the funds involved in the merger. In such case the opinion shall also be prepared in the language accepted by the competent authority of the relevant country.

(11) The day when the decision on authorisation of the merger enters into effect shall be determined in accordance with the requirements of the laws and regulations of the home state of the receiving fund. Where the receiving fund has been registered in Latvia, the decision shall enter into effect on the fortieth calendar day after the competent authority of the home state of the merging fund has notified the Commission of its decision.

[*13 October 2011; 9 July 2013*]

**Section 35. Liquidation of a Fund**

(1) Liquidation of a fund shall be performed by a liquidator. The liquidator may be a company, custodian bank, or a person appointed by the Commission.

(2) The company shall perform the liquidation of a fund if:

1) on the next day after termination of the custodian bank agreement, a new custodian bank agreement has not entered into effect;

2) within a year after establishment of the fund no investment certificates have been released into circulation;

3) the company has taken a decision to liquidate the investment fund;

4) the Commission has taken a decision to initiate liquidation of the investment fund.

(3) [8 March 2007]

(4) [9 July 2013]

(5) The custodian bank shall perform the liquidation of the fund if it does not transfer the fund management to the investment company within the time period specified in Section 17, Paragraph seven of this Law.

(6) If the company or the custodian bank fails to commence liquidation of the fund within a month from the day when such liquidation was due to be commenced in accordance with the requirements of this Law, the Commission has the right to appoint a fund liquidator. The Commission shall appoint a liquidator also in case referred to in Paragraph two, Clause 4 of this Section. The liquidator appointed in accordance with the procedures laid down in this Paragraph have all rights conferred upon the company in respect of the liquidation of the fund.

(7) During liquidation, it is prohibited to perform the issue and repurchase of investment certificates, and also allocation of fund income provided for in the fund prospectus between fund investors. The liquidator has the right to perform activities connected with the liquidation only.

(8) The liquidator shall act in the interests of creditors and fund investors.

(9) The liquidator shall be fully liable to fund investors and third parties in respect of the losses caused during liquidation if the liquidator intentionally or due to negligence has violated the law or the fund management rules or has negligently performed his or her duties.

[*1 June 2000; 8 March 2007, 13 October 2011; 9 July 2013*]

**Section 35.1 Liquidation of a Fund on the Basis of a Decision of a Company**

(1) To liquidate a fund on the basis of the decision taken by the company, the company shall receive an authorisation from the Commission before initiating the liquidation of the fund.

(2) To receive an authorisation to commence liquidation of a fund, the company shall submit to the Commission a decision of the board indicating the reason for liquidation of the fund within 20 days after taking of the decision.

(3) Within 30 days after receipt of the documents referred to in Paragraph two of this Section, the Commission shall take a decision on the authorisation to commence the liquidation of a fund or refusal to issue authorisation.

(4) The Commission shall not authorise the commencement of the liquidation of the fund, if such liquidation does not conform to the legitimate interests of investors.

[*8 March 2007; 9 July 2013*]

**Section 36. Announcement Regarding Fund Liquidation**

(1) The liquidator shall immediately notify the Commission of the commencement of liquidation of the fund and publish a relevant announcement in the official gazette *Latvijas Vēstnesis*.

(2) The announcement regarding liquidation shall include information on the liquidator, indicate the time period and place for application of creditors’ claims. The time period for application of creditors may not be shorter than three months from the day the announcement was published.

[*9 July 2013*]

**Section 37. Sale of Fund Property and Satisfaction of Claims**

(1) After commencement of the liquidation the liquidator shall organise and perform sale of the fund property, except for the monetary assets in the fund.

(2) The custodian bank or the liquidator shall allocate the proceeds gained from the selling of the property of the fund to be liquidated and the monetary assets in the fund (hereinafter – the proceeds of liquidation) in the following sequence:

1) claims of secured creditors;

2) claims of the creditors who have applied their claims within the time period specified in the announcement;

3) claims of the creditors who have applied their claims after the time period specified in the announcement, but before the allocation of the proceeds of liquidation.

(3) [30 March 2017]

(4) [30 March 2017]

(5) The remaining proceeds of liquidation shall be allocated among the fund investors in proportion to the number of their investment certificates.

(6) The custodian bank or the liquidator shall submit for publishing in the official gazette *Latvijas Vēstnesis* an announcement regarding the allocation of the proceeds of liquidation among the fund investors, indicating the sum to be paid for one certificate, and also the place and time for making the payments.

(7) All payments to creditors and fund investors shall be made in cash.

[*9 July 2013; 30 March 2017*]

**Section 38. Fund Liquidation Expenses**

(1) During liquidation, the liquidator has the right to cover liquidation expenses from the proceeds of liquidation. These payments shall be included in the fund expenses paid from the fund property and their maximum amount shall be set out in the fund management rules.

(2) Liquidation expenses may not exceed two per cent of the proceeds of liquidation.

[*19 June 2008; 30 March 2017*]

**Section 38.1 Liquidation of a Sub-Fund**

(1) The liquidation of a sub-fund shall be subject to the procedures for the liquidation of the fund specified in this Chapter.

(2) After completion of the liquidation of a sub-fund the company shall make the respective amendments to the fund management rules and to the fund prospectus.

[*8 March 2007*]

**Section 39. Liquidation Reports**

(1) The liquidator on a monthly basis shall submit to the Commission a progress liquidation report.

(2) Within 10 days after completion of liquidation, the liquidator shall submit to the Commission a notification regarding the completion of liquidation and the closing report of liquidation.

[*1 June 2000; 18 March 2004*]

**Chapter IV. Custodian Bank**

**Section 40. General Provisions Set for a Custodian Bank**

(1) A company shall perform transactions with the fund property through a custodian bank.

(2) A custodian bank of a fund registered in Latvia may be a credit institution licensed in Latvia or the branch of a credit institution in Latvia licensed in a Member State.

(21) The company shall ensure that each fund has only one custodian bank.

(3) The custodian bank, upon performing the duties laid down in the law, shall operate honestly, fairly, and professionally, independently of the company and solely in the interests of the fund and the fund investors, and also shall comply with the requirements of Regulation No 2016/438.

(4) The custodian bank may invest its assets in the investment certificates of a fund, whose custodian bank it is, only if the custodian bank is a shareholder of the company managing the fund with a qualifying holding and the provisions of Section 33, Paragraphs fourteen and fifteen of this Law have been met.

(41)The custodian bank may not perform such activities or duties on behalf of a fund or a company thereof which may create a conflict of interest between the custodian bank and the fund, its investors or the company, except for the case where the custodian bank has functionally and hierarchically separated other duties from the duties of the custodian bank which create potential conflicts of interest, and these potential conflicts of interest are properly identified, managed, and supervised in accordance with the internal procedures and the fund investors are informed thereof.

(5) Upon a change of the custodian bank, the new custodian bank, if necessary, shall within six months from the day of entering into effect of the custodian bank agreement take measures so that the operation thereof conforms to the provisions of Paragraph four of this Section.

(6) The custodian bank shall establish a dedicated and independent reporting channel which shall ensure the possibility for its employees to report anonymously within the framework of the custodian bank on violations of this Law and the regulatory provisions of the Commission issued on the basis thereof.

[*1 June 2000; 18 March 2004; 19 June 2008; 13 October 2011; 30 March 2017*]

**Section 41.** **Holding of Fund Property in a Custodian Bank**

(1) The company shall open a separate account in the custodian bank for each fund under management thereof. The name of the fund and the registration number allocated by the Commission shall be regarded as fund identification data, upon opening an account with the custodian bank.

(2) Income from the fund property and income from the issue of investment certificates shall be transferred into the account of the relevant fund held in the custodian bank.

(3) The custodian bank may perform payments from the account of the fund only on the basis of an order by the company in accordance with the law, the fund prospectus, the fund management rules, and the custodian bank agreement.

(4) The custodian bank shall ensure that all monetary assets of the fund are accounted and all payments made by or on behalf of the fund investors for the purchase of the fund investment certificates have been received and entered in one or more of the fund cash accounts:

1) which have been opened in the name of the fund, the company, or the custodian bank, if the company or the custodian bank acts on behalf of the fund;

2) which have been opened in the central bank of a Member State if it provides such service, in a credit institution licensed in Latvia, or in a credit institution licensed in a Member State or a credit institution licensed in a foreign state;

3) in which accounting of the existing monetary assets is performed in accordance with the provisions of Paragraph five of this Section.

(5) Upon carrying out an account of monetary assets or the financial instruments of a fund which are in holding of the custodian bank, the custodian bank shall ensure that:

1) accounting is carried out in such a way as to ensure that the monetary assets and financial instruments of the clients are entered in a timely, complete, and accurate manner;

2) it is possible to separate the monetary assets or financial instruments belonging to the fund at any time from the monetary assets or financial instruments belonging to the custodian bank itself or to another client of the custodian bank;

3) the accounting is regularly compared with the accounting of the monetary assets or financial instruments of the third party with which the monetary assets are being held or with which the custodian bank is holding financial instruments;

4) an appropriate organisational system has been established in order to reduce the risk in relation to the probability of loss or reduction of the client assets or the rights related to such assets which may arise due to the misuse, fraud, poor management, inappropriate accounting of assets or due to negligence.

(6) The custodian bank shall accept into its holding such financial instruments belonging to the fund which may be entered in a financial instrument account opened in the custodian bank and such financial instruments which may be transferred to the custodian bank and shall ensure that they are entered in separate custodian bank accounts opened in the name of the company acting on behalf of the fund or in the name of the fund, and the accounting in accordance with the requirements of Paragraph five of this Section.

(7) The custodian bank shall accept other fund assets into its holding, if it has ascertained that the fund or company acting on behalf of the fund holds the ownership rights of such assets. The custodian bank shall regularly perform an inspection of the abovementioned ownership rights and update the accounting on the basis of the documents certifying the ownership rights provided by the fund or such company which acts on behalf of the fund, and also the information which the custodian bank has an obligation to acquire from public registers, if such is accessible.

(8) The custodian bank shall provide the company with a complete report on the fund assets transferred into the holding thereof according to the procedures specified in the custodian bank agreement.

(9) The custodian bank or a third party with which the fund assets are being held shall not re-use the fund assets transferred into its holding in its name. The re-use of assets shall include any activity with assets accepted into holding, including the transfer, encumbrance, sale, and lending thereof.

(10) The custodian bank is entitled to re-use the assets transferred into the holding thereof in conformity with all of the following conditions:

1) the fund assets are used at the expense of the fund and upon fulfilling the instructions of the company which acts on behalf of the fund;

2) the re-use of assets is beneficial to the fund and is in the interest of its investors;

3) the execution of liabilities arising from transactions is guaranteed by high quality and liquid collateral received by the fund according to the procedures for the transfer of ownership rights. The market value of the collateral shall always be at least the market value of the re-used assets, with the addition of a fee for the re-use of assets.

(11) The monetary assets of a third party and the custodian bank itself may not be entered in the settlement accounts which have been opened in the name of the custodian bank which is acting on behalf of the fund.

[*30 March 2017*]

**Section 42. Obligations of a Custodian Bank**

(1) A custodian bank shall have the following obligations:

1) to keep the fund property in accordance with the law and the custodian bank agreement;

2) to ensure that the issue, sale, repurchase, redemption, and cancellation of the fund investment certificates takes place in accordance with the law, the fund prospectus, and the articles of association of the fund management;

3) to ensure that the value of the fund investment certificates is calculated in accordance with the law, the regulations of the Commission, the fund prospectus, and the articles of association of the fund management;

4) to fulfil orders of the company if they are not in contradiction with the law, the regulations of the Commission, the fund prospectus, the fund management rules, and the custodian bank agreement;

5) to ensure that the fund income is utilised in accordance with the law, the fund prospectus, and the fund management rules;

6) to ensure that remuneration to the fund is disbursed in a timely manner in transactions with the fund property;

7) in case of a merger of investment funds, to certify that the information referred to in Section 34.1, Paragraph seven, Clauses 1, 6, and 7 of this Law in respect of a fund whose custodian bank it is conforms to the requirements of this Law, the respective fund prospectus, and the fund management rules;

8) upon request of the Commission, to provide information received by the custodian bank while performing the functions of a custodian bank of a fund.

(2) [1 June 2000]

(3) The custodian bank has an obligation to bring claims of fund investors against the company on its own behalf, if required under relevant circumstances. This provision shall not restrict the rights of fund investors to bring such claims on behalf thereof.

(4) The custodian bank has an obligation to bring a counterclaim, if recovery proceedings are directed against the fund property in connection with liabilities thereof.

[*1 June 2000; 13 October 2011; 30 March 2017*]

**Section 43. Holding of Assets with a Third Party**

(1) A custodian bank shall be permitted to hold financial instruments or other fund assets with a third party, if there is a justified reason for this and the custodian bank is not avoiding the conformity with the requirements of this Law, it is provided for in the custodian bank agreement, and the conditions of this Section are being conformed to.

(2) It is prohibited for the custodian bank to transfer to third parties the obligations specified in Section 41, Paragraph four and Section 42, Paragraph one, Clauses 2, 3, 4, 5, and 6 of this Law.

(3) Holding of the fund assets transferred into holding of the custodian bank with third parties shall not release the custodian bank from the liability provided for in the law and the custodian bank agreement.

(4) The custodian bank, upon attracting a third party for the holding of the financial instruments of the fund or other fund assets shall comply with the following conditions:

1) expertly and carefully select the third party and during the entire period during which the financial instruments or other fund assets are being held therewith, expertly and carefully periodically inspect and regularly supervise that the third party is fulfilling the obligations entrusted thereto;

2) regularly ascertain that the third party has the appropriate organisational structure, sufficient experience and knowledge to hold the financial instruments of the fund or other fund assets;

3) regularly ascertain that in the state in which financial instruments are being held, the third party is subject to the supervisory requirements governing activities equivalent to those laid down in Latvia and to the supervision thereof, and also ascertain that such party is subject to an annual mandatory audit of a sworn auditor, upon receipt of an opinion on the existence of financial instruments;

4) regularly ascertain that the third party holds the client assets of the custodian bank separately from its assets and the assets of the custodian bank in such a way that they can be clearly identified as assets belonging to clients of a particular custodian bank;

5) regularly ascertain that the third party takes all necessary measures so that in case of the insolvency thereof the fund assets which are being held by the third party are not included in the property of the third party as a debtor;

6) regularly ascertain that the third party is complying with the requirements of Section 40, Paragraphs three and 4.1, Section 41, Paragraphs six, seven, nine, and ten, Section 47, Paragraph one and Paragraph two, Clause 15 of this Law brought forward in relation to the custodian bank.

(5) If the legal acts of a foreign state provide for a separate holding of financial instruments in a commercial company only registered in this foreign state, but there are no such commercial companies in the relevant state that would conform to the requirements referred to in Paragraph four, Clause 3 of this Section, the custodian bank shall be permitted to hold financial instruments in a commercial company registered in a foreign state which does not conform to the requirements of Paragraph four, Clause 3 of this Section for such a period of time until a commercial company conforming to the requirements brought forward in this Section for a third party is registered in a foreign state.

(6) If the custodian bank is holding the financial instruments of a fund in the foreign commercial company referred to in Paragraph five of this Section, the company shall ensure that the fund investors are informed of the holding of financial instruments in a foreign commercial company prior to the performance of the investment, on the basis of that specified in the foreign legal acts regarding the justification for such holding and the risks related thereto and regarding the fact that the custodian bank has received written instructions from the company acting on behalf of the fund for holding these financial instruments in a foreign commercial company.

(7) The third party is permitted to hold the financial instruments of a fund or other fund assets with another party, if the same requirements are complied with in relation to such party as have been brought forward for a third party. The holding of financial instruments or other fund assets with the third parties shall not release the custodian bank from the responsibility specified in this Law for the performance of the duties entrusted thereto.

(8) Within the meaning of this Section the services provided by the payment and financial instrument settlement systems referred to in the law On Settlement Finality in Payment and Financial Instrument Settlement Systems or similar services provided by the foreign financial instrument settlement systems shall not be considered the holding of financial instruments or other fund assets with a third party.

[*30 March 2017 /* *See Paragraph 36 of Transitional Provisions*]

**Section 44. Remuneration to the Custodian Bank**

(1) A custodian bank has the right to remuneration for the provision of services specified in the custodian bank agreement.

(2) Remuneration of the custodian bank shall be covered from the fund property on the basis of an order by the company according to the custodian bank agreement.

**Section 45. Reporting Obligation**

A custodian bank has an obligation to immediately report to the Commission and the company’s council the actions by the company known to the custodian bank which are in contradiction with the law, the fund prospectus, the fund management rules, or the custodian bank agreement.

**Section 46. Liability of the Custodian Bank**

(1) A custodian bank shall be fully liable to the fund, the fund investors, and the company for losses which have been caused if the custodian bank has intentionally violated the law or the custodian bank agreement or has performed its obligations negligently.

(11) The custodian bank shall be liable to the fund and the fund investors for the loss of such financial instruments which are being held by the custodian bank or a third party.

(12) In case of the loss of financial instruments, the custodian bank shall immediately, as soon as possible, replace the lost financial instruments to the fund and the fund investors with financial instruments of the same category, other financial instruments equivalent in value and liquidity to the lost financial instruments, or disburse compensation in cash corresponding to the value of the lost financial instruments. The amount of compensation shall be determined according to the accounting value of the financial instruments belonging to the fund on the day on which the loss of financial instruments was found to be irreversible.

(13) The custodian bank shall not be liable to the fund or the fund investors for the loss of such financial instruments which are being held by the custodian bank or a third party, if the custodian bank can prove that the loss has occurred due to such external circumstances which the custodian bank has not been able to influence by reasonable means and the consequences of which would have been unavoidable despite the efforts to achieve the opposite by reasonable means.

(2) If the custodian bank has given its authorisation to a transaction which does not conform to the provisions of this Law or has failed to submit a complaint regarding violation of the provisions of this Law, the custodian bank and the company shall be jointly liable for the losses caused to the fund.

(3) Liability of the custodian bank which has been specified in accordance with Paragraphs one, 1.1, 1.2, and 1.3 of this Section shall not be excluded or restricted with an agreement. Any agreement which is in contradiction with the first sentence of this Paragraph shall not be in effect from the time of conclusion.

[*30 March 2017 /* *See Paragraph 36 of Transitional Provisions*]

**Section 47. Custodian Bank Agreement**

(1) A custodian bank agreement is an agreement concluded in writing between the company and the custodian bank according to which the custodian bank undertakes to keep the fund property and perform transactions with the fund property and maintenance of the fund accounts in accordance with the law, this agreement, and company orders.

(2) The custodian bank agreement shall include:

1) the firm name, registration number, licence number, registered office, and the location of the board of the company;

2) the firm name, registration number, licence number, registered office, and location of the board of the custodian bank;

3) the name of the fund;

4) the rights and obligations of the parties;

5) the procedures for maintenance of the fund accounts;

6) the amount and manner of payment of custodian bank remuneration;

7) the procedures for covering expenses of the custodian bank incurred while carrying out transactions with the fund property or maintenance of the fund accounts;

8) the procedures by which the custodian bank transfers fund accounts, documents, and other affairs to third parties;

9) the liability for failure to fulfil or duly fulfil the agreement;

10) the validity period of the contract;

11) the procedures for amending provisions of the agreement;

12) the conditions and procedures for early termination of the agreement;

13) the dispute settlement procedures;

14) other provisions arising from the fund prospectus;

15) the procedures for the exchange of information between the company and the custodian bank necessary for the fulfilment of the functions of the custodian bank.

(3) The parties may also include other provisions in the custodian bank agreement which are not in contradiction with the law, the fund prospectus, and the fund management rules.

(4) [30 March 2017]

(5) [30 March 2017]

[*24 October 2002; 13 October 2011; 30 March 2017*]

**Section 48. Termination of Custodian Bank Agreement**

(1) Custodian bank agreements shall terminate in the following cases:

1) upon expiry of the time period specified in the agreement;

2) upon mutual agreement of the parties to the agreement;

3) one party unilaterally withdraws from the agreement, taking into account the time periods specified in Paragraph two of this Section;

4) upon occurrence of circumstances as a result whereof the custodian bank no longer meets the requirements of the law;

5) the custodian bank is declared insolvent;

6) upon dissolution of the custodian bank;

7) liquidation of the fund has been completed;

8) the Commission orders the company to change the custodian bank;

9) in other cases specified in the custodian bank agreement.

(2) The party, unilaterally withdrawing from the agreement, has an obligation to notify the other person thereof three months in advance, unless the custodian bank agreement provides for a longer period of time.

(3) The custodian bank agreement shall not terminate upon transfer of the fund management rights to the custodian bank.

[*30 March 2017*]

**Section 49. Order Regarding Change of the Custodian Bank**

(1) The Commission has the right to give an order to the company to change the custodian bank if the custodian bank violates the provisions of this Law or the custodian bank agreement or if it is necessary for the protection of the interests of fund investors.

(2) In cases specified in Paragraph one of this Section the custodian bank agreement shall terminate within the time period and in accordance with the procedures stipulated by the Commission.

[*24 October 2002*]

**Section 50. Entering into a New Custodian Bank Agreement**

(1) The company shall ensure that on the next day after termination of the custodian bank agreement a new custodian bank agreement enters into effect, except for the cases when the agreement terminates due to fund liquidation.

(2) If the company fails to enter into a new custodian bank agreement within the time period specified in Paragraph one of this Section, it shall commence fund liquidation.

[*1 June 2000*]

**Chapter V. Issue and Circulation of Investment certificates**

**Section 51. Investment certificates**

(1) Public circulation of investment certificates shall take place in accordance with the Financial Instrument Market Law, insofar as it is not laid down otherwise in this Law.

(2) The fund investment certificates may have different share classes with the following characteristics: with a different nominal value, minimum amount of the investment, currency, appropriate fees, different voting rights or the rights to distribute the income of the fund. If investment certificates of different share classes are intended for a fund, the company shall comply with the following provisions:

1) ensure the fulfilment of the requirements laid down in Section  28, Paragraph three, Clauses 5.1 and 5.3 of this Law;

2) upon creating a new or closing an existing share class of investment certificates, the company shall make amendments to the fund prospectus, indicating the information therein referred to in this Paragraph, and also provide an explanation regarding the potential impact on existing investors.

(3) Upon alienation of an investment certificate the undivided shares of the relevant alienator in the fund shall also be transferred to the acquirer.

(4) Investment certificates shall be issued in a dematerialised form.

(5) Investment certificates shall be regarded as publicly traded securities also in cases if they are not listed on a regulated market.

(6) [9 July 2013]

(7) In order to include investment certificates in a regulated market, the fund prospectus and the fund management rules shall be equivalent to a prospectus prepared in accordance with the Financial Instrument Market Law.

(8) Investment certificates shall be divisible. The fund prospectus shall determine the procedures for rounding up of the number of investment certificates after the division thereof.

[*18 March 2004; 8 March 2007; 9 July 2013; 30 March 2017*]

**Section 52. Issue of Investment Certificates**

(1) The number and the period of issue of the investment certificates of an investment fund, except for the structured fund referred to in Article 36 of the Commission Regulation (EU) No 583/2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website (hereinafter – Regulation No 583/2010 of the European Commission), may not be restricted.

(2) [9 July 2013]

(3) [9 July 2013]

(4) Investment certificates shall be issued only in return to full payment of the price of such certificates in cash according to the provisions of the fund prospectus. The cash received for investment certificates, except for the issue commissions, shall be immediately transferred to the fund.

(5) If investment certificates have been released into circulation, but the value of the relevant investment certificates is not transferred to the fund, the company shall invest the missing amount in the fund from its own property.

[*8 March 2007; 13 October 2011; 9 July 2013*]

**Section 53. Price of Investment certificates**

(1) The issue price of an investment shall be the sale price of the first investment certificate.

(2) [9 July 2013]

(3) The issue price of an investment certificate shall be determined by the company according to the provisions of the fund prospectus.

(4) The sale price of and investment certificate shall be the sum of the investment fund share value and the issuing commissions.

(5) Issuing commissions shall be the remuneration to the company for the issue of investment certificates.

(6) Repurchase commissions shall be the remuneration to the company for repurchase of investment certificates.

(7) The sale price of an investment certificate shall be determined concurrently with the fund share value and the information thereof must be available in the places specified in the fund prospectus.

(8) The repurchase price of an investment certificate is the investment fund share value that shall be reduced by the commissions for repurchase according to the fund prospectus. Where the fund has different share classes of investment certificates, the repurchase price of investment certificates shall be established separately for each share class.

(9) If the company announces the sale price of investment certificates it also has an obligation to announce the repurchase price and vice versa.

[*8 March 2007; 9 July 2013*]

**Section 54. Repurchase of Investment Certificates**

(1) The company managing a fund has an obligation to perform repurchase of investment certificates upon request of fund investors by paying to them the repurchase price in cash according to the provisions of the fund prospectus.

(2) Investment certificates shall be withdrawn from circulation when the company receives a repurchase application from an investor and the investor transfers the investment certificate into the issue account of the fund. After withdrawal from circulation, all rights of fund investors arising from the investment certificate shall expire, except for the claim right in the amount of the repurchase price of the investment certificate.

(3) The company may temporarily suspend the repurchase of investment certificates of the fund in the cases and according to the procedures specified in the fund prospectus. Suspension of the repurchase may be provided for only in exceptional cases, if required by circumstances, and suspension is justifiable, taking into account the interests of the investors.

(4) The repurchase price shall be paid from the fund property, according to the procedures and within the time period specified in the fund prospectus.

(5) Investment certificates shall be repurchased in the sequence of submission of repurchase claims.

(6) The company managing the fund shall be released from the obligation to perform repurchase of investment certificates, if the investment certificates are traded on a regulated market and the company managing the fund takes the necessary measures in order to ensure that the market price of the investment certificates does not significantly differ from the fund share value.

[*1 June 2000; 9 July 2013*]

**Section 54.1 Notice Regarding Execution of Purchase and Repurchase Application of Investment Certificates of Investment Fund**

(1) The company shall, via durable medium, send to fund investors a notice confirming the execution of application not later than on the next working day following the execution of application or, where the company receives the confirmation from a third party, not later than on the next working day following the receipt of the confirmation from the third party.

(2) Paragraph one of this Section shall not apply, if the notice of the company contains the same information as the confirmation, to be immediately sent to fund investor by the third party.

(3) The notice referred to in Paragraph one of this Section shall contain the following information:

1) company identification data;

2) identification data of the fund investor (given name, surname or firm name);

3) date and time of receipt of application and the payment method;

4) date of execution;

5) fund identification data;

6) the type of the application – purchase, repurchase, or redemption;

7) number of investment certificates;

8) value the investment certificate at the moment of purchase, repurchase, or redemption thereof;

9) date of valuation of the investment certificate;

10) gross value of the application, including issuing commissions, or net value excluding repurchase commissions;

11) sum total of commissions or other charges related to the transaction and, if the fund investor so requests, an itemised breakdown of charges collected.

(4) If the company executes applications of a fund investor periodically, it shall conform to the requirements of Paragraph three of this Section or at least once every six months it shall provide to the fund investor information specified Paragraph three of this Section regarding executed transactions.

(5) Upon request of the fund investor, the company has an obligation to provide the information on the status of execution of the application of the fund investor.

[*13 October 2011; 9 July 2013*]

**Section 55. Claim for Redemption of Investment Certificates**

(1) If due to the fault of the company the information in the fund prospectus and the documents attached thereto which are significant to the assessment of investment certificates are incorrect or incomplete, a fund investor has the right to request that the company redeems his or her investment certificate and compensates him or her for all losses caused due to this reason.

(2) If in case referred to in Paragraph one of this Section the fund investor has obtained the investment certificate from a person who is engaged in intermediary activity on the securities market, such person together with the company shall be jointly liable for the payment of damages to the fund investor. Such person shall not be liable if he or she proves that he or she has not known and could not know that the information was incorrect or incomplete.

(3) If at the moment when the fund investor has learned that the information is incorrect or incomplete he or she is no longer the fund investor, he has the right to request that the company pays the difference by which the sum invested by him or her exceeds the repurchase price of the investment certificate at the moment of repurchase.

(4) The claim in accordance with the provisions of Paragraphs one, two, and three of this Section may be brought within six months from the day when the fund investor learned that the information was incorrect or incomplete, however, not later than within three years from the day when the investment certificate was acquired.

**Section 56. Fund Prospectus, Key Investor Information and Amendments Thereto**

(1) The issue of investment certificates may not be commenced without a fund prospectus approved by the company. The company shall also develop key investor information in which the information referred to in Section 57.1 of this Law is specified.

(2) The fund prospectus shall include information necessary for investors so that they could take a reasoned decision on the investment offered and the potential risk that may be incurred by such investment.

(21) Key investor information shall present, in a concise form, the most significant performance indicators of the relevant fund. The company shall ensure that key investor information is fair, clear, and not misleading and is consistent with the information referred to in the fund prospectus.

(3) The fund prospectus shall include the information referred to in Section 57 of this Law. The fund prospectus need not repeat the information which is included in the fund management rules of the relevant fund and which is equal to the information referred to in Section 57 of this Law.

(4) The fund prospectus and key investor information shall come into effect upon the registration of the fund with the Commission.

(5) If the company wishes to make amendments to information which is provided in accordance with Section 57, Paragraph three, Clauses 1, 2, 3, 4, 5, 7, 8, 9, 10.1, 11, 12, 13, 14, 15, 16, 23, 26, and 27 of this Law, prior to making the relevant amendments, the company shall submit to the Commission:

1) a decision of the management body of the relevant company on approval of the amendments to the fund prospectus;

2) the amendments to the fund prospectus and the text of the fund prospectus, incorporating the amendments. The amendments to the fund prospectus and the text of the fund prospectus shall be submitted to the Commission in one of the ways referred to in Section 23, Paragraph two of this Law.

(6) The Commission shall review the submitted amendments to the fund prospectus and, within 15 working days, register amendments, if they meet the requirements of this Law and are not in contradiction with the lawful interests of the investors.

(7) If it is necessary to make amendments to the fund prospectus, taking into account changes in the company’s capital, the composition of the council or officials or any other changes in the operation of the company or the fund, which in accordance with this Law shall be coordinated with the Commission, the company shall, after coordination of these changes with the Commission, make relevant amendments to the fund prospectus without prior registration thereof with the Commission and, in accordance with Paragraph five, Clause 2 of this Section, submit the full text of the fund prospectus to the Commission.

(8) After registration of the amendments to the fund prospectus with the Commission, the company shall, in accordance with the procedures specified in the fund management rules, without delay, inform the fund investors of the amendments to the fund prospectus and entering into effect thereof.

(9) The amendments to the fund prospectus referred to in Paragraph five of this Section shall enter into effect not earlier than 10 days after registration thereof with the Commission or within another time period stipulated by the Commission that shall not exceed three months after the registration date of the amendments and is determined in view of the contents of the amendments to the fund prospectus and the interests of fund investors.

(10) The amendments to the fund prospectus referred to in Paragraph seven of this Section shall enter into effect after their approval by the management body of the company.

(11) The provisions for amending the fund prospectus referred to in this Section shall apply to the amendments to key investor information, taking into account the requirements of Regulation No 583/2010 of the European Commission.

[*18 March 2004; 8 March 2007; 19 June 2008; 11 March 2010; 13 October 2011; 9 July 2013; 30 March 2017*]

**Section 57. Content of the Fund Prospectus**

(1) The fund prospectus shall have a title page. The title page shall include the following information:

1) the type and name of the fund, and also an indication of the country of establishment (registration) of the fund;

2) the firm name and registered office of the company of the fund;

3) the firm name of the custodian bank of the fund;

4) the firm name of the distributor of investment certificates and the addresses of the places of distribution;

5) the given name and surname of the sworn auditor or the firm name of the commercial company of sworn auditors of the fund;

6) the date of establishing the fund and the term of operation (if any);

7) the note on the fund registration with the Commission;

8) the note on the amendments made to the fund prospectus and the date of entering into effect thereof;

9) the address of the place where the fund prospectus, key investor information, the fund management rules (if they are not attached to the prospectus), annual and half-yearly accounts of the fund, and also information on the fund value and the sale and repurchase price of investment certificates may be received.

(2) The fund prospectus shall include the table of contents and explanations of the terms and abbreviations used.

(3) The fund prospectus shall include at least the following information, in the order given in this Paragraph:

1) fund investment objective, including the financial objective (for example, capital growth or return on investments), the investment policy (for example, types of investment objects, specialisation in specific geographical regions or industrial sectors), and also the information specified in Section 65 of this Law;

11) an announcement for attention of fund investors to the following operational features of the fund:

a) it is planned to invest the majority of fund assets in investment objects other than transferable securities or money market instruments;

b) the fund intends to carry out the replication of the capital or debt security index;

c) fund net asset value is highly volatile;

2) description of the fund risk profile and analysis of the investment-related risk;

3) fund investment limits and a description of the investment practice or techniques applied to the fund management and the principles and procedures for borrowings to be made at the expense of the fund;

4) brief explanation of the rights of fund investors provided for in this Law and a short description of the rights attached to investment certificates;

5) characteristics of a typical investor (investor for whom the fund is intended);

6) information on tax and fee payments applicable to fund investors and the procedures for performance thereof;

7) the maximum amount of the commissions charged for the sale and repurchase of investment certificates (as a percentage of the fund share value);

8) the maximum amount of the remuneration to be paid from the fund property to the company, the custodian bank, and other persons referred to in the fund prospectus (both the total amount and the amount of remuneration to be paid to each person separately) and the procedures for the calculation and payment thereof. The maximum remuneration amount shall be indicated as a percentage of the average value of fund net assets;

9) other possible expenses and payments, and also the procedures for the covering thereof. Payments that are to be made by fund investors individually and those effected from the fund assets shall be indicated separately;

10) information on the fund auditor – the given name, surname, and certificate number or the firm name, registration number, and licence number of a commercial company of sworn auditors;

101) the information referred to in Section 28, Paragraph three, Clause 5.2 of this Law;

11) the procedures for the sale, repurchase, and redemption of investment certificates, and also the procedures for rounding up the number of shares of investment certificate after the division of investment certificates;

12) the circumstances under which repurchase and redemption of investment certificates may be suspended;

13) the methods and frequency of calculation of the sale and repurchase price of investment certificates, and also data on where and how often these prices are made public;

14) the principles and provisions for determining the fund value;

15) the provisions for the calculation of the fund income, its use and allocation among fund investors;

16) the beginning and end of the reporting year of the fund;

17) the firm name, registration date and number, registered office and, if the company has established a branch, address of location thereof;

18) the amount of registered and paid-up capital of the company;

19) the given name, surname of the company’s council members and officials and office held, and also the duties thereof outside the company if they are of any importance to the company’s operation;

20) the names of other funds managed by the company;

21) the firm name, registration date and number of the custodian bank, the registered address and address of the actual location, the duties of the custodian bank and the potential conflicts of interest related to the performance thereof. If the custodian bank is holding the fund assets with a third party, that custodian bank shall provide a list of such third parties and an indication of the potential conflicts of interest related to the holding, and also a statement that updated information referred to in this Paragraph will be available to the fund investors upon request;

22) the given name, surname or firm name, registration number and address of location of the consultant and other service providers, if the company has entered into a contract for the provision of the relevant services within the fund management and according to this contract remuneration to the service provider is paid from the fund assets. A short description of basic activities of the provider of the relevant service and those provisions of the service provision contract which are important for the fund investors;

23) if the company plans to transfer any of the fund management services to a third party, an indication of these services and a description of the procedures for the transfer of services;

24) characteristics of the previous activities of the fund and a comparative table listing financial indicators for the three preceding years (prepared according to the regulations for fund reports). This information shall be followed by a note that these indicators do not determine (influence) further operations of the fund. The abovementioned information may be included in, or appended to, the fund prospectus;

25) the manner and procedures for receiving annual and half-yearly account of the fund;

26) the current remuneration policy of the company which includes at least the following elements: a description of how the company calculates the remuneration, the persons responsible for awarding the remuneration, the composition of the remuneration committee if such has been established. The fund prospectus may provide only a summary of this information, if the prospectus contains a link to the website of the company where the abovementioned information is available in full and where it is possible to obtain it upon request in printed form free of charge;

27) if the custodian bank intends to hold financial instruments of the fund with the foreign commercial company referred to in Section 43, Paragraph five of this Law – information on the holding of financial instruments with a foreign commercial company on the basis of the restrictions specified in foreign legal acts, the justification for such holding, and the risks related thereto.

(4) [13 October 2011]

(5) [9 July 2013]

(6) [9 July 2013]

(7) The provisions of the fund prospectus shall become binding on mutual relationship of the company and the investor as soon as the investor according to the procedures specified in the fund prospectus and the fund management rules has obtained the investment certificates of the relevant fund.

[*18 March 2004; 8 March 2007; 19 June 2008; 11 March 2010; 13 October 2011; 9 July 2013; 30 March 2017*]

**Section 57.1 Content of Key Investor Information**

(1) Key investor information shall be prepared in a possibly simple form understandable to fund investors, so that they can understand the key aspects of the investment and take a reasoned decision on the offered investment.

(2) Key investor information shall include at least the following information important to the fund operation:

1) identification data of the fund and the supervisory body thereof;

2) fund investment objective and a short description of its investment policy;

3) past performance indicators or performance indicator scenarios;

4) charges related to the fund operation;

5) a description of the fund risk profile that includes guidelines and warnings in respect of the risks related to investments in the relevant fund;

6) a statement that information on the current remuneration policy which has been prepared in accordance with Section 57, Paragraph three, Clause 26 of this Law and is available on the website of the company, including an indication where the information on the current remuneration policy is available in full and where it is possible to receive it upon request in printed form free of charge.

(3) Information referred to in Paragraph two of this Section shall be prepared without any references to other documents.

(4) Key investor information shall clearly indicate the address of the location where additional information may be received and where, upon request of investors, the fund prospectus, a copy of the annual and half-yearly accounts are provided free of charge, and it shall also specify the languages in which these documents have been prepared.

(5) Key investor information shall be prepared in a concise form and non-technical language. It shall be prepared in a uniform format to facilitate comparison with key investor information of other funds and funds and presented in a way that would be easily comprehensible to private clients.

(6) Key investor information shall be used without alterations or supplements, except for translation thereof, in all Member States where investment certificates of the relevant fund are distributed.

(7) Key investor information shall become binding on relationship between the company and an investor as soon as the investor has obtained investment certificates of the relevant fund according to the procedures specified in the fund prospectus and the management rules, except for the case when such information is false, inaccurate, misleading, or inconsistent with the fund prospectus. The abovementioned information shall be explicitly indicated in key investor information.

(8) The information referred to in Paragraph two of this Section shall be updated regularly, taking into account the requirements of Regulation No 583/2010 of the European Commission.

(9) Detailed format and content of key investor information shall be determined in accordance with Regulation No 583/2010 of the European Commission.

(10) The Commission shall determine the procedures for the preparation of key investor information.

[*13 October 2011; 30 March 2017*]

**Section 58. Availability of the Fund Prospectus and Key Investor Information**

(1) A company has an obligation to ensure that the fund prospectus and key investor information is provided free of charge to all stakeholders.

(2) To ensure the fulfilment of the requirements of Paragraph one of this Section, the company shall place the fund prospectus and key investor information on the website thereof or use a durable medium, taking into account the requirements of Commission No 583/2010 of the European Regulation.

(3) Upon request of investors, a copy in printed form of the fund prospectus and key investor information shall be provided to them free of charge.

(4) If amendments are made to the fund prospectus or to key investor information, the company shall, after entering into effect thereof, immediately ensure that the full text of the fund prospectus indicating the amendments and the date of entering into effect thereof and the latest version of key investor information are available on the website thereof.

[*13 October 2011*]

**Section 59. Advertising of Fund Issue**

(1) Upon advertising of the fund issue by placing advertisements or publicly announcing the regulations of the issue, it is mandatory to indicate the following:

1) the name of the fund;

2) the firm name, registered office, and location of the executive body of the company managing the fund;

3) the firm name, registered office, and location of the custodian bank;

4) the starting date of distribution of investment certificates;

5) the issue or sale price of investment certificates;

6) the place of receipt of the fund prospectus and key investor information by specifying the languages in which such documents are available;

7) that profit is not guaranteed.

(2) Information indicated in the advertisement on an opportunity to acquire investment certificates of the relevant fund shall be fair, clear, and not misleading, and also consistent with the fund prospectus and key investor information.

(3) If the fund investment policy provides to invest the majority of fund assets in investment objects other than transferable securities or money market instruments, or if the fund intends to carry out the replication of composition of the index of capital or debt securities, or the fund net asset value is highly volatile, the advertisement of the fund issue shall include the statement drawing the attention of the potential investors to the features of the fund investment policy referred to in this Paragraph.

[*24 October 2002; 13 October 2011*]

**Section 60. Public Circulation of Investment Certificates of Foreign Open-ended Funds**

[13 October 2011]

**Chapter VI. Fund Investments**

[*24 October 2002*]

**Section 61. Fund Investment Objects**

(1) Fund assets may be invested in transferable securities, money market instruments, deposited in credit institutions and invested in other financial instruments referred to in this Law, taking into account the investment limits specified in this Law.

(2) [9 July 2013]

(3) Fund assets may not be invested in precious metals and financial derivative instruments the underlying assets of which are precious metals or commodities.

(4) Fund assets may be kept in liquid assets (including in cash) in the amount required for the fund operation.

(5) Upon making investments at the expense of the fund, the company has an obligation to invest only in the investment objects provided for in the fund prospectus, conform to the investment limits determined therein, obtain sufficiently comprehensive information on the potential or acquired investment objects, and also to constantly monitor and analyse the financial standing of those persons into whose financial instruments the fund assets are or will be invested.

(6) The Commission in statutory regulations thereof shall determine the requirements for the investment objects of investment funds, transactions, funds, of certain type of activity, and also the requirements for the disclosure of information.

[*18 March 2004; 8 March 2007; 19 June 2008; 11 March 2010; 9 July 2013*]

**Section 62. Investments in Transferable Securities and Money Market Instruments**

(1) Fund assets may be invested in transferable securities and money market instruments which meet at least one of the following conditions:

1) they are traded on the regulated market in a Member State or on another trading venue of the Member State referred to in Article 2 (8) of the Commission Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards recordkeeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive (hereinafter – Regulation No 1287/2006 of the European Commission);

2) they are quoted on official listing of a stock exchange or traded on other trading venues abroad referred to in Article 2 (8) of the Regulation No 1287/2006 of the European Commission and the choice of the stock exchange or of the trading venue is provided for in the fund prospectus;

3) they are not quoted on official listing of stock exchanges or are not traded on trading venues but it is intended in the provisions for the issue of these securities or money market instruments, that they will be quoted on official listing of the stock exchanges or on the regulated market referred to in of Paragraph one, Clauses 1 and 2 of this Section and the quoting of these securities or money market instruments shall take place within one year from the day when subscription to these securities or money market instruments is commenced.

(2) Fund assets may be invested in money market instruments that are not traded on the regulated markets provided that they are freely transferable (there are no conditions restricting the transaction) and at least one of the following conditions is present:

1) they have been issued or guaranteed by a Member State or a local government of a Member State, another state or, in case of a federal state – one of the members of the federation or an international financial institution if one or several Member States are members thereof;

2) they have been issued or guaranteed by the central bank of a Member State, the European Central Bank, or the European Investment Bank;

3) they have been issued by a commercial company the securities of which are traded in accordance with the procedures laid down in Paragraph one, Clauses 1 and 2 of this Section;

4) they have been issued or guaranteed by a credit institution registered in a Member State and supervised by the competent authority of financial services in accordance with the requirements laid down in the European Union or by an issuer whose operation is subject to requirements at least as strict as those laid down in the European Union and that meets at least one of the following requirements:

a) it is registered in a Member State of the Organisation for Economic Co-operation and Development, that is also the country of the Group of Ten,

b) it has been assigned the investment grade rating,

c) a comprehensive analysis of the legal regulation of the issuer’s operation evidences that the requirements governing the issuer’s activities are as strict as those laid down in the European Union;

5) they have been issued by a commercial company the amount of the capital and reserves of which is 10 million euros or greater and which prepares and publishes an audited annual report in accordance with the requirements for the preparation and publishing of annual reports which are equivalent to the requirements laid down in the European Union. Such commercial company is in one group with one or several commercial companies the shares of which are traded on the regulated market and which is intended to attract monetary assets to the group, or such commercial company is a body established for a special purpose, which is specialised in debt securitisation and which has entered into an agreement for the provision of liquidity with a bank that conforms to the requirements brought forward for credit institutions in Clause 4 of this Paragraph. Investor protection shall be applied to investments in such money market instruments which is equal to the protection referred to in Clauses 1, 2, 3, and 4 of this Paragraph.

(3) Fund assets may be invested in securitisation positions in conformity with the requirements of Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (hereinafter – Regulation No 2017/2402). If any of the investments in the securitisation positions no longer conforms to the requirements of Regulation No 2017/2402, the company shall decide on the action corresponding to the interests of the fund investors and, where necessary, perform corrective measures for the prevention of the non-conformity.

[*19 June 2008; 13 October 2011; 19 September 2013; 25 October 2018 /* *Paragraph three shall come into force on 1 January 2019.* *See Paragraph 38 of Transitional Provisions*]

**Section 63. Deposits in Credit Institutions**

(1) Fund assets may be deposited in a credit institution which has received a licence for the operation of a credit institution in a Member State or a state which is a Member State of the Organisation for Economic Cooperation and Development and which has been recognised in accordance with Regulation No 575/2013 as a state where credit institutions are subject to the supervisory and operational regulatory requirements equivalent to those applicable in the European Union.

(2) Deposits in credit institutions may be made if they are repayable upon request or they can be withdrawn prior to the end of the time period and the time period thereof does not exceed 12 months.

[*18 March 2004; 19 June 2008; 4 February 2016*]

**Section 64. Investments in Investment Certificates (Shares) of the Fund**

(1) Fund assets may be invested in investment certificates or shares of an investment fund registered in a Member State or of a collective investment undertaking comparable thereto the regulation of the activity of which is analogous to the requirements of this Law.

(2) Fund assets may be invested in investment certificates or shares of a foreign investment fund or of a collective investment undertaking comparable thereto, provided that the investment fund or the collective investment undertaking comparable thereto meets the following requirements:

1) it is registered in a foreign country the legal framework of which provides for the supervision of such undertakings that is similar to the supervision specified in this Law and the competent authority of the relevant foreign country cooperates with the Commission;

2) the requirements governing its operations, including the protection of investors, investment and transaction limits, are analogous to the provisions of this Law regarding the operation of investment funds;

3) it prepares and makes public half-yearly and annual accounts to enable the assessment of its assets, liabilities, income and performance during the reporting period.

(3) Fund assets may be invested in the certificates (shares) of the funds and collective investment undertakings referred to in Paragraphs one and two of this Section, if the prospectus, the fund management rules or an equivalent document of the fund or collective investment undertaking [the investment certificates (shares) whereof are to be acquired] provides that investments in other funds or collective investment undertakings may not exceed 10 per cent of the assets of the fund or collective investment undertaking.

(4) If the fund assets will predominantly be invested in the funds or collective investment undertakings referred to in this Section, the fund prospectus shall include information on the maximum fund management costs which may be withheld from the fund itself and from those funds or collective investment undertakings in which such fund makes investments.

(5) If it is intended to invest the assets of a fund (sub-fund) in the funds (sub-funds) that are managed by companies of one group, the prospectus shall specify these funds (sub-funds) and the total maximum amount intended for investment therein.

[*18 March 2004; 8 March 2007; 19 June 2008; 13 October 2011; 9 July 2013*]

**Section 65. Transactions in Financial Derivative Instruments**

(1) Fund assets may be invested in financial derivative instruments that are traded on the markets referred to in Section 62, Paragraph one of this Law or that are not admitted to trading on the regulated market and that concurrently meet the following requirements:

1) their underlying asset is comprised of financial instruments referred to in Section 62, 63, and 64 of this Law, financial indices, interest rates, exchange rates or currencies in which fund asset investments are planned to be made according to the fund prospectus or the fund management rules;

2) the counterparty to a financial derivative instrument not admitted to trading on the regulated market is a credit institution which conforms to the requirements of Section 63, Paragraph one of this Law or an investment brokerage company the amount of the capital and reserves of which is equivalent to 10 million euros or more and which is registered in a Member State or in a Member State of the Organisation for Economic Cooperation and Development that is included in the Group of Ten and the operation of which is supervised by the supervisory body of financial services;

3) a reliable and verifiable valuation of the financial derivative instrument not admitted to trading on the regulated market takes place on a daily basis, and the financial derivative instrument may be sold or liquidated at its fair value at any time at the initiative of the company or a transaction may be made in that financial instrument as a result of which the position is closed (offsetting claims or liabilities in respect of the financial instrument).

(2) If it is intended to perform transactions in financial derivative instruments at the expense of the fund, the fund prospectus shall explicitly specify whether such transactions will be performed to limit the risk or to gain profit, and also the possible effect of financial derivative instruments on the global exposure of the investment portfolio of the relevant fund.

(3) The company shall implement such risk management policy which ensures the possibility for it to identify and manage the risks related to financial derivative instruments and the effect of these financial derivative instruments on the global exposure of the fund investment portfolio at any time.

(4) The company shall develop and follow the assessment policy of the financial derivative instruments which ensures accurate and independent assessment of the financial derivative instruments not admitted to trading on the regulated market, taking into account the nature and complexity of the financial derivative instruments. The Commission shall determine the requirements for assessing financial derivative instruments not admitted to trading on the regulated market.

(5) If the fund prospectus provides for performance of transactions in financial derivative instruments, before commencement of such transaction the company shall prepare and submit to the Commission a report describing the risk management policy and the assessment procedure for financial derivative instruments, and also providing true and fair presentation of the types of financial derivative instruments used, the risks arising therefrom, quantitative restrictions and methods to be used to measure and limit the risk of the relevant financial derivative instrument.

(6) The company shall update information included in the report submitted to the Commission in accordance with the requirements of Paragraph 5 of this Section, taking into account the complexity and scale of transactions performed during the reporting period, and shall submit the report to the Commission together with the annual account.

[*18 March 2004; 8 March 2007; 19 June 2008; 13 October 2011; 19 September 2013*]

**Section 66. Investment Limits**

(1) Fund investments, except for the fund investments referred to in Paragraphs two and four of this Section, in transferable securities or money market instruments of a single issuer may not exceed five per cent of the fund assets. The limit referred to may be raised to 10 per cent of the fund assets, but in such case the total value of investments exceeding five per cent may not exceed 40 per cent of the fund assets.

(11) Without prejudice to the investment limits specified in Section 67 of this Law, the limits referred to in Paragraph one of this Section in respect of an investment in transferable securities of a single issuer may be increased to 20 per cent of the fund assets, if, according to the fund prospectus or to the fund management rules, the fund investment policy is aimed at replicating the composition of such certain capital or debt securities index that is recognised by the Commission, in conformity with the following requirements:

1) composition of the index is sufficiently diversified;

2) index represents an adequate benchmark for the market to which it refers;

3) index has been appropriately published in accordance with the procedures laid down in the laws and regulations.

(12) The limits specified in Paragraph 1.1 of this Section in relation to an investment in transferable securities of a single issuer may be increased to 35 per cent of the fund assets, if this is justified by exceptional market conditions especially on the regulated markets where certain transferable securities or money market instruments are highly dominant. The higher limit determined in this Paragraph shall be applied only to transferable securities of a single issuer.

(2) Fund investments in transferable securities or money market instruments of a single issuer may be increased to 35 per cent of the fund assets if the transferable securities or money market instruments are issued or guaranteed by a Member State, a foreign country, a local government of a Member State, or an international institution, if one or several Member States are members thereof.

(3) The limit specified in Paragraph two of this Section may be exceeded if the following conditions are concurrently fulfilled:

1) the excess is provided for in the fund management rules;

2) the fund owns transferable securities or money market instruments from six or more issues and the value of transferable securities or money market instruments of each issue separately does not exceed 30 per cent of the fund assets;

3) to draw the attention of fund investors, the fund prospectus or advertising materials shall specify persons, in the issued or guaranteed transferable securities or money market instruments of which the fund intends to invest or has invested more than 35 per cent of the fund assets.

(4) Fund investments in transferable securities of a single issuer may be increased to 25 per cent of the fund assets if they are debt securities issued by a credit institution registered in Member State, with the liabilities attached to them providing for investing of the obtained assets in the property items which during the entire circulation period of debt securities fully ensure the liabilities attached thereto and such liabilities shall be fulfilled on a priority basis in case of insolvency of the issuer of such securities.

(5) If the value of fund investments in the debt securities of a single issuer referred to in Paragraph four of this Section exceeds five per cent of fund assets, the total fund investment value that exceeds five per cent shall not exceed 80 per cent of the fund assets.

(6) Fund deposits in a single credit institution may not exceed 20 per cent of the fund assets. The abovementioned limit shall not apply to claims on demand against a custodian bank.

(7) Global exposure arising from transactions in financial derivative instruments, including financial derivative instruments embedded in transferable securities or in money market instruments, shall not exceed the net asset value of the fund. Upon calculating the global exposure, the value of the underlying assets of the financial derivative instrument, the counterparty risk, the future market movements, and the time available to close the relevant position shall be taken into account. The Commission is entitled to determine stricter limits in respect of the amount of the global exposure, if operation of an efficient internal control system is not ensured in respect of managing the risk related to financial derivative instruments.

(71) Global exposure shall also include risk comprised of reinvesting of the assets obtained as a result of transactions referred to in Section 33, Paragraph sixteen of this Law, including repurchase (repo) transactions of assets, or lending of the transferable securities.

(72) The company shall calculate the global exposure of the fund at least on a daily basis.

(8) The amount of risk transactions in transactions in financial derivative instruments not admitted to trading on the regulated market may not exceed with each counterparty:

1) 10 per cent of the fund assets if the counterparty is a credit institution that meets the requirements Section 63, Paragraph one of this Law;

2) five per cent of the fund assets in case the counterparty is an investment brokerage firm that meets requirements Section 65, Paragraph one, Clause 2 of this Law.

(81) The Commission shall determine the procedures for the calculation of the amount of transactions of global exposure and of the risk specified in Paragraph eight of this Section.

(9) If according to the fund prospectus the performance of transactions in financial derivative instruments is intended for the purpose of gaining profit, the limits specified in this Section shall apply to the underlying asset of the financial derivative instrument.

(10) Fund investments in investment certificates (shares) of a single fund or a collective investment undertaking comparable thereto may not exceed 10 per cent of the fund assets. The total investments of a fund in the investment certificates (shares) of collective investment undertakings referred to in Section 64, Paragraph two of this Law may not exceed 30 per cent of the fund assets.

(11) Without prejudice to the investment limits specified separately in Paragraphs one, six, seven, and eight of this Section, the total fund investments in transferable securities and money market instruments, fund deposits and transactions in financial derivative instruments, the issuer or guarantor, investment attractor, or transaction counterparty of which is one and the same person, may not exceed 20 per cent of the fund assets. Upon applying the investment limits specified in this Section, commercial companies belonging to one group shall be considered as one person.

(12) The investment limits specified separately in Paragraphs one, two, four, five, six, and eight of this Section may not be combined and thus the total investments of a fund in transferable securities and money market instruments, fund deposits and transactions in financial derivative instruments whose issuer or guarantor, investment attractor, or counterparty in a transaction is one and the same person, may not exceed 35 per cent of the fund assets.

(13) Without prejudice to the provisions of Section 62 of this Law regarding the fund investments in transferable securities and money market instruments, up to 10 per cent of the investment fund assets may be invested in transferable securities and money market instruments which do not meet the requirements laid down in Section 62 of this Law.

(14) [9 July 2013]

[*18 March 2004; 8 March 2007; 19 June 2008; 11 March 2010; 13 October 2011; 9 July 2013*]

**Section 67. Investment Limits in Respect of a Single Issuer**

(1) Fund investments in separate investment objects may not exceed the following criteria:

1) 10 per cent of the nominal value of the non-voting shares of a single issuer;

2) 10 per cent of the total amount of debt securities issued by a single issuer;

3) 25 per cent of the value of one fund or the total investments of the company;

4) 10 per cent of the total value of money market instruments issued by a single issuer.

(2) Investments of assets of the funds managed by the company shall not either in total or for each fund separately directly or indirectly exceed 10 per cent of any of the following indicators:

1) equity capital of a single issuer;

2) total amount of voting rights of a single issuer.

(3) [9 July 2013]

[*8 March 2007; 9 July 2013; 30 March 2017*]

**Section 68. Investments in Real Estate**

[9 July 2013]

**Section 69. Exceeding Investment Limits**

(1) Exceeding the investment limits specified in this Law shall not revoke the validity of the relevant transaction, but the company shall be liable to fund investors and third parties for losses caused due to such action, except for the cases specified in Paragraphs two, four, five, and six of this Section.

(2) Exceeding the investment limits specified in Section 66, except for Paragraphs seven and thirteen thereof, and also in Section 67 of this Law shall be allowed within six months after registration of a fund with the Commission.

(3) Paragraph two of this Section shall not apply to funds the value of which exceeds EUR 710 000.

(4) Exceeding the investment limits specified in this Law may be permitted, if it has been caused by exercising the subscription rights attached to the transferable securities or money market instruments belonging to the fund property or other circumstances which the company was unable to predict. In order to prevent the exceeding of investment limits, the company shall without delay perform trading operations in conformity with the risk mitigation principle and the interests of fund investors.

(5) At the moment when investment is made it may be allowed to exceed the investment limits specified in Section 67, Paragraph one, Clauses 2, 3, and 4 of this Law if at that moment it is impossible to determine or calculate the quantity or value of all issued securities with attaching debt liabilities, or the value or number of the investment certificates (shares) issued or in circulation.

(6) A company has an obligation to notify the Commission of exceeding the investment limits, and also of the measures for prevention thereof without delay.

[*13 October 2011; 9 July 2013; 19 September 2013*]

**Section 70. Provisions for Transaction in Derivate Securities**

[24 October 2002]

**Section 71. Exceeding Investment Limits**

[24 October 2002]

**Chapter VI.1 Transactions Between Master and Feeder Structures**

[*13 October 2011*]

**Section 71.1 Scope**

(1) Investment funds are entitled to perform transactions between master and feeder structures. A feeder fund up to 15 per cent of its assets not invested in a master fund may invest:

1) in assets in accordance with Section 61, Paragraph four of this Law;

2) in transactions in financial derivative instruments provided they are made for hedging purposes in accordance with the requirements of Section 65, Paragraph one and of Section 33, Paragraph sixteen of this Law and in view of the investment limits specified in Section 66, Paragraph seven of this Law.

(2) To ensure conformity with the requirements of Section 66, Paragraph seven of this Law the feeder fund shall calculate its global exposure deriving from transactions in financial derivative instruments by combining it with the global exposure of the master fund. Global exposure of the master fund shall be determined in proportion to the investment by the feeder fund in the master fund, using the actual global exposure of the master fund or the potential maximum global exposure of the master fund as determined in fund management rules or fund prospectus of the master fund. In future, the feeder fund shall use the chosen method for calculation of global exposure.

(3) The master fund shall conform to the following requirements:

1) at least one investor of that fund is a feeder fund;

2) the fund itself is not a feeder fund;

3) the fund is not an investor in the feeder fund.

(4) The following exceptions shall apply to the master fund:

1) if at least two feeder funds are investors in the master fund, the master fund may not raise additional capital from other investors;

2) if the master fund does not market investment certificates in another Member State but it has one or several feeder funds in that Member State, the master fund may not ensure conformity with the requirements of Sections 77.2 and 77.3 of this Law.

(5) The feeder fund has an obligation to monitor conformity of the master fund’s operations with the procedures specified in the fund prospectus and fund management rules of the master fund. Upon fulfilling the abovementioned obligation, the feeder fund has the right to rely upon information and documents received from the master fund or – where applicable – from the management company, the custodian bank, and the auditor of the master fund, unless there is a motivated reason to doubt their accuracy. For the purposes of this Chapter, an auditor of the fund is the auditor specified in the fund prospectus or fund management rules or a document equivalent thereto.

(6) If the management company of the feeder fund or any other person acting on behalf of the feeder fund or of the management company receives commissions or other payment in relation to an investment in investment certificates of the master fund, such sum or payment shall be credited to the assets of the feeder fund.

(7) The master fund shall immediately notify the Commission of any feeder fund that makes investments in its investment certificates. If a feeder fund is established in another Member State, the Commission shall immediately notify the competent authority of the home state of the feeder fund of that investment.

(8) The master fund shall not charge commissions from the feeder fund in relation to issuing or repurchasing of investment certificates.

(9) The master fund shall ensure that all information it provides in accordance with this Law or the Commission’s regulations, the fund management rules or the prospectus is available to the management company, the competent authority, the custodian bank and the auditor of the feeder fund.

(10) If the master fund and the feeder fund are registered in Latvia, the Commission shall immediately notify the feeder fund of any decisions taken and violations of the requirements of this Chapter detected in the activity of the master fund and of the management company, the custodian bank, or the auditor of the master fund.

(11) If the master fund and the feeder fund are established in different Member States, the Commission shall immediately inform the competent authority of the home state of the feeder fund regarding all decisions taken and violations of the requirements of this Law or of other laws and regulations detected relating to the activity of the master fund registered in Latvia and of the management company, the custodian bank, or the auditor of the master fund. The Commission shall immediately inform the feeder fund registered in Latvia of any information it has received from the competent authority of the home state of the master fund.

[*9 July 2013*]

**Section 71.2 Receiving the Authorisation for Transactions Between Master-Feeder Structures**

(1) Transaction between master-feeder structures may be made only after receiving an authorisation from the competent authority of the home state of the feeder fund and the agreement or the rules referred to in Section 71.3, Paragraph one and Section 71.4, Paragraphs one and seven of this Law have taken effect.

(2) If the home state of the feeder fund is Latvia, before making a transaction between master-feeder structures the feeder fund shall receive an authorisation from the Commission for making the transaction. The Commission shall issue an authorisation, if the feeder fund, its custodian bank and auditor, and also the master fund conform to all the requirements of this Chapter. To receive the authorisation, the management company of the feeder fund shall submit the following documents to the Commission:

1) the fund management rules of the feeder fund and of the master fund;

2) the prospectus and key investor information of the feeder fund and of the master fund;

3) the agreement or rules referred to in Section 71.3, Paragraph one of this Law regarding the terms of business of the feeder fund and of the master fund;

4) when an existing fund is converted into a feeder fund – information to be provided to investors of the feeder fund referred to in Section 71.6, Paragraph one of this Law;

5) if the master fund and the feeder fund have different custodian banks, the information sharing agreement between the custodian banks referred to in Section 71.4, Paragraph one of this Law;

6) If the master fund and the feeder fund have different auditors, information sharing agreement between the auditors referred to in Section 71.4, Paragraph seven of this Law.

(3) If the home state of the master fund is not Latvia, the management company of the feeder fund, in addition to the documents referred to in Paragraph two of this Section, shall also submit to the Commission the attestation by the competent authority of the home state of the master fund that the master fund is an open-ended investment fund or a sub-fund of the fund that conforms to the requirements Section 71.1, Paragraph three, Clauses 2 and 3 of this Law. The company shall submit abovementioned statement in the Latvian language or in another language accepted by the Commission.

(4) Within 15 working days after receipt of the documents referred to in Paragraphs two and three of this Section, the Commission shall notify in writing the management company of the feeder fund regarding an authorisation or a prohibition for an investment by the feeder fund in the master fund.

**Section 71.3 Master-Feeder Structure Transaction Rules**

(1) Before performing transactions between master-feeder structures, the funds involved shall enter into an agreement governing the terms of business of the feeder fund and of the master fund. This agreement shall be provided to fund investors upon their request and free of charge. Where the funds involved have the same management company, the company shall not enter into the agreement but develops internal rules to ensure conformity with the requirements of this Section.

(2) The Commission shall determine the content of the agreement and of the internal rules referred to in Paragraph one of this Section.

(3) If the feeder fund and the master fund are registered in Latvia, the agreement referred to in Paragraph one of this Section, shall be made in conformity with the requirements of Latvian laws and regulations and the court of Latvia shall be determined as the institution for dispute resolution.

(4) If the feeder fund and the master fund are established (registered) in different Member States, the agreement referred to in Paragraph one of this Section shall contain a provision regarding the choice of applicable law stating that this agreement is subject to the laws and regulations of the home state of the feeder fund or of the master fund and that both parties agree to the jurisdiction of the court of the country whose law is applicable to the agreement.

(5) The master fund and the feeder fund shall ensure that the timing for calculating and publishing their net assets is agreed to avoid differences that might be caused by different time zones in different countries.

(6) If the management company of the master fund takes a decision to temporarily suspend repurchasing of investment certificates, all feeder funds of that master fund, disregarding the provisions of Section 54, Paragraph three of this Law, is entitled to suspend repurchasing of their investment certificates for the same time as the master fund.

(7) If the master fund is liquidated, the feeder fund shall also be liquidated, except for the cases when the Commission takes a decision to authorise the feeder fund which it has registered:

1) to invest at least 85 per cent of the feeder fund’s assets in investment certificates of another master fund;

2) to convert into a fund other than a feeder fund.

(8) The master fund shall be liquidated not earlier than three months after it has informed all of its investors and the competent authorities of the home countries of its feeder funds of the decision to liquidate the fund.

(9) In order to receive the authorisation referred to in Paragraph seven of this Section, the management company of the feeder fund shall, not later than two months after the day when the master fund has notified it regarding the commencement of the intended liquidation, submit to the Commission a submission and documents with contents as stipulated by the Commission. In case of liquidation, the feeder fund shall submit to the Commission the submission and a document referred to in Section 35.1 of this Law, taking into account the time periods determined in this Paragraph.

(10) If the master fund informs the feeder fund of the commencement of the intended liquidation more than five months before the day of actual commencement, the documents referred to in Paragraph nine of this Section shall be submitted to the Commission not later than three months before the commencement of liquidation. The management company of the feeder fund shall notify fund investors of the intended liquidation of the fund as soon as possible.

(11) If the master fund is merged with another fund or, in accordance with the laws and regulations of its home state, divided into two or more funds, the feeder fund shall be liquidated, except for the cases when the Commission takes a decision to authorise the feeder fund which it has registered:

1) to continue its operation as a feeder fund of the same master fund or of another master fund resulting from the merger or the division of the master fund;

2) to invest at least 85 per cent of its assets in another master fund that is not resulting from the merger or the division;

3) to convert into a fund other than a feeder fund.

(12) In order to receive the authorisation referred to in Paragraph eleven of this Section or to commence liquidation of the feeder fund, the management company of the feeder fund shall, not later than one month after the day when it has received the information from the master fund on the intended merger or division, shall submit to the Commission the submission and documents with contents as determined by the Commission.

(13) The merger of the master fund shall take effect not earlier than 60 days after the master fund has provided to its investors and the competent authorities of the home countries of its feeder funds information referred to in Section 34.1 of this Law or an equivalent information.

(14) If the competent authority of the home state of the feeder fund has not granted an authorisation for the feeder fund to continue its operation as a feeder fund of the master fund or as a feeder fund of another fund resulting from the merger or division of the master fund, the master fund shall ensure that the feeder fund may repurchase all its investment certificates from the master fund before the merger or the division of the master fund takes effect.

(15) Where the master fund has notified the feeder fund, submitting information referred to in Section 341 of this Law or equivalent information more than four months before the effective day of the merger or the division, the documents referred to in Paragraph twelve of this Section shall be submitted to the Commission not later than three months before the relevant day. The management company of the feeder fund shall notify fund investors and the master fund of the intended liquidation of the fund as soon as possible.

(16) Within 15 working days after receipt of all documents referred to in Paragraphs nine and twelve of this Section, the Commission shall inform the management company of the feeder fund in writing of authorisation or prohibition for the feeder fund to perform the activities referred to in Paragraph seven or eleven of this Section. After receiving the Commission’s decision, the management company of the feeder fund shall inform the master fund thereof.

**Section 71.4 Information Sharing Agreement**

(1) If the master fund and the feeder fund have different custodian banks, these banks shall enter into an information sharing agreement. The Commission shall determine the content of the agreement.

(2) If the feeder fund and the master fund have entered into an agreement in accordance with Section 71.3, Paragraph one of this Law, the agreement referred to in Paragraph one of this Section shall provide that the legal acts of the Member State that were applied to the fund agreement shall also apply to the agreement of the custodian banks and both custodian banks agree to the jurisdiction of the courts of that country.

(3) If the agreement between the feeder fund and the master fund is replaced by internal rules, the agreement referred to in Paragraph one of this Section shall provide that the legal acts that apply to the information sharing agreement between both custodian banks shall be either of the Member State in which the feeder fund is established or, if the Member State are different, of the Member State in which the master fund is established, and that both custodian banks agree to the jurisdiction of the courts of the Member State the legal acts of which are applicable to the information sharing agreement of custodian banks.

(4) If the custodian bank of the master fund and of the feeder fund conforms to the requirements laid down in this Chapter, sharing of the relevant information shall not be regarded as a violation of the provisions in respect of disclosure of information or data protection that are binding on the bank in accordance with the contract or laws and regulations, and the custodian bank or any other person acting on behalf thereof shall not be held liable.

(5) The management company of the feeder fund shall be responsible for the provision of all information on the master fund to the custodian bank of the feeder fund that it needs to perform the duties thereof.

(6) The custodian bank of the master fund has an obligation to immediately notify the competent authority of the home state of the master fund, the management company, and the custodian bank of the feeder fund of all violations in the activity of the master fund that the custodian bank detects while performing its functions that are contrary to the laws and regulations, the fund prospectus, the fund management rules, or the agreement of the custodian bank, including:

1) errors in the net asset value calculation of the master fund;

2) errors in transactions undertaken by the feeder fund in respect of acquiring investment certificates from the master fund, subscribing to investment certificates or requests to redeem or repurchase them;

3) errors related to the payments made by the master fund to fund investors, to the capitalisation of income, or to the calculation of any related tax to be withheld;

4) non-conformity with the investment objectives, violations of investment policy or strategy described in the fund management rules, the fund prospectus or key investor information of the master fund;

5) violations of investment and borrowing limit specified in the national laws and regulations or in the fund management rules, the fund prospectus or key investor information.

(7) If the master fund and the feeder fund have different auditors, they shall enter into an information sharing agreement in order to ensure the performance of the duties thereof.

(8) The agreement referred to in Paragraph seven of this Section shall contain a provision that, in the audit statement of the feeder fund, the auditor of the feeder fund shall take into account the audit statement of the master fund. If the reporting year of the feeder fund and of the master fund differs, the auditor of the master fund shall prepare the audit statement on the last day of the reporting year of the feeder fund. The auditor of the feeder fund has a duty to notify regarding all violations specified in the audit statement of the master fund and of the impact thereof on the feeder fund.

(9) Disclosure of information and provision of the documents referred to in this Chapter shall not be regarded as a violation of any laws, laws and regulations, rules or agreements and shall not cause the civil liability to the auditor of the fund.

(10) If the feeder fund and the master fund have concluded an agreement in accordance with Section 71.3, Paragraph one of this Law, the agreement referred to in Paragraph seven of this Section shall provide that the legal acts of the Member State that were applied to the conditions of the fund agreement shall also be applied to the agreement of the auditors, and auditors of both funds agree to the jurisdiction of the courts of that country.

(11) If the agreement between the feeder fund and the master fund is replaced by internal rules, it shall be provide for in the conditions of the agreement referred to in Paragraph seven of this Section that the legal acts that apply to the information sharing agreement between the auditors of both funds shall be either of the Member State in which the feeder fund is established (registered) or of the Member State in which the master fund is established (registered), and that the auditors of both funds agree to the jurisdiction of the courts of the Member State the legal acts of which are applicable to the information sharing agreement of the auditors of both funds.

**Section 71.5 Information to be Provided by the Feeder Fund**

(1) In addition to information provided to in Section 57 of this Law, the prospectus of the feeder fund shall also contain the following information:

1) a declaration that the fund is a feeder of to a particular master fund and permanently invests 85 per cent or more of its assets in the investment certificates of the master fund;

2) the investment objective and policy, including the risk profile and date on whether the performance results of the feeder fund and of the master fund are identical or to what extent and for which reasons they differ, including a description of investment conditions determined in Paragraph one of Section 71.1 of this Law;

3) a brief description of the master fund including information on organisation thereof, investment objectives and policy, risk profile and an indication of how the updated prospectus of the master fund may be obtained;

4) a brief description of the agreement entered into in accordance with Paragraph one of Section 71.3 regarding the terms of business of the feeder fund and the master fund;

5) information on how the fund investors may obtain complete information on the master fund and on the agreement entered into between the feeder fund and the master fund in accordance with Section 71.3, Paragraph one of this Law;

6) remuneration and payments made by the feeder fund in respect of its investments in investment certificates of the master fund, and also aggregate charges of the feeder fund and the master fund;

7) payments of taxes and fees applicable to the feeder fund where it invests its assets in the master fund.

(2) In addition to information referred to in Section 75 of this Law, the financial statements of the feeder fund shall include information on commissions retained and paid and other charges made by the feeder fund and the master fund. The annual and half-yearly accounts of the feeder fund shall also indicate where copies of the master fund’s annual and half-yearly accounts are available.

(3) In addition to the requirements of Section 23, Paragraph one, Section 56, Paragraph five, and Section 75, Paragraphs four and five of this Law, the feeder fund registered in Latvia shall send to the Commission the prospectus and key investor information of the master fund, amendments thereto and also annual and half-yearly reports.

(4) In all public announcements the feeder fund shall disclose that it permanently invests 85 per cent or more of its assets in investment certificates of the master fund.

(5) The management company of the feeder fund, upon request of fund investors, shall provide them with a paper copy of the prospectus, annual and half-yearly reports of the master fund free of charge.

**Section 71.6 Conversion of a Fund into a Feeder Fund and Change of the Master Fund**

(1) Before converting a fund into a feeder fund, the management company of that fund shall provide fund investors with the following information:

1) a statement that the Commission has authorised investments by the feeder fund in investment certificates of the respective master fund;

2) key investor information to investors of the feeder fund and of the master fund. Key investor information of the feeder fund shall be updated in conformity with the intended activity of the fund;

3) the date on which the feeder fund will start to invest in the master fund or, if it has already invested therein, the date on which the investment will exceed the limit determined in Section 66, Paragraph ten of this Law;

4) a statement that fund investors have the right within 30 calendar days to request repurchase of their investment certificates without any charge, except for the costs related to sales of fund assets. That right arises when the feeder fund has provided its investors with the information referred to in this Clause.

(2) The information referred to in Paragraph one of this Section shall be provided not later than 30 calendar days before the day indicated in Paragraph one, Clause 3 of this Section. The Commission shall determine the procedures for the provision of the information referred to in Paragraph one of this Section.

(3) If, in accordance with the procedures referred to in Section 77.2 of this Law, investment certificates of the feeder fund are distributed in another Member State, the management company of the fund shall provide information referred to in Paragraph one of this Section in the official language of the host state of the feeder fund or in one of its official languages or in the language approved by the competent authority of the host state of the feeder fund. The management company of the feeder fund shall be responsible for producing the translation and it shall certify that the translation faithfully reflects the contents of the original documents.

(4) The feeder fund is not entitled to invest in investment certificates of the master fund in excess of the limit referred to in Section 66, Paragraph ten of this Law before expiry of the time period specified in Paragraph two of this Section.

**Chapter VII. Reports**

**Section 72. General Provisions Regarding Fund Reports**

(1) The company shall maintain accounting of the fund and prepare annual and half-yearly accounts of the fund in accordance with this Law, the law On Accounting, and the regulations of the Commission.

(2) If it is necessary for performance of supervisory functions, the Commission has the right to request other fund accounts, specifying the procedures for the preparation and submission of such accounts.

[*24 October 2002; 19 June 2008*]

**Section 73. Fund Accounting Records and Preparation of Accounts**

(1) Accounting records of a fund shall be maintained by the company or its authorised person, ensuring that fund assets and liabilities can always be identified.

(2) Accounting records of each fund shall be maintained separately.

(3) The reporting period of a fund shall normally be one year and it must coincide with the reporting year of the company.

(4) The company shall prepare annual and half-yearly accounts of a fund, the content, the amount of information to be included therein and the time periods for the publishing thereof shall be determined by this Law and the regulations of the Commission.

(5) Annual and half-yearly accounts of a fund shall be approved by the board of the company.

(6) Annual and half-yearly accounts of a fund shall be publicly available to all persons interested in fund operations.

(7) Fund investors have the right to request and to receive free of charge the annual and half-yearly account of the fund.

(8) Not later than one month from the approval of the annual account of the fund and not later than four months after the end of the reporting year the company shall, in accordance with the procedures stipulated by the Commission, publish the annual account of the fund, and also ensure that all persons interested in fund operations have a possibility to become acquainted with it. For this purpose the company shall insert the annual account of the fund on the website thereof, if any, or provide such information in accordance with different procedures provided for in the fund management rules of the relevant fund.

(9) Not later than two months after the end of the reporting period the company shall ensure that all persons interested in fund operations have a possibility to become acquainted with the half-yearly account of the fund. For this purpose the company shall insert the half-yearly account of the fund on the website thereof, if any, or provide such information in accordance with different procedures provided for in the fund management rules of the relevant fund.

(10) Upon providing cross-border management of funds in another Member State, the company shall develop accounting policy and accounting procedures in conformity with the requirements applicable in that Member State to enable, on the basis of accounting records, accurate measurement of the fund net asset value and calculation of the price of investment certificate or of the fund share value, applied to ensure sale and repurchase of the investment certificates.

[*24 October 2002; 13 October 2011*]

**Section 74. Examination of Annual Accounts of a Fund**

(1) The annual account of a fund shall be examined by a person entitled to provide audit services in accordance with the law.

(2) The fund auditor shall be approved by a managing body provided for in the articles of association of the company.

(3) The task of the fund auditor is to examine whether the annual statement of the fund prepared by the company conforms to the laws and regulations and the fund prospectus, whether financial statements included in the annual statement give a true and fair presentation of the financial standing and performance results of the fund and whether the report of the company and custodian bank meets the requirements of the laws and regulations and the regulations of the Commission.

[*24 October 2002; 18 March 2004*]

**Section 75. Information to be Included in Annual Statements of a Fund**

(1) The annual statement of a fund as an aggregate shall consist of financial statements, investment management company statement, a statement of responsibility of the board of the investment management company, and a statement of the custodian bank.

(2) The annual statement of the fund shall be accompanied by a fund auditor’s report.

(3) The composition of a half-yearly statement of a fund shall be determined by the Commission. Half-yearly statements of the fund shall not be subject to compulsory audit by the fund auditor.

(4) The company shall submit the annual account of the fund under the management thereof and the fund auditor’s report to the Commission within 10 days from the approval of the annual statement, but not later than four months after the end of the reporting period.

(5) The company shall submit the half-yearly statement of the fund under the management thereof to the Commission within 30 days after the end of the reporting period.

[*24 October 2002; 18 March 2004; 8 March 2007*]

**Section 75.1 General Provisions Regarding Company Statements**

(1) The company shall maintain accounting records and prepare the annual statement in accordance with the law On Accounting, this Law and the regulatory provisions of the Commission.

(2) The company shall prepare the annual statement for each reporting year, including financial statements, company’s management report, and a statement of management’s responsibility.

(3) The Commission shall determine the procedures for the preparation of the annual statement and the consolidated annual statement in accordance with the laws and regulations regarding accounting and international financial reporting standards.

(4) If it is necessary for performance of supervisory functions, the Commission has the right to request that the company prepares other statements, determining the procedures for preparing and submitting such statements.

[*18 March 2004; 8 March 2007; 29 May 2008; 19 June 2008; 11 March 2010*]

**Section 75.2 Preparation, Audit and Publication of a Company Annual Statement**

(1) The annual statement shall give a true and fair presentation of the assets and liabilities, financial standing, performance results, and cash flow of the company. If the annual statement prepared in accordance with the requirements of this Law does not give a true and fair presentation of the company, the notes to the annual statement shall include additional information.

(2) The annual statement shall be audited by a sworn auditor or a commercial company of sworn auditors (hereinafter – the sworn auditor). The company shall, within 10 days after receipt of the sworn auditor’s statement addressed to its board, but not later than three months after the end of the reporting year, submit to the Commission a copy of such statement.

(21) The Commission is entitled to request that a company licensed in Latvia changes the sworn auditor appointed by the meeting of shareholders for the audit (examination) of the annual statement or consolidated annual statement if, upon performing the supervision of a company licensed in Latvia, the Commission detects that the professional activity of such sworn auditor does not conform to the requirements of the laws and regulations.

(3) The meeting of shareholders is entitled to approve the annual statement after receipt of the sworn auditor’s report.

(4) [29 May 2008]

(41) The company shall, not later than within 10 days after approval of the annual statement and not later than within three months after the end of the reporting year, submit to the State Revenue Service a copy of the annual statement and of the sworn auditor’s statement together with an extract from the minutes of the meeting of shareholders about approval of the annual statement. The company preparing the consolidated annual statement shall, not later than within 10 days after approval of the consolidated annual statement and not later than within seven months after the end of the reporting year, also submit to the State Revenue Service a copy of the consolidated annual statement and of the sworn auditor’s report in addition to the documents specified in the first sentence of this Paragraph together with an extract from the minutes of the meeting of shareholders about approval of the consolidated annual statement. The company shall submit the documents referred to in this Paragraph either in printed form or in electronic form.

(42) The State Revenue Service shall, not later than within five working days, hand over the documents referred to in Paragraph 4.1 of this Section, if they have been submitted in electronic form, or electronic copies of such documents, if they have been submitted in printed form, to the Enterprise Register in electronic form. The Enterprise Register shall ensure public access to the received documents. The procedures for the handing over and certification of electronic documents shall be determined by an interdepartmental agreement entered into by the State Revenue Service and the Enterprise Register.

(43) The Enterprise Register shall, after receipt of the documents referred to in Paragraph 4.2 of this Section not later than within five working days, publish a notification in the official gazette *Latvijas Vēstnesis* that the information referred to in Paragraph 4.1 of this Section is available in the Enterprise Register.

(5) A company subject to the requirements for capital adequacy in accordance with this Law both individually and at the level of the consolidated group shall, in addition to the conditions determined in Paragraph 41 of this Section, itself ensure that its annual statement together with the sworn auditor’s report are disclosed to the public not later than on May 1 of the year following the reporting year, but the consolidated annual statement together with the sworn auditor’s report – not later than within seven months after the end of the reporting year. The abovementioned annual statement and the consolidated annual statement shall be identical to the one examined by a sworn auditor. The company may post the relevant information on the website thereof or choose another medium or location suitable for making that information available to public.

(6) [29 May 2008]

[*18 March 2004; 8 March 2007; 29 May 2008; 11 March 2010; 13 October 2011; 9 July 2013; 30 March 2017*]

**Section 75.3 Accounts of Sub-Funds**

In respect of funds with sub-funds, the fund accounts referred to in this Chapter shall be prepared separately for each sub-fund. In the annual and half-yearly accounts of a sub-fund, the company may also use the currency specified for the relevant sub-fund.

[*8 March 2007; 19 June 2008*]

**Section 75.4 Disclosure of the Engagement Policy**

(1) If the investment policy of a management company provides for investing of assets of an investment fund, a State funded pension scheme, or pension plans established by a private pension fund in the shares of such joint stock company the registered office of which is in a Member State and the shares of which are included on the regulated market of a Member State (hereinafter in this Section – the joint stock company), the management company shall develop an engagement policy.

(2) The engagement policy shall describe how the management company supervises the activities of the joint stock company in at least the following issues:

1) strategy;

2) results and risk of financial and non-financial activity;

3) capital structure;

4) social impact;

5) environmental impact;

6) corporate management.

(3) In addition to the information referred to in Paragraph two of this Section, the engagement policy shall describe how the management company:

1) implements a dialogue with the joint stock company;

2) exercises voting rights and other rights arising from shares in the joint stock company, including providing for the criteria for the determination of less significant votes;

3) cooperates with other shareholders of the joint stock company;

4) communicates with stakeholders of the joint stock company;

5) implements the management of the actual and potential conflicts of interest in relation to engagement in the management of the joint stock company.

(4) The management company shall, each year by 1 August, publish a report on the implementation of the engagement policy. The report shall be provided for the period from the day when the engagement policy was disclosed for the first time or the last report on the implementation of the engagement policy was disclosed. In addition the following information shall be included in the report:

1) general information on how the management company implements voting rights;

2) explanation of the most significant votes;

3) information on the use of the services of authorised advisers (within the meaning of Section 1, Paragraph one, Clause 106 of the Financial Instrument Market Law).

(5) In addition to the information referred to in Paragraph four of this Section the management company shall disclose its votes in the meetings of shareholders of the joint stock company. The management company need not disclose the votes which, according to the engagement policy, are to be considered insignificant.

(6) The management company need not apply one or more of the requirements of this Section. If the management company does not apply any of the requirements of this Section, it shall provide information on which requirement is not being applied and the justification for such action.

(7) The management company shall ensure public free access to the information referred to in Paragraphs two, three, four, five, and six of this Section on its website.

[*20 June 2019 /* *See Paragraphs 39 and 40 of the Transitional Provisions*]

**Chapter VIII. Freedom to Provide Management Services**

[*18 March 2004*]

**Section 76. Rights of a Company Licensed in Latvia to Provide Management Services in a Member State**

(1) A company licensed in Latvia is entitled to provide in a Member State only those management services the provision of which is allowed in Latvia.

(2) The company licensed in Latvia is entitled to commence the provision of management services in a Member State in accordance with the procedures laid down in this Section by opening a branch or without opening a branch.

(3) If the company wishes to commence the provision of management services in any Member State, it shall submit a submission to the Commission. In the submission it shall specify the Member State where it intends to provide management services and the manner in which it is intended to provide management services – by opening a branch or without opening a branch. Together with the submission the company shall submit the operational programme developed, indicating the following therein:

1) the management services the company intends to provide in the Member State;

2) a description of the risk management procedure of the company;

3) a description of the procedure developed by the company for examination of submissions and complaints (disputes) of fund investors regarding the provision of management services by the company and of the measures to be taken;

4) a description of the procedure developed by the company for ensuring availability of information upon request by the competent authority of the home state of the fund.

(4) A company which intends to commence the provision of management services in any Member State by opening a branch shall include in its submission the address of the branch and the information specified in Section 10, Paragraph three of this Law on the branch manager. In the operational programme attached to the submission the company shall additionally specify the organisational chart, giving a true and fair presentation of the intended operations of the branch, services to be provided, and appropriate work organisation.

(5) The Commission shall examine a submission for the commencement of provision of services by a company in a Member State and shall inform the competent authority of the relevant Member State and the relevant company of the decision thereof in writing within 30 days after receipt of all the documents prepared in accordance with the requirements of the laws and regulations.

(6) Together with the decision referred to in Paragraph five of this Section the Commission shall send to the competent authority of the relevant Member State information and documents referred to in Paragraphs three and four of this Section, information on the investor protection scheme effective in Latvia and the maximum amounts of compensations, and, if the company wishes to provide fund management services in the Member State, also a description of the scope of the licence granted to the company. If amendments are made to the information referred to in this Paragraph, the Commission shall inform the competent authority of the host state of the company thereof.

(7) The company shall inform in writing the Commission and the competent authority of the host state of the company of amendments to the information specified in Paragraphs three and four of this Section, and also of intention to dissolve the branch no later than 30 days prior to implementing the amendments or the planned dissolution of the branch.

(8) The Commission shall examine the documents specified in Paragraph seven of this Section and inform the competent authority of the host state of the company and the company of its decision in writing within 30 days of the receipt of the documents.

(9) Upon providing services in a Member State by opening a branch, the company shall conform to the rules of operation of a company applicable in the host state of the company.

(10) Upon providing services in a Member State without opening a branch, the company shall conform to the requirements of Sections 13.1, 13.2, 13.3, 13.4, 14, 14.1, and 54.1 of this Law and the requirements for establishing an efficient internal control system.

(11) A company that provides management services on a cross-border basis to a fund registered in another Member State, either by opening a branch or without opening a branch, shall conform to the requirements of this Law and the regulations of the Commission in relation to arranging the business of a company, including the delegation rules, the risk management procedures, the provisions for supervision of conformity with the requirements governing the operation of a company, and also the preparation and submission of statements and reports and internal control system rules developed by the company.

(12) The company that carries out the activities referred to in Paragraph eleven of this Section shall submit to the Commission, upon its request, copies of the annual and half-yearly statements of the fund to which it provides management services on a cross-border basis, and also the prospectus of that fund and any further amendments thereto.

[*8 March 2007; 13 October 2011*]

**Section 77. Rights of a Company Licensed in a Member State to Provide Management Services in Latvia**

(1) A company licensed in a Member State is entitled to provide in Latvia only those management services for the provision of which the company has received a licence in its home state by opening a branch in Latvia or without opening a branch.

(2) A branch of a company licensed in a Member State may commence its operations in Latvia only after:

1) the Commission has received notification from the competent authority of the home state of the company, including:

a) a confirmation that the relevant company has a valid licence for the provision of management services in the home state of the company. If the company wishes to provide fund management services, it shall also append a description regarding the scope of the licence granted to the company and the limits determined in the licence in respect of types of funds it is entitled to manage;

b) the operational programme indicating those management services that the company intends to provide in Latvia and a description of risk management procedures. The operational programme shall also include the procedures for the examination of applications and complaints (disputes) of fund investors as developed by the company and the measures to be taken, and also a description of the procedures for ensuring availability of information to the competent authority of the home state of the fund upon its request;

c) the address and organisational chart of the branch;

d) the given name, surname, citizenship, personal identity number (if any) or the year and date of birth of the branch manager;

e) information on the system of investor protection the participant of which the relevant company is;

f) a written confirmation by the competent authority of the home state of the company that the abovementioned authority, prior to commencing internal audits, will duly inform the Commission of the audits at the company’s branches in Latvia and will enable the representatives of the Commission to participate in such audits and, upon completion of the audit, will without delay submit a report to the Commission on the findings of the audit;

2) the Commission has informed the competent authority of the home state of the company that it is ready to commence the supervision of the company’s branch or 60 days have elapsed since the date of receipt by the Commission of the notification referred to in Clause 1 of this Paragraph from the competent authority of the home state of the company.

(3) A company licensed in a Member State is entitled to commence the provision of management services in Latvia without opening a branch, if the Commission has received notification from the competent authority of the home state of the company including the information referred to in Paragraph two, Clause 1, Sub-clauses “a”, “b”, and “e” of this Section.

(4) If a company licensed in a Member State has commenced the provision of management services in Latvia in accordance with the procedures laid down in this Section, it has an obligation to notify the Commission regarding any changes planned in the information provided in accordance with Paragraph two, Clause 1, Sub-clauses “a”, “b”, and “e” of this Section at least 30 days prior to implementing the relevant changes.

(5) A company licensed in a Member State that has commenced the provision of management services in Latvia in accordance with the procedures laid down in this Section shall prepare and submit to the Commission in accordance with the procedures stipulated by the Commission information required for the performance of supervisory functions of the Commission and aggregation of statistical data and accounts on the company’s operations in Latvia.

(6) [13 October 2011]

(7) A branch of a company that is licensed in a Member State shall ensure that the annual statement of the company of that Member State is published not later than within seven months after the end of the reporting year. At least the account disclosing the financial standing at the end of the reporting period and the report on the financial performance during the reporting period, and also the opinion of the sworn auditor shall be translated into Latvian. The branch of the company of the Member State may make the respective information available to the public on the website thereof or choose another durable medium for making it available to the public.

(8) A branch in Latvia of a company licensed in a Member State that manages the assets of the State funded pension scheme in accordance with the requirements of the Law on State Funded Pensions shall conform to the requirements laid down in Section 13, Paragraphs eleven, twelve, thirteen, and fourteen of this Law in relation to performing critical situation analysis of investment plans.

(9) A branch of a company licensed in a Member State shall conform to the requirements of Sections 13.1, 13.2, 13.3, 13.4, 14, 14.1, and 54.1 of this Law, and also the requirements for establishing an efficient internal control system. Upon performing the supervision of conformity with the requirements referred to in this Paragraph, the Commission shall cooperate and consult with the competent authorities of Member States.

[*8 March 2007; 29 May 2008; 11 March 2010; 13 October 2011*]

**Section 77.1 Cross-Border Management of an Investment Fund Registered in Latvia**

(1) A company licensed in a Member State that has commenced the provision of management services in Latvia in accordance with the procedures laid down in Section 77 of this Law by opening a branch or without opening a branch is entitled to manage investment funds registered in Latvia in accordance with the procedures referred to in this Section.

(2) Upon performing the cross-border management of the funds referred to in Paragraph one of this Section, a company licensed in a Member State shall conform to the following:

1) the requirements of the laws and regulations of the home state of the company in relation to arranging the business of a company, including delegation rules, risk management procedures, provisions for supervision of conformity with the requirements for the operation of a company, and also preparation and submission of accounts and internal control system rules developed by the company;

2) the requirements of this Law and the regulations of the Commission in relation to the activities of an investment fund;

3) the fund management rules and the fund prospectus of the fund in respect of which the authorisation is sought.

(3) The requirements referred to in Paragraph two, Clause 2 of this Section shall refer to the following:

1) establishment and registration of a fund;

2) issue, sale, repurchase, and redemption of investment certificates;

3) investment policy and limits, also for the calculation of global exposure and liabilities;

4) limits in respect of borrowing, loans, and transactions in financial instruments, if they are not the fund property upon the moment of performance of the transaction;

5) valuation of assets and accounting of the fund;

6) calculation of the issue or the repurchase price of investment certificates and errors in the calculation of net asset value and compensation to investors related thereto;

7) allocation or reinvestment of income;

8) disclosure and reporting requirements regarding the fund, including requirements for the prospectus, the fund management rules and key investor information, and also periodic reports;

9) measures related to the marketing of investment certificates;

10) relationship with fund investors;

11) reorganisation of the fund;

12) liquidation of the fund;

13) maintaining a register of the holders of investment certificates;

14) fee for the registration and supervision of the fund;

15) exercising the voting rights of the holders of investment certificates and other rights related to Clauses 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13 of this Paragraph.

(4) A company licensed in a Member State shall be responsible for ensuring that its operations conform to the requirements of this Section and for taking and implementation of organisational decisions.

(5) If a company licensed in a Member State wishes to manage a fund registered in Latvia, it shall submit a submission to the Commission regarding the fund management. The following shall be attached to the submission:

1) a written agreement with the custodian bank;

2) information on the procedures for the delegation of the fund management rights in relation to managing fund investments and administration of the fund.

(6) If a company licensed in a Member State already manages an investment fund registered in Latvia, it is not necessary to repeatedly submit the documents which are at the disposal of the Commission. The company shall include information referred to in this Paragraph in the submission regarding the fund management.

(7) When the Commission assesses the documents referred to in Paragraph five of this Section and takes into account information specified in the description referred to in Section 77, Paragraph two, Clause 1, Sub-clause “a” of this Law, it shall, if necessary, request that the competent authority of the home state of the relevant company provides an opinion whether the type of the fund in respect of which an authorisation is sought conforms to the scope of the authorisation granted to the company.

(8) The Commission may reject the submission by a company licensed in a Member States where:

1) the company fails to meet those requirements of this Section the supervision of conformity with which falls under the competence of the Commission;

2) the company has not received the authorisation of the competent authority of its home state to manage the type of the fund in respect of which an authorisation is sought;

3) the company has failed to submit the documents referred to in Paragraph five of this Section.

(9) Before rejecting the submission the Commission shall consult with the competent authority of the home state of the company.

(10) A company licensed in a Member State, upon carrying out the activity referred to in Paragraph one of this Section, shall ensure in respect of a fund registered in Latvia that:

1) the management company or the custodian bank is not changed without the authorisation of the Commission;

2) amendments to the fund prospectus and the fund management rules are not made without the authorisation of the Commission;

3) the Commission is informed of all amendments to the documents referred to in Paragraph five of this Section.

[*13 October 2011; 9 July 2013; 30 March 2017*]

**Section 77.2 Marketing of Investment Certificates of Investment Funds Registered in Latvia in a Member State**

(1) A company which wishes to start marketing the investment certificates of an investment fund registered in Latvia in a Member State, before commencement of the abovementioned activity, shall submit to the Commission the notification filled out in accordance with Annex 1 of Commission Regulation (EU) No 584/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards the form and content of the standard notification letter and UCITS attestation, the use of electronic communication between competent authorities for the purpose of notification, and procedures for on-the-spot verifications and investigations and the exchange of information between competent authorities (hereinafter – Regulation No 584/2010 of the European Commission). The notification shall be filled out in the language accepted by the Commission and it shall be submitted to the Commission by means of electronic data carriers.

(2) The notification referred to in Paragraph one of this Section shall include information on the procedures for the marketing of the investment certificates as stipulated in the Member State where the company intends to market investment certificates, including information on the different share classes of investment certificates, if any.

(3) If a company managing a fund registered in Latvia wishes in the relevant Member State only to market the investment certificates of the investment fund under the management thereof without opening a branch and without providing any other service referred to in Section 5 of this Law in the relevant Member State, the company shall include the reference in the notification that the marketing of the fund investment certificates is carried out by the company managing the relevant fund.

(4) The company shall append the following documents of the fund to the notification referred to in Paragraph one of this Section:

1) the fund management rules;

2) the fund prospectus;

3) key investor information;

4) the latest audited and approved annual account, and also half-yearly report if it has been approved after the approval of the annual statement.

(5) The company shall ensure the translation of the documents referred in Paragraph four of this Section in accordance with the requirements of the legal acts of the Member State in which the company intends to start distribution of fund investment certificates.

(6) The Commission shall verify whether the company has submitted all the documents referred to in Paragraphs one and four of this Section and whether they have been prepared in accordance with the requirements of the laws and regulations.

(7) The Commission shall, within 10 working days after receipt of the documents referred to in Paragraphs one and four of this Section and that have been duly drawn up, send them in electronic form to the competent authority of the Member State where the company intends to start distribution of the fund investment certificates. In addition the Commission shall send to the competent authority of the relevant Member State the attestation of the registration of a fund prepared in accordance with Annex II to Regulation No 584/2010 of the European Commission.

(8) After sending the documents referred to in Paragraph seven of this Section, the Commission shall notify the company thereof. The company is entitled to start marketing of the fund investment certificates in the relevant Member State as of the day when the Commission has notified the company of sending the documents referred to in Paragraph seven of this Section.

(9) [9 July 2013]

(10) The fund management company shall ensure that the documents referred to in Paragraph four of this Section and amendments thereto, and also the translation of these documents in accordance with the requirements of Paragraph five of this Section are available on the website thereof.

(11) The fund management company shall notify the competent authority of the host state of the fund regarding:

1) any amendments to the documents referred to in Paragraph four of this Section;

2) any intended amendments to the procedures for marketing the investment certificates or to the information indicated in the notification referred to in Paragraph one of this Section. The company shall send that information to the competent authority of the host state of the fund before introducing the amendments.

(12) If the company wishes to change the procedures for marketing the investment certificates and amend the information included in the notification referred to in Paragraph one of this Section, it shall send a notification in writing to the competent authority of the host state of the fund regarding the intended amendments before introducing such amendments.

[*13 October 2011; 9 July 2013*]

**Section 77.3 Marketing of Investment Certificates of Investment Funds Registered in a Member State in Latvia**

(1) Investment certificates of investment funds registered in a Member State or securities comparable to such investment certificates (hereinafter – the Member State fund certificates) may be marketed in Latvia only by the following commercial companies:

1) credit institutions entitled to provide investment services in Latvia;

2) investment management companies entitled to provide management services in Latvia or companies licensed in a Member State which wish to market in Latvia investment certificates of investment funds under the management thereof;

3) an investment brokerage company which is entitled to provide investment services in Latvia;

(2) The commercial companies referred to in Paragraph one of this Section shall ensure marketing, repurchase, and redemption of the Member State fund certificates, and also the settlement related thereto in Latvia.

(3) A company licensed in a Member State that wishes to market in Latvia investment certificates of investment funds under the management thereof without opening a branch, and without providing any other service referred to in Section 5 of this Law, shall conform only to the procedures laid down in this Section.

(4) Marketing in Latvia of the Member State fund certificates may be started as of the day when the following documents drawn up in accordance with the procedures laid down in this Section have been submitted to the Commission:

1) an attestation by the competent authority of the home state of the fund regarding the registration of the fund that conforms to Annex 2 to Regulation No 584/2010 of the European Commission;

2) a notification by the fund management company that conforms to Annex 1 to Regulation No 584/2010 of the European Commission and includes information on the procedures for marketing in Latvia the investment certificates of the relevant fund;

3) the fund management rules or a document equivalent thereto, the fund prospectus, key investor information and the latest audited and approved annual statement of the fund, and also the half-yearly statement if it has been approved after approval of the annual statement.

(5) The documents referred to in Paragraph four, Clauses 1 and 2 of this Section shall be submitted to the Commission in the language accepted by the Commission.

(6) The documents referred to in Paragraph four, Clause 3 of this Section shall be submitted to the Commission taking into account the following requirements:

1) key investor information prepared in a foreign language shall be accompanied by its translation into the Latvian language;

2) the fund prospectus, the fund management rules or a document equivalent thereto, and other documents to be submitted to the Commission that have been prepared in a foreign language shall be accompanied by their translation into the Latvian language or another language accepted by the Commission.

(7) A person who is entitled to take decision on behalf of the fund shall certify the compliance of the translation with the information contained in the documents prepared in the original language. The requirements of Paragraph six of this Section shall also apply to amendments of the relevant documents.

(8) The Commission shall register and keep all notifications submitted by competent authorities of Member States.

(9) Upon marketing investment certificates of the fund in Latvia, the fund management company shall conform to and meet the following requirements:

1) it shall ensure that investors in Latvia have the same access to information and documents as in the home state of the fund;

2) it shall ensure that investors in Latvia are notified, in a timely manner, regarding changes in the operation of the fund and of the management company thereof, amendments to the fund prospectus, to the basic information intended for investors, and to the articles of association of the fund management, taking into account the procedures specified in the fund prospectus or the articles of association of the fund management or a document equivalent thereto;

3) it shall ensure that, upon request of investors, they are provided free of charge with a copy in printed form of the fund prospectus, key investor information, the fund management rules or a document equivalent thereto, the fund’s annual and half-year statements;

4) it shall ensure that investors in Latvia have access to the procedures for the examination of submissions and complaints (disputes) of investors, as developed by the fund management company, and they may submit complaints regarding the services provided by such company in the Latvian language;

5) it shall ensure that the Commission is notified, in a timely manner, regarding amendments to key investor information, the fund prospectus, the fund management rules or a document equivalent thereto, specifying where the abovementioned documents are available in electronic form;

6) it shall conform to the requirements of the laws and regulations of the home state of the fund regarding the publishing procedures for the issuing, purchase, repurchase, and redemption of investment certificates;

7) it shall ensure that the documents referred to in Paragraph four, Clause 3 of this Section and any amendments thereto, and also translations of such documents are available in electronic from on the website of the person marketing investment certificates, the fund management company, or the fund itself;

8) it shall ensure that the content of the fund’s documents that are not translated into the Latvian language is explained to investors.

(91) Upon entering into a contract regarding the distribution of fund investment certificates of a Member State in Latvia with any of the commercial companies referred to in Paragraph one of this Section, the fund management company shall include in the contract the provisions regarding the procedures for the conformity with the requirements laid down in Paragraph nine, Clauses 1, 2, 3, 4, 7, and 8 of this Section, and also the liability of the parties for failure to conform thereto.

(10) If the company wishes to change the procedures for the marketing of the investment certificates or amend the information referred to in the notification indicated in Paragraph four, Clause 2 of this Section, it shall, before making any amendments, notify the Commission in writing regarding the relevant changes.

(11) If the company wishes to discontinue marketing of the investment certificates in Latvia or the fund is liquidated, the company shall inform the Commission of the planned activity and shall ensure that, before termination of activity of the fund or the liquidation of the fund, liabilities to investors in Latvia are met in accordance with the fund prospectus and the fund management rules or a document equivalent thereto.

(12) The Commission may suspend marketing of the fund investment certificates in Latvia in any of the following cases:

1) the Commission receives a notification from the competent authority of the home state of the fund that the licence of the fund management company is cancelled or its validity is suspended;

2) the Commission receives a notification from the competent authority of the home state of the fund regarding restricting or suspending the operations of the fund;

3) the fund, its management company, or the person marketing the fund investment certificates violates the provisions of the fund prospectus or the fund management rules or a document equivalent thereto;

4) the fund, its management company, or the person marketing the fund investment certificates violates the requirements of the laws and regulations of Latvia, including the requirements or the laws and regulations for the protection of the interests of investors.

(13) The Commission shall ensure that information on the requirements of the laws and regulations for the protection of investor interests is disclosed on the website thereof as these requirements shall be followed when marketing fund investment certificates of a Member State in Latvia.

[*13 October 2011; 9 July 2013; 30 March 2017*]

**Section 77.4 Marketing of Investment Certificates of Other Investment Funds in Latvia**

[9 July 2013]

**Chapter IX. Supervision**

[*18 March 2004*]

**Section 78. General Provisions of Supervision**

(1) The Commission shall be responsible for the supervision of companies licensed and funds registered thereby, and also shall also supervise the operation of the custodian bank in accordance with this Law, the Credit Institutions Law, the Law on the Financial and Capital Market Commission, and the laws and regulations governing the financial instruments market.

(2) The purpose of supervision is to ensure the conformity of the establishment and operation of funds and companies with this Law and other laws and regulations issued in accordance with this Law, and to protect the interests of investors.

(3) The Commission shall issue administrative acts in cases provided for in by this Law. The procedures for the issuing of administrative acts by the Commission shall be determined by relevant laws and regulations.

(4) An administrative act of the Financial and Capital Market Commission which has been issued in accordance with this Law may be appealed to the Administrative District Court. The court shall examine the case as the court of first instance. The case shall be examined in the panel of three judges. The judgment of the Administrative Regional Court may be appealed by filing a cassation complaint.

(5) Appeal of the administrative act issued by the Commission in court shall not suspend the execution thereof, if the administrative act issued by the Commission is a decision on the following:

1) to restrict the operation of the company or of the custodian bank;

2) to prohibit the company’s official from performing his or her duties;

3) to prohibit from acquiring or increasing a qualifying holding in the company;

4) to prohibit the exercise of voting rights;

5) to prohibit from delegating fund management services;

6) to prohibit from transferring to another company the rights to manage the fund;

7) to cancel the licence issued to the company for the provision of management services;

8) to commence liquidation of an investment fund.

(6) In order to ensure supervision of the provision of management services, the Commission is entitled, within its competence and directly or in cooperation with other institutions in accordance with the procedures laid down in laws and in addition to the rights specified in the Law on the Financial and Capital Market Commission and other rights specified in this Law:

1) to request from any person information on its operation in the financial and capital market and to summon the relevant person to the Commission to provide information on site;

2) to request and receive from financial market participants recordings of telephone conversations and electronic communication and data transmission of other types;

3) to request cessation of any practice that is in contradiction with the requirements of this Law;

4) to request freezing of assets of the company and the funds or to restrict the rights to use these assets;

5) to restrict the company’s rights to provide management services;

6) if necessary for the protection of investor interests, to request suspending of issuing, sale, repurchase and redemption of investment certificates;

7) to submit to law enforcement authorities information on activities on the financial and capital market that are in contradiction with the requirements of this Law;

8) to cancel the licence issued to the company or to the custodian bank, and to take a decision to commence liquidation of the fund;

9) to take the necessary legal measures in order to ensure that the company and the custodian bank continue to conform to the requirements of this Law and the regulations of the Commission.

(7) Taking into account the cross-border nature of company activities, in order to ensure a uniform application of the supervisory practices in all Member States, the Commission has the right to specify other requirements governing the activities of companies and funds in areas arising from the guidelines and recommendations adopted by the European Securities and Markets Authority in the supervision of the activities of companies and funds.

[*23 October 2008; 11 March 2010; 13 October 2011; 30 March 2017*]

**Section 78.1 Funding to Ensure of the Supervisory Functions of the Commission**

(1) The company shall pay to the Commission for the supervision of its operation in the following amount and in accordance with following procedures:

1) up to 0.033 per cent of the average amount of assets of the investment funds under company management in a quarter, but not less than EUR 3557 a year;

2) if the company provides the investment service referred to in Section 5, Paragraph two or three of this Law – up to one per cent of the gross income of the company from the services provided in a quarter, but not less than EUR 711 a year.

(2) A company licensed in another Member State which has registered an investment fund in Latvia shall pay to the Commission for the supervision of the activity of the investment fund registered in Latvia up to 0.013 per cent of the average amount of assets of such investment fund in a quarter, but not less than EUR 1422 a year.

(3) In addition to the payments referred to in Paragraphs one and two of this Section, the company and a company licensed in a Member State shall pay to the Commission the following:

1) for examination of the documentation submitted for the registration of an investment fund –EUR 1422;

2) for examination of amendments to the investment fund prospectus or fund management articles of association submitted for registration – EUR 426.

(4) A branch of a company licensed in a Member State which is registered in Latvia shall pay to the Commission for the supervision of the branch in accordance with the following procedures:

1) up to one per cent of the gross income from the investment fund management services provided by a branch in Latvia in a quarter, but not less than EUR 2134 a year;

2) up to one per cent of the gross income from the investment services referred to in Section 5, Paragraphs two and three of this Law provided by a branch in a quarter, but not less than EUR 711 a year.

(5) The Commission shall issue the regulatory provisions regarding the procedures for the calculation of the payments referred to in Paragraphs one, two, four, and eleven of this Section and the submission of accounts.

(6) The payments referred to in Paragraphs one, two, four, and eleven of this Section shall be made by the thirtieth day of the month following the quarter.

(7) The company and a company licensed in a Member State shall submit to the Commission the documents certifying the payment referred to in Paragraph three of this Section together with the documents submitted for the registration of the fund or for the registration of amendments to the investment fund prospectus or the fund management rules.

(8) For delayed transfer or transfer at less than full amount of the payments referred to in this Section the late charge shall be calculated for each delayed day of payment as 0.05 per cent from the outstanding amount.

(9) The payments referred to in this Section shall be transferred to the account of the Commission in the Bank of Latvia.

(10) The payment referred to in Paragraph three, Clause 2 of this Section shall not be applied to amendments made in accordance with Section 28, Paragraph eight and Section 56, Paragraph seven of this Law.

(11) If an investment management company performs the management of investment funds and alternative investment funds, it shall pay to the Commission up to 0.033 per cent of the average amount of assets of investment funds and alternative investment funds under the management thereof in a quarter, but not less than EUR 3557 a year.

[*13 October 2011; 9 July 2013; 19 September 2013*]

**Section 79. Internal Audit of a Company**

(1) The Commission is entitled to perform an internal audit in a company.

(2) A company has an obligation to permit persons authorised by the Commission who perform the internal audit of the company to freely review all the documents and information related to the operation of the company and management of the fund.

(3) The Commission has the right to perform an internal audit of the custodian bank in relation to the operations related to the fund.

(4) If during the audit the person performing the audit detects violations in the operations of the company, he or she has the right to temporarily withdraw the relevant documents, by drawing up a statement thereon.

(5) The person performing the audit has the right to make extracts from documents, request copies of documents at the expense of the company, certified copies of or extracts from the documents.

(6) The Commission shall draw up a report on the audit results and acquaint the board of the company therewith.

(7) If the company disagrees with the report drawn up by the Commission on the audit results, it is entitled to submit a complaint to the Board of the Commission. The Board of the Commission is entitled to determine that a new audit shall be carried out or take a decision on amending the report on audit results, or reject the complaint.

[*13 October 2011*]

**Section 80. Right of the Commission to Obtain Information**

The Commission has the following rights:

1) to request and receive in writing information on the operation of the company and the fund from the company, the custodian bank, the Bank of Latvia, a commercial register institution, officials of the company, and, in case of bankruptcy of the company, also from liquidators or administrators;

2) to request in writing that the persons referred to in Clause 1 of this Section present the documents at their disposal regarding the company and the fund.

**Section 81. Right of the Commission to Request Convening a Meeting of Management Bodies**

The Commission has the right:

1) to request convening a meeting of the board, the council of the company or a meeting of shareholders, indicating the agenda in advance;

2) to send its representative who has the right to express his or her opinion and submit proposals to a meeting of the board or the council of the company or a meeting of shareholders convened in accordance with Clause 1 of this Section.

[*9 July 2013*]

**Section 82. Restrictions of the Rights to Dispose of the Company and Fund Assets**

(1) If the provisions of the laws and regulations, the fund management rules, the fund prospectus, or the custodian bank agreement are violated, the Commission has the right to obtain information from credit institutions and investment brokerage firms on the cash flow and the balance of accounts of the company or of the fund (sub-funds) and to temporarily restrict the rights of the company to dispose of the assets of the company or the fund (sub-funds).

(2) The decision of the Commission on determining the restrictions referred to in Paragraph one of this Section shall be implemented immediately after the receipt thereof.

(3) During the validity of the decision, payments from the accounts to which the of the Commission to restrict the rights of the company applies may be made only upon authorisation of the Commission.

[*13 October 2011*]

**Section 83. Re-registration of the Licence and Issuing of a Duplicate**

(1) If the firm name of a company is being changed, the Commission shall re-register the company licence.

(2) The company shall submit to the Commission a submission for the re-registration of the licence not later than within seven days after re-registration of the firm name in the commercial register.

(3) The Commission shall re-register the licence not later than within seven days after receipt of the relevant submission.

(4) If the licence is lost, the company shall without delay submit to the Commission a submission for the receipt of a duplicate licence.

(5) The Commission shall issue a duplicate licence not later than within seven days after receipt of a relevant submission.

**Section 84. Cancellation of a Licence**

(1) The Commission may, by motivated decision, cancel a licence issued to a company in the following cases:

1) the company has provided to the Commission or publicly disseminated false information;

2) the company has not submitted amendments to the documents submitted to the Commission;

3) the company, its shareholders, council members, and officials do not meet the requirements of this law;

4) the capital of the company does not meet the requirements of this Law;

5) the company fails to meet the requirements of this Law and other laws and regulations, or systematically violates the provisions of the fund prospectus or the fund management rules;

6) the operation of the company is contrary to the interests of fund investors;

7) the company, within 12 months after receipt of the licence, has not commenced the operation permitted by this Law;

8) the operation of the company has been terminated by a court ruling;

9) the company is declared insolvent;

10) the company files a submission for the cancellation of the licence;

11) the company is reorganised or liquidated.

(2) If the Commission detects the violations referred to in Paragraph one, Clause 1, 2, 3, 4, 5, 6, or 7 of this Section, it shall warn the company in writing of its violations and impose the fine provided for in Section 87 of this Law and determines the time period within which the company must prevent the detected violation. After expiry of the relevant time period, the company has an obligation to submit to the Commission a report on the measures taken and their results.

(3) If the company has not eliminated the violations detected by the Commission within the specified time period, the Commission shall take a decision on the cancellation of the licence issued to the company.

(4) The Commission shall notify the company in writing of the decision on the cancellation of the licence or the issuance of a warning to the company, or the imposition of a fine and determining a time period for elimination of violations within three days as from the date of taking of the decision.

(5) The Commission shall, without delay, inform of cancellation of the licence of a company licensed in Latvia the branch of which operates in a Member State or which provides management services in a Member State without opening a branch, the competent authority of the relevant Member State. If a company licensed in Latvia manages an investment fund registered in a Member State, the Commission shall send information referred to in this Paragraph also to the competent authority of the home state of that fund.

(6) The Commission shall conduct the supervision of the company until full settlement of the liabilities of the company towards fund investors and other clients.

(7) The Commission shall notify the European Securities and Markets Authority of cancellation of the licence issued to a company.

[*11 March 2010; 13 October 2011*]

**Section 85. Supervision of a Company Licensed in Latvia Providing Management Services in a Member State**

(1) Prior to performance of an internal audit of a branch of a company licensed in Latvia providing management services in the territory of a Member State, the Commission shall inform the competent authority of the relevant Member State.

(2) The competent authority of a Member State, upon its own initiative or upon request of the Commission, is entitled to conduct an internal audit of a company licensed in Latvia that operates in the territory of the relevant Member State.

(3) The Commission shall supervise the conformity with the requirements referred to in Section 76, Paragraphs ten and eleven of this Law.

(4) The Commission shall supervise the conformity of the company’s operations with the requirements of the laws and regulations to enable the company that provides fund management services in another Member State to ensure conformity with the requirements of the laws and regulations regarding the structure and activities of the fund managed thereby.

[*13 October 2011*]

**Section 86. Supervision of a Company Licensed in a Member State and Providing Management Services in Latvia**

(1) The Commission shall supervise whether a branch of a company licensed in a Member State that operates in Latvia conforms to the requirements of Section 77, Paragraph nine of this Law. The Commission has the right to inspect the measures taken by the abovementioned branch to ensure the conformity with these requirements.

(2) The Commission shall supervise whether the activities of a company which is licensed in another Member State and which, in accordance with the provisions of this Law, has started providing cross-border management services of a fund registered in Latvia, conform to the requirements of Section 77.1, Paragraph two, Clauses 2 and 3 of this Law.

(3) If the Commission discovers that a company which is licensed in a Member State and which, in accordance with the provisions of this Law, has opened a branch or has commenced the provision of management services in Latvia, fails to conform to or violates this Law and the laws and regulations issued in accordance with this Law, it shall request that the relevant company prevents the detected violations and shall notify the competent authority of the home state of the company thereof.

(4) If, in the case referred to in Paragraph three of this Section, the company licensed in a Member State does not conform to the instructions of the Commission, the Commission shall notify the competent authority of the home state of the company of the detected violations and request that the company takes the necessary measures to ensure prevention of the detected violations, and also that the Commission be informed of the measures taken by the competent authority of the home state of the company.

(5) If, despite the measures referred to in Paragraphs three and four of this Section, the company licensed in a Member State continues to violate this Law and the laws and regulations issued in accordance with this Law, the Commission, after informing the competent authority of the home state of the company, may take measures provided for in this Law for ensuring supervision in order to prevent the relevant company from further violations or may apply penalties provided for in this Law. The Commission has the right to prohibit the relevant company from performing any operations in Latvia henceforth, including management of the investment fund registered in Latvia, assets of the state funded pension scheme and assets of the pension plans established by the private pension funds. The Commission has such rights also if the competent authority of the home state of the company cannot take measures referred to in Paragraph four of this Section due to objective reasons or the implementation of such measures in Latvia is impossible.

(6) The requirements specified in Paragraphs three, four, and five of this Section shall not prevent the Commission from taking measures to prevent violations of the laws and regulations of Latvia in the field of protection of the lawful interests of investors. Within the framework of such measures, the Commission is entitled to prohibit the relevant company from continuing the provision of management services in Latvia until the violations are prevented.

(7) If the Commission exercises the rights referred to in Paragraphs three, four, and five of this Section and takes measures that provide for imposing a penalty to a company licensed in a Member State or for restricting its operation in Latvia, the Commission shall justify the necessity for such measures and immediately inform the relevant company and the competent authority of the home state of the company thereof. The company has the right to appeal the decisions taken by the Commission in accordance with the procedures laid down in the laws and regulations of Latvia.

(8) In extraordinary circumstances, notwithstanding the procedures laid down in Paragraphs three, four, and five of this Section, the Commission has the right to immediately take precautionary measures against the company or the investment fund in order to protect the lawful interests of investors and other recipients of management services. The Commission shall immediately inform the European Commission, the European Securities and Markets Authority, and the competent authority of the home state of the company regarding taking such measures.

(9) The Commission, upon its own initiative or upon request of the competent authority of the home state of the company, has the right to carry out internal audits of a branch of a company registered in another Member State that operates in Latvia. The competent authority of the home state of the company has the right to carry out the internal audits of the company’s branch in Latvia by itself or it may authorise another person to carry out such audit by notifying the Commission thereof in advance.

(10) The Commission has the right by a justified decision to refuse for a competent authority of another Member State to carry out internal audit in the territory of Latvia upon the request by the competent authority of such Member State, and also to refuse participation of authorised representatives of the competent authority of another Member State in the audit, if:

1) such audit or participation of the authorised representatives of the competent authority of another Member State in the audit would adversely affect the sovereignty, security, or policy of the state of Latvia;

2) legal proceedings have already been commenced in Latvia in respect of the same violation and against the same persons;

3) a court judgment in respect of the same violation and the same persons has already been taken.

(11) If the Commission carries out an audit of a Latvian branch of a company registered in another Member State upon request of the competent authority of such Member State, the abovementioned competent authority has the right to participate in the audit, taking into account the instructions of the Commission.

(12) If in a branch of a company registered in another Member State which operates in Latvia an audit is carried out by the competent authority of the relevant Member State, the Commission has the right to participate in the audit.

(13) By notifying the Commission in advance, the competent authority of the home state of the company may itself or through the authorised person verify information referred to in Section 88, Paragraph three of this Law in a branch of a company registered in such Member State which operates in Latvia. This provision shall not restrict the Commission’s rights to carry out internal audits in accordance with the procedures laid down in this Section in a branch of a company registered in another Member State which operates in Latvia.

(14) The Commission shall prohibit a branch of a company registered in another Member State which operates in Latvia or a company registered in another Member State that provides management services in Latvia without opening a branch from continuing the provision of management services in Latvia, if the Commission has received a notification from the competent authority of the home state regarding restricting or cancelling the licence issued to that company. Such measures may include decisions whereby the relevant company is prohibited from carrying out any further activity in Latvia.

(15) If the Commission considers that the measures referred to in Paragraph four of this Section taken by the competent authority of the home state to ensure that the relevant company prevents the detected violations are not commensurate with the violations, the Commission shall inform the European Securities and Markets Authority thereof.

(16) Exchange of information for the purposes referred to in this Section shall be carried out in accordance with the requirements of Regulation No 584/2010 of the European Commission.

[*13 October 2011*]

**Section 86.1 Reporting on Potential and Actual Violations of the Law**

(1) Any legal or natural person may report to the Commission and the European Securities and Markets Authority on the potential and actual violations of this Law and the regulatory provisions of the Commission issued on the basis thereof.

(2) The Commission shall establish and maintain an efficient and credible reporting system which includes at least the following elements:

1) the procedures by which reports on the violations are received and by which further action shall be performed;

2) in accordance with the laws and regulations regarding personal data protection, the data protection of such person who is reporting on the violation, and also the data protection of such a natural person who is suspected of committing the violation;

3) the provisions for ensuring the confidentiality of such person who is reporting on the violation, except for the case when the disclosure of such information is provided for in the legal acts of the Republic of Latvia.

(3) The procedures by which potential and actual violations of this Law and of the regulatory provisions of the Commission issued on the basis of this Law are reported and by which the reports received in the reporting system of the Commission are processed shall be determined by the regulatory provisions of the Commission.

(4) Reporting which is performed in accordance with Paragraph one of this Section by employees of the company or custodian bank shall not be considered to be a breach of the prohibition to disclose information specified in the contract and any law or regulation, and the person shall not be liable for such reporting. Employees of the company or custodian bank who report violations in the company or custodian bank shall not be subject to discriminatory or other unfair practices.

[*30 March 2017*]

**Section 87. Liability**

(1) The Commission has the right to impose a fine on the company and the custodian bank in the amount up to 400 minimum monthly salaries for the following violations:

1) for failure to submit to the Commission the documents and information provided for in this Law and Commission regulations issued on the basis of this Law, and also amendments made to the submitted documents and information within the time periods stipulated by the Commission;

2) for the provision of false information to the Commission or the public distribution of such information, except for the provision of false information in the case specified in Paragraph 1.3, Clause 2 of this Section;

3) for action violating the provisions of this Law in relation to publishing of information;

4) for the violation of the provisions for the accounting and holding of fund property, except for violations in the cases specified in Paragraph 1.3, Clause 7 of this Section;

5) for the violation of the provisions for the issue, repurchase, and redemption of investment certificates;

6) for making payments from the fund property not provided for in the fund prospectus;

7) for the violation of the company or fund liquidation procedures;

8) for non-reporting, in case of detection of the violations of the provisions of this Law, the fund prospectus, or the fund management rules;

9) for failure to ensure the possibility provided for in the law to become acquainted with the fund prospectus, key investor information and the fund management rules and annual and half-yearly statements;

10) [30 March 2017];

11) for the violations of the requirements of this Law and of Regulation No 583/2010 of the European Commission for the preparation of basic information for investors.

(11) [30 March 2017]

(12) The Commission shall apply the sanctions specified in the Law on the Prevention of Money Laundering and Terrorism Financing for violations of the laws and regulations in the field of the prevention of money laundering and terrorism financing.

(13) The Commission is entitled to impose sanctions and supervisory measures for the following violations:

1) a person has directly or indirectly acquired, terminated, or reduced or increased a qualifying holding in a company, in violation of the procedures specified in Section 7.1 of this Law, or if the company, once it has learned of the acquisition or termination of a holding in the company, reaching, exceeding, or reducing the amount of the holding specified in Section 7.1, Paragraph four of this Law, has not notified it to the Commission;

2) the company has acquired a licence for the operation of the company by providing false information or in another illegal way;

3) the company does not fulfil the requirements of Section 7.1, Paragraph eighteen, Section 13, Paragraph one, Section 13.1, Paragraph one, Section 15 or Chapter VI of this Law;

4) the company repeatedly fails to fulfil the requirements in relation to the obligation to disclose information to fund investors;

5) the company distributes the investment certificates of the fund registered in Latvia under its management in another Member State prior to providing the notification to the Commission;

6) the company does not comply with the developed risk management policy in relation to financial derivative instruments and does not ensure an independent and accurate process for the determination the value of financial derivative instruments;

7) the custodian bank does not fulfil its obligations in accordance with the requirements of Section 41, Paragraphs four, five, six, seven, eight, nine, ten, and eleven or Section 42, Paragraph one of this Law;

8) the fund has commenced the operation prior to registration with the Commission;

9) the company provides investment management services without the receipt of a licence.

(14) The Commission is entitled to apply one or more of the following sanctions and supervisory measures to a person for the violations referred to in Paragraph 1.3 of this Section:

1) to express a public announcement by indicating the person liable for the violation and the nature of the violation;

2) to require that the person responsible for the violation immediately ceases the respective acts;

3) in relation to the fund to prohibit activities with the fund property until determination of all the circumstances of the case or to take a decision to exclude the fund from the fund register of the Commission;

4) in relation to the company to suspend the activities thereof for a period of time or to cancel the licence issued to the company;

5) to determine a temporary or permanent prohibition for a member of the board of the company or for another natural person responsible for committing of the violation to fulfil his or her obligations in this or another company;

6) to impose a fine on a legal person of up to five million euros or 10 per cent of the total annual turnover thereof on the basis of the last audited annual statement, but if the legal person is a parent company or the subsidiary company of a parent company which prepares its consolidated financial statement in accordance with the requirements of the relevant legal acts of the home Member State, the corresponding total annual turnover is the total annual turnover or the corresponding type of income in accordance with the relevant legal acts of the home Member State in the field of accounting – on the basis of the last audited consolidated annual report;

7) to impose a fine of up to five million euros on a natural person responsible for the violation;

8) as an alternative to that specified in Clause 6 or 7 of this Paragraph, to impose a fine of up to twice the amount of the income generated as a result of the violation if such income can be determined, even if the fine provided for by these Clauses exceeds the amount specified in Clause 6 or 7 of this Paragraph.

(15) In relation to the violations of Regulation No 2017/1131, the Commission shall issue a warning to the company or impose a fine of between EUR 14 200 and 142 300 and determine a deadline for the company to rectify the detected violation.

(2) The payment of the fine shall not release from other liability specified in the law.

(3) Upon taking the decision to impose sanctions or supervisory measures on persons who have violated the laws and regulations governing the financial and capital market and on the amount of the fine, the Commission shall take into account all the circumstances, including the circumstances provided for in the Law on the Financial and Capital Market Commission, and also the potential consequences of systematically committing the violation, and evaluate the commensurability, efficiency, and dissuasive nature of the sanctions to be imposed.

(4) For the violation of the law and the regulatory provisions of the Commission issued on the basis thereof in relation to the obligations of the fund, company, or custodian bank, the Commission may impose sanctions or supervisory measures to the members of their board or other natural persons who, in accordance with the laws and regulations, are responsible for the violation committed.

[*8 March 2007; 13 October 2011; 19 September 2013; 30 March 2017; 26 October 2017; 25 October 2018*]

**Section 87.1 Publishing of Sanctions and Supervisory Measures**

(1) After the Commission has informed a person of the decision taken, it shall publish on its website the information on the sanctions and supervisory measures imposed on the person for the violations of this Law and the regulatory provisions of the Commission issued on the basis thereof, identifying the person and the type and nature of his or her violation, and also the information on the procedures for disputing and appealing the administrative act issued by the Commission and any subsequent information on the results of the appeal, and also any decision by which the previous decision on sanctions or supervisory measures imposed on the person is revoked. The requirements referred to in this Paragraph shall not apply to the supervisory measures which are determined pending the examination of the relevant administrative case.

(2) If after performance of a prior assessment the Commission detects that the disclosure of data of such person on whom a sanction or supervisory measure has been imposed is not commensurate or the disclosure of such data may endanger the stability of the financial market or examination of the relevant administrative case, the Commission is entitled to perform one of the following activities:

1) to postpone the disclosure of the information on the sanctions or supervisory measures imposed on the person until the circumstances for postponing the publication cease to exist;

2) to disclose the information referred to in Paragraph one of this Section without identifying the person if publication ensures efficient protection of personal data;

3) not to publish the information referred to in Paragraph one of this Section, if the activities specified in Clauses 1 and 2 of this Paragraph are considered to be insufficient in order to ensure the stability of the financial market and that disclosure is commensurate to the supervisory measures imposed if they are considered to be insignificant.

(3) In the case specified in Paragraph two, Clause 2 of this Section, the disclosure of information may be postponed for a reasonable period of time, if it is expected that the basis for disclosure will cease to exist within that period of time without identifying the person.

(4) In accordance with the procedures laid down in this Section, the information posted on the website of the Commission shall be accessible for five years from the date of its posting, except for the personal data included in the publication which shall be stored on the website of the Commission for the period of time specified in the Personal Data Protection Law.

(5) The Commission shall inform the European Securities and Markets Authority of sanctions and supervisory measures imposed on the person, but not disclosed in accordance with Paragraph two, Clause 3 of this Section, including of the appeal of the relevant administrative act and the outcome thereof, the sanctions and supervisory measures imposed on the person which have been disclosed, of information and court judgments which may not be appealed, and of criminal punishments imposed on the person. The Commission shall, once a year, provide the European Securities and Markets Authority with aggregated information on all the sanctions and supervisory measures imposed on persons in accordance with Section 87 of this Law.

[*30 March 2017*]

**Chapter X. Exchange of Information**

[*18 March 2004*]

**Section 88. Cooperation of the Commission with Competent Authorities of Member States and Other States**

(1) The Commission shall be responsible for cooperation with competent authorities of Member States in order to ensure the supervision of provision of management services in the whole territory of Member States.

(2) Based on a relevant motivated request, the Commission shall provide to competent authorities of Member States information on the companies licensed in Latvia which provide management services in the territory of the relevant Member State and which have close links with any company licensed or to be licensed in the Member State, or with a member of its council or board, or its owner. The Commission has the right to indicate that the relevant information may be disclosed to third parties that need it for the performance the functions specified in the law only upon a prior written approval of the Commission.

(3) The Commission shall notify the competent authority of the relevant Member State regarding the following activities it has taken:

1) any sanctions or restrictions on operation it has applied to a company licensed in Latvia that provides management services in that Member State. If a company licensed in Latvia manages an investment fund registered in another Member State, the Commission shall send the information referred to in this Clause also to the competent authority of the home state of the fund;

2) any sanctions and restrictions on operation, including suspending the issuing, repurchase, or redemption of the investment certificates, it has applied to an investment fund registered in Latvia the investment certificates of which are marketed in the territory of that Member State. If an investment fund registered in Latvia is managed by a company registered in another Member State, the Commission shall send the information referred to in this Clause also to the competent authority of the home state of that company;

3) any sanctions or restrictions on operation it has applied in accordance with Section 86, Paragraph five of this Law to such company licensed in a Member State which, in accordance with the provisions of this Law, has opened a branch or started providing management services in Latvia.

(4) In order to perform supervisory functions the Commission may, upon entering into a cooperation agreement, exchange information with the competent authorities of other Member States, if the provisions of Section 89 of this Law have been conformed to.

(41) The Commission shall send the information to the supervisory authority of the company registered in the home Member State of the fund or a company registered in a Member State, which it has received from the custodian bank of the fund in accordance with Section 42, Paragraph one, Clause 8 of this Law.

(5) If the Commission has information at its disposal that a commercial company which is not subject to its supervision carries out activities in another Member State which are in contradiction with the legal acts of the European Union in the field of management services, the Commission shall notify the competent authority of the relevant Member State thereof.

(6) If the Commission has information at its disposal that an investment fund registered in a Member State which is not subject to its supervision and investment certificates of which are marketed in Latvia, operates not taking into account the requirements specified in the European Union for the activities of investment funds, the Commission shall notify the competent authority of the relevant Member State thereof.

(7) If, despite the measures determined in Paragraph six of this Section taken by the competent authority of the home state of the fund, an investment fund registered in a Member State continues its operation, infringing upon the lawful interests of Latvian investors, the Commission, after notifying the competent authority of the home state of the fund, has the right:

1) to take measures provided for in this Law to protect the interests of investors in Latvia, including to suspend marketing of investment certificates in Latvia;

2) to inform the European Securities and Markets Authority of the violation.

(8) If the Commission receives information referred to in Paragraph five or six of this Section from the competent authority of another Member State, the Commission shall, within its competence, perform the necessary actions to prevent the detected violations and inform the relevant competent authority which has submitted such information.

(81) The Commission may refuse to respond to a request by the supervisory authority of another Member State for information or a request to cooperate with the investigating authorities of another Member State if:

1) the provision of the relevant information may negatively affect the security of Latvia and the fight against terrorism and other serious criminal offences;

2) a response to the request may negatively affect criminal proceedings, if such have been initiated, or the measures for execution of a punishment, or the examination of an administrative case in the Commission;

3) prior to receipt of the request, legal proceedings have been initiated in Latvia or a final judgment has been proclaimed in relation to the persons indicated in the request and their activities.

(9) Exchange of information for the purposes referred to in this Section shall be carried out in accordance with the requirements of Regulation No 584/2010 of the European Commission.

(10) The Commission shall cooperate with the supervisory authorities of other Member States in order to ensure that the supervisory functions implemented thereby and the sanctions and supervisory measures imposed attain the purposes of this Law, and shall coordinate activities in order to avoid the duplication of supervisory and investigatory activities upon imposing sanctions and supervisory measures in cases of cross-border activity.

[*13 October 2011; 9 July 2013; 30 March 2017*]

**Section 89. Restricted Access Information**

(1) Information received by the Commission from the competent authorities of Member States or foreign states for the purpose of performing supervisory functions shall be deemed to be restricted access information.

(2) The information specified in Paragraph one of this Section may be disclosed to third parties who require such information for performing the functions specified in the law only upon prior written authorisation of the competent authority of the relevant Member State or the foreign state and only for the purposes to which the relevant competent authority has agreed to disclose such information.

(3) The Commission is entitled to use restricted access information received from the competent authority of a Member State or a foreign state in the following cases:

1) to verify the information provided by the company in order to obtain a licence;

2) to ascertain the conformity of the custodian bank or the company with the requirements of the laws and regulations;

3) to apply the sanctions specified in this Law;

4) in legal proceedings on appeal of the administrative acts issued or actual actions performed by the Commission.

(4) The restrictions specified in Paragraphs two and three of this Section shall not prevent the Commission from providing restricted access information to:

1) authorities in charge of the State supervision of credit institutions, companies, investment funds or collective investment undertakings comparable to investment funds, insurance companies, other financial institutions and the financial market;

2) persons responsible for the liquidation or insolvency procedures of companies, investment funds or collective investment undertakings comparable to investment funds or persons involved in providing management services;

3) persons who, according to the authorisation granted by the competent authority, conduct internal inspection or audit of companies, investment funds or collective investment undertakings comparable to investment funds, credit institutions, insurance companies and other financial institutions;

4) institutions managing the compensation schemes for investors and depositors, if the relevant authorities require such information for the performance of their functions;

5) the European Securities and Markets Authority, the European Banking Authority, the European Insurance and Occupational Pensions Authority, and the European Systemic Risk Board.

(5) The provisions of this Section shall not prevent the Commission from providing restricted access information to the Bank of Latvia or central banks of Member States or other institutions responsible for monitoring the payment system, if the abovementioned authorities require such information for the performance of the functions specified in the law.

(6) The provisions of this Section shall not prevent the Commission from providing restricted access information to the regulated market maker, the Latvian Central Depository or institutions which ensure clearing and settlements for transactions in financial instruments in a Member State, if it considers that the provision of such information is required for ensuring the relevant action of the abovementioned institutions if settlement or clearing system participants do not fulfil their liabilities or there are grounds for considering that they would not fulfil their liabilities.

[*13 October 2011; 9 July 2013; 25 October 2018*]

**Section 90. Cooperation of the Commission with the European Commission and the European Securities and Markets Authority**

(1) The Commission shall notify the European Commission regarding:

1) issuing of a licence for the provision of management services to a company that is a subsidiary of a company registered in a foreign state;

2) cases when after acquisition of a qualifying holding a company that is registered in Latvia becomes a subsidiary of a company registered in a foreign state;

3) such categories of issuers and debt securities issued by them which meet the requirements of Section 66, Paragraph four of this Law. This information shall be accompanied by a report certifying the status of the liabilities attached to debt securities;

4) activities carried out in accordance with Section 88, Paragraph seven, Clause 1 of this Law;

5) activities carried out in accordance with Sections 77 and 77.1 and Section 86, Paragraph five of this Law and after which a company licensed in a Member State is denied the commencement of provision of management or other services or prohibited from further provision of management services in Latvia.

(11) The Commission shall send the information referred to in Paragraph one, Clauses 3, 4, and 5 of this Section also to the European Securities and Markets Authority.

(2) In the case referred to in Paragraph one, Clause 1 of this Section, the Commission shall also send to the European Commission information on the structure of the group in which the company in included.

(3) The Commission shall inform the European Commission and the European Securities and Markets Authority of the difficulties of general nature faced by a company which has received a licence for providing management services when providing management services or when commencing to provide management services in foreign countries.

(4) The Commission may inform the European Securities and Markets Authority regarding cases when the competent authority of another Member State does not provide information upon a justified request by the Commission or fails to provide information within appropriate (reasonable) time period, or when it refuses the Commission’s request to carry out internal audit in the territory of that Member State or refuses participation of the authorised representative of the Commission in internal audit or fails to respond to such request within appropriate (reasonable) time period.

[*19 June 2008; 13 October 2011*]

**Transitional Provisions**

1. Until the day when a special law governing the issues related to reorganisation of undertakings comes into force within the meaning of this law the term:

1) “merger” is defined as a reorganisation process of an undertaking (company) during which the merging undertaking (company) is merged to another already existing undertaking (company). As a result of the merger, the merging undertaking (company) shall cease to exist without liquidation procedures;

2) “consolidation” is defined as a reorganisation process of an undertaking (company) during which the undertaking (company) becomes consolidated with another undertaking (company), setting up a new undertaking (company). As a result of consolidation, the consolidated undertakings (companies) which have fully become part of the new undertaking (company) shall cease to exist without liquidation procedures;

3) “division” is defined as a reorganisation process of an undertaking (company) during which the dividing undertaking (company) transfers its property to the receiving undertaking (company) through splitting up or divestiture. The receiving undertaking (company) may be either an already existing undertaking (company) or an undertaking (company) to be newly established:

a) in the case of splitting up, the dividing undertaking (company) ceases to exist and transfers all of its property to receiving undertakings (companies),

b) in the case of divestiture, the dividing undertaking (company) transfers part of its property to one receiving undertaking (company) or more receiving undertakings (companies) but the dividing company itself continues to exist.

2. Public joint stock companies which at the moment of coming into force of this Law are performing the activities determined in Section 3 of this Law shall terminate such activity, shall liquidate themselves, shall transform themselves into a private joint stock company or reorganise themselves in accordance with the procedures laid down in this Paragraph. Such reorganisation shall meet the following provisions:

1) a public joint stock company (hereinafter – the merging undertaking) may reorganise itself only by being merged to an investment company (hereinafter – the receiving undertaking) which on the basis of the assets or a part thereof of the merging undertaking shall create a closed-ended fund;

2) merging shall take place on the basis of an agreement;

3) the agreement shall provide that the parties upon entering into the agreement approve the fund prospectus and the fund management rules which shall be attached to the draft agreement;

4) the agreement shall be entered into by the executive bodies of both companies after the draft agreement has been approved in the general meetings of both companies by the majority provided for by the articles of association of the relevant company for taking of a decision regarding reorganisation of such company;

5) the agreement, the fund prospectus, and the fund management rules shall enter into effect after their approval by the Commission but not earlier than three months after an announcement regarding the merger and establishment of a closed-ended fund is published in the official gazette *Latvijas Vēstnesis* unless the agreement provides for a later time period for coming into effect;

6) if the Commission, motivating its decision, does not approve the agreement, the fund prospectus, and the fund management rules, the parties to the agreement shall convene a repeated general meeting to amend the agreement, the fund prospectus or the fund management rules; the amended documents shall be submitted to the Commission for approval;

7) upon entering into effect of the agreement all rights and liabilities of the merging undertaking shall be transferred to the receiving undertaking;

8) entering into effect of the agreement shall constitute the basis for exclusion of the merging undertaking from the Enterprise Register of the Republic of Latvia;

9) the custodian bank agreement shall be approved by the Commission;

10) after entering into effect of the agreement, the receiving company shall establish a closed-end fund, separating the assets of the merging undertaking or a part thereof, which on the day of establishment of the fund shall become the property of the fund in accordance with the agreement;

11) the receiving company shall inform the Commission of the establishment of a fund, at the same time submitting a report on the investment structure of the fund on the day of establishment of the fund;

12) the Commission shall register the fund without the issue of an issuing authorisation, if it has registered the fund prospectus, the fund management rules, and the custodian bank agreement;

13) the receiving company may dispose of the property of the established fund after its registration;

14) all shareholders of the merging undertaking shall have the shares of the merging undertaking owned by them proportionally exchanged for fund investment certificates;

15) the receiving undertaking shall within six months after entering into effect of the fund prospectus take the necessary actions in accordance with the provisions of this Law in order to achieve the conformity of the fund with the provisions of this Law and the fund prospectus.

3. Reorganisation of public joint stock companies provided for in transitional provisions of this Law shall not be subject to imposition of taxes and fees specified in Latvia.

[*18 March 2004*]

4. If fund investments do not meet the provisions of this Law and the fund prospectus, the company established prior to the day of coming into force of this Law shall be prohibited from performing new issues.

5. Persons who are not referred to in Paragraphs 2 and 6 of the Transitional Provisions of this Law and who upon coming into force of this Law are performing the activity regulated by this Law shall terminate such activity or adjust it to this Law.

[*24 October 2002*]

6. Public joint stock companies which have received licences for the operation of a collective investment company shall register such licences and the licences of the established funds with the Commission within three months as from coming into force of this Law. In such case the licences shall remain valid.

7. Within six months after registration with the Commission, the companies referred to in Paragraph 6 of these Transitional Provisions shall:

1) acquire the legal status conforming to the requirements of this Law, set up the management structure and the equity capital;

2) in accordance with the provisions of this Law and the law On Privatisation Certificates make the relevant amendments to the structure of investments acquired at the expense of fund investors and provisions of the fund prospectus, and also draft other documents.

8. In accordance with Paragraph 7 of these Transitional Provisions the amendments made to the fund prospectus shall enter into effect also without consent of fund investors three months after the day when such amendments were published in the official gazette *Latvijas Vēstnesis*.

9. Each fund investor, irrespective of the initial provisions of the agreement (prospectus), may, within three months as from the publishing of the amendments to the agreement (prospectus) in the official gazette *Latvijas Vēstnesis*, request that the companies referred to in Clause 6 of these Transitional Provisions repay his or her investment. Claims regarding repayment shall be satisfied in conformity with the initial provisions of the agreement (prospectus).

10. If the agreement initially entered into by the company referred to in Clause 6 of these Transitional Provisions provides for liability of investors regarding liabilities and transactions of the company performed at the joint expense of fund investors or recovery of the relevant claims from the property acquired at the joint expense of fund investors, such claims shall remain valid.

11. After coming into force of this Law, the name of the company specified in Section 9 of this Law shall be permitted to be used only by those investment companies which have been established or re-registered in accordance with this Law.

12. [1 June 2000]

13. Within three months from the proclamation of this Law the Commission shall approve and publish the procedures for the licensing of investment companies and funds. If the Commission has not approved such procedures, the relevant Cabinet Regulations shall be applied.

14. Until the moment of coming into force of relevant laws and regulations, the monetary assets in the fund shall be kept in the custodian bank in accordance with the acts issued by the Bank of Latvia regarding the trust operations.

15. Amendments to Section 6, Paragraph three, Section 40, Paragraph two, Section 76, Paragraph one, and Section 77, Paragraph two (in relation to the change of the name of the Securities Market Commission) shall come into force on 1 July 2001.

[*1 June 2000*]

16. Until 1 January 2004 transactions with financial derivative instruments at the expense of the fund may only be made in order to secure oneself against the risk which occurs due to fluctuations in the value of fund assets.

[*24 October 2002; 18 March 2004*]

17. Investment companies which have obtained a licence for operation of the investment company until 30 April 2004 (inclusive) shall re-register the license with the Commission by 31 December 2004. A submission for the re-registration shall specify the management services the company intends to provide. The submission shall be accompanied by the documents specified in Section 10, Paragraph five of this Law or amendments thereto, if such documents have been already submitted to the Commission in accordance with other laws and regulations and the amendments are to be introduced taking into account future activities planned by the company. When re-registering the licence in the case referred to in this Paragraph, no State fee shall be paid.

[*18 March 2004*]

18. If an investment company managing the assets of pension plans established by private pension funds intends to continue the management of the abovementioned assets after 30 April 2004, it shall, when submitting documents for re-registration of the licence, indicate individual management of investor financial instruments as one of its management services.

[*18 March 2004*]

19. If an investment company managing the assets of the State funded pension scheme intends to continue the management of the referred to assets after 30 April 2004, it shall, by 31 December 2004, take the measures necessary to ensure the conformity of the company and its operations with the requirements of this Law and the Law on State Funded Pensions.

[*18 March 2004*]

20. Investment companies which have commenced the management of open-ended investment funds until 30 April 2004 (inclusive), shall, by 31 December 2004, prepare and submit to the Commission simplified prospectus of the open-ended investment funds under the management thereof. Investment companies may offer the simplified fund prospectus to fund investors if the Commission has not raised objections as to its compliance with the requirements of this Law within 20 days after the receipt of this document.

[*18 March 2004*]

21. Investment companies which have commenced the management of investment funds until 30 April 2004 (inclusive) and plan to make amendments to the prospectus of the fund under the management thereof after the abovementioned date, since the information provided for in the prospectus has changed, shall develop and submit to the Commission the new wording of the prospectus prepared in accordance with the provisions of Section 57 of this Law regarding the full version of an investment fund prospectus.

[*18 March 2004*]

22. Until the day when relevant amendments to the laws and regulations governing the securities market come into force, the term “investment brokerage firm” used in this Law shall mean the term “a brokerage firm”, while the term “investment services” – the term “intermediary activity”.

[*18 March 2004*]

23. By 1 May 2004, the Commission shall develop and approve the samples of all submissions and notifications specified in this Law, publish them in the official gazette *Latvijas Vēstnesis*, and also post them on the website of the Commission.

[*18 March 2004*]

24. Investment companies shall prepare the annual statement for the year 2004 in accordance with the requirements of the law On Annual Accounts of Undertakings.

[*18 March 2004*]

25. Section 13, Paragraph two, Clause 6 of this Law shall come into force from 1 November 2007.

[*8 March 2007*]

26. Amendments to Section 75.2 of this Law shall apply to the statements which have been submitted to the State Revenue Service on 1 July 2008 or later.

[*29 May 2008*]

27. Section 33, Paragraphs sixteen and seventeen, Section 61, Paragraph six, Section 62, Paragraph two, and Section 65, Paragraph one of this Law shall come into force in the new wording form 23 July 2008.

[*19 June 2008*]

28. If the application on an administrative act of the Financial and Capital Market Commission has been submitted to the Administrative District Court by 1 January 2009, the decision on the submitted application shall be taken, and also the initiated administrative case shall be examined and a court ruling in this case shall be taken and appealed in accordance with the provisions of the Administrative Procedure Law.

[*23 October 2008*]

29. Companies which have entered into agreements for delegating fund management services, by the day when amendments to Section 15 of this Law (in relation to expressing Paragraphs four, five, six, seven, eight, and nine in the new wording and supplementing Section with Paragraphs ten, eleven, twelve, thirteen, fourteen, and fifteen) come into force, shall take the necessary measures to ensure that as from 1 October 2010 receiving of the delegated fund management service shall be provided in accordance with the agreements and the procedures that conform to the requirements of this Law.

[*11 March 2010*]

30. As of 1 July 2012, the requirements of this Law shall apply to key investor information in respect of open-ended investment funds registered before 15 November 2011.

[*13 October 2011*]

31. Section 781 of this Law shall come into force from 1 January 2012.

[*13 October 2011*]

32. Not later than two months after amendments to Sections 13, 13.1, 13.2, 13.3, 13.4, 13.5, and 14 of this Law come into force, an investment management company shall submit to the Commission a written confirmation that the internal control system of the company conforms to the requirements of this Law.

[*13 October 2011*]

33. A company which has registered closed-ended investment funds in accordance with the provisions of this Law, as of the day of coming into force of the Law on Alternative Investment Funds and Managers Thereof shall conform to the requirements laid down in the abovementioned Law in relation to the managers of alternative investment funds and the requirements in relation to conversion a closed-ended investment fund into an alternative investment fund.

[*9 July 2013*]

34. Amendments to Section 8, Paragraph two of this Law in relation to setting up an initial capital shall come into force from 1 January 2014. Until 31 December 2013 the term “initial capital” shall be capital comprised of:

1) paid-up equity capital which is reduced by the value of cumulative preference shares;

2) stock or share issue premium;

3) reserves (except revaluation reserves);

4) retained earnings or losses;

5) profit of the current year of operation, if there is a sworn auditor’s statement of the existence of the profit and it is calculated considering all the necessary provisions for asset impairment, estimated tax payments and dividends and the Commission has agreed to the inclusion of the profit of the current year of operation in the initial capital.

[*9 July 2013*]

35. Amendment to Section 8, Paragraph nine of this Law in relation to establishing own funds and the procedures for the calculation thereof shall come into force from 1 January 2014. Until 31 December 2013 the term “own capital” used in this Law shall be the elements of capital, reserves, and liabilities disclosed in the financial statements audited by a manager which are freely available to a manager for covering potential losses related to operational risks, but not yet identified, the procedures for the calculation of which shall be determined by the Commission.

[*9 July 2013*]

36. Custodian banks which hold the assets of investment plans of the State funded pension scheme and which, until the day of the coming into force of Section 43 of this Law expressed in the new wording, and Section 46, Paragraphs 1.1, 1.2, 1.3, and three, have entered into contracts with third parties regarding the holding of fund assets, shall take the necessary measures so that the holding of the fund assets, starting from 1 September 2017, would be ensured according to the contracts and procedures which conform to the requirements laid down in this Law.

[*30 March 2017*]

37. Section 14.2, Paragraphs two, three, and four of this Law shall come into force on 1 September 2017. The first report for the time period from 1 September to 31 December 2017 shall be submitted by the company to the Commission by 1 April 2018.

[*30 March 2017*]

38. Section 62, Paragraph three of this Law shall come into force on 1 January 2019.

[*25 October 2018*]

39. An investment management company shall, by 1 November 2019, develop and disclose an engagement policy if, on the day of the coming into force of Section 75.4 of this Law, the investment policy provides for investing of the assets of an investment fund, an State funded pension scheme, or pension plans established by private pension funds in the shares of such joint stock company the registered office of which is in a Member State and the shares of which are included on the regulated market of a Member State.

[*20 June 2019*]

40. The investment management company shall disclose the report referred to in Section 75.4, Paragraph four of this Law on the implementation of the engagement policy and disclose the information referred to in Paragraph five starting from 2020.

[*20 June 2019*]

**Informative Reference to European Union Directives**

[*8 March 2007; 29 May 2008; 19 June 2008; 13 October 2011; 30 March 2017; 25 October 2018; 20 June 2019*]

This Law contains norms arising from:

1) [25 October 2018];

2) [25 October 2018];

3) European Parliament and Council Directive 95/26/EC of 29 June 1995 amending Directives 77/780/EEC and 89/646/EEC in the field of credit institutions, Directives 73/239/EEC and 92/49/EEC in the field of non-life insurance, Directives 79/267/EEC and 92/96/EEC in the field of life assurance, Directive 93/22/EEC in the field of investment firms and Directive 85/611/EEC in the field of undertakings for collective investment in transferable securities (UCITS), with a view to reinforcing prudential supervision;

4) [25 October 2018];

5) [25 October 2018];

6) [25 October 2018];

7) Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC;

8) [25 October 2018];

9) [25 October 2018];

10) Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions;

11) Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS);

12) Commission Directive 2010/44/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure;

13) Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depository and a management company;

14) [25 October 2018];

15) Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions (Text with EEA relevance);

16) Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.

This Law shall come into force on 1 July 1998.

This Law has been adopted by the *Saeima* on 18 December 1997.

President G. Ulmanis

Riga, 30 December 1997