The *Saeima* has adopted and

the President has proclaimed the following law:

**Law on Investment Firms**

**Chapter I**

**General Provisions**

**Section 1. Terms Used in the Law**

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

1) **compliance with the group capital test**– conformity of the capital of a parent undertaking of an investment firm group with the requirements of Article 8 of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (hereinafter – Regulation No 2019/2033);

2) **senior management**– those persons (employees) whose official position provides them with an opportunity to significantly affect the direction of the operation of the institution, but who are not members of the executive board or supervisory board;

3) **foreign country**– a country which is not a European Union Member State or a country of the European Economic Area;

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

5) **group supervisory authority**– the authority which supervises the compliance with the group capital test of the European Union parent investment firms and the investment firms controlled by the European Union parent investment holding companies or European Union parent mixed financial holding companies;

6) **investment firm**– a capital company that provides investment services on a regular and professional basis;

7) **investment services**– investment services and activities within the meaning of Section 3, Paragraph four of the Financial Instrument Market Law;

8) **ancillary investment services**– ancillary investment services within the meaning of Section 3, Paragraph five of the Financial Instrument Market Law;

9) **mixed holding company**– a parent company other than a financial holding company, an investment holding company, a credit institution, an investment firm, or a mixed financial holding company within the meaning of the Financial Conglomerates Law and which has at least one subsidiary that is an investment firm;

10) **control**– the relationship between a parent undertaking and a subsidiary as described in the accounting standards to which an investment firm is subject in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (hereinafter – Regulation No 1606/2002) or a similar relationship between any natural or legal person and an undertaking;

11) **parent investment firm in the Republic of Latvia**– an investment firm licensed in the Republic of Latvia which has a subsidiary that is an investment firm, other financial institution, or credit institution or which has a holding in an investment firm, another financial institution, or credit institution, but which itself is not a subsidiary of another licensed investment firm or a credit institution licensed in the Republic of Latvia or a subsidiary of the financial holding company licensed in the Republic of Latvia;

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

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

14) **home Member State**– a Member State where an investment firm has been registered and has received a licence for the provision of investment services;

15) **initial capital**– the amount and type of capital necessary for an investment firm to obtain a licence in accordance with Section 6 of this Law;

16) **host Member State**– a Member State other than a home Member State where an investment firm has a branch or where an investment firm provides investment services or ancillary investment services or a Member State where a regulated market operator takes appropriate measures in order to promote access by market participants existing in such state to trading in its system from distance;

17) **supervisory authority**– an authority which is established on the basis of law and supervises investment firms. The Financial and Capital Market Commission (hereinafter – the Commission) shall be deemed to be the supervisory authority in the Republic of Latvia.

(2) The terms “European Union parent investment firm”, “European Union parent investment holding company”, “European Union parent mixed financial holding company”, “financial institution”, “investment firm group”, “investment holding company” used in the Law correspond to the terms used in Article 4 of Regulation No 2019/2033, the term “credit institution” corresponds to the term used in Article 4 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter – Regulation No 575/2013), the term “derivatives” corresponds to the term used in Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (hereinafter – Regulation No 600/2014).

(3) The terms “qualifying holding”, “close links”, “branch”, “group”, “tied agent” used in the Law correspond to the terms used in the Financial Instrument Market Law, the terms “systemic risk” and “consolidating supervisor” correspond to the terms used in the Credit Institution Law, the term “mixed financial holding company” correspond to the term used in the Financial Conglomerates Law.

**Section 2. Purpose of the Law**

The purpose of this Law is to create legal preconditions for the operation of investment firms in order to ensure that investment firms are managed and supervised in an orderly way and in the best interests of the clients.

**Section 3. Application of the Law**

(1) This Law prescribes the requirements which apply to:

1) licensing of investment firms, provision of investment services and ancillary investment services in the Republic of Latvia and in the European Union;

2) qualifying holding in an investment firm;

3) general provisions for the provision of investment services and ancillary investment services;

4) reporting on potential and actual violations;

5) supervision of investment firms;

6) internal models approach, additional own funds and indication thereof, special liquidity requirements, and disclosure of information;

7) supervision of investment firm groups;

8) investment holding companies, mixed financial holding companies, and mixed‐activity holding companies;

9) liability for violations of laws and regulations;

10) renewal of the activity of an investment firm and resolution, insolvency proceedings and liquidation thereof;

11) restricted access information.

(2) This Law shall be applied to investment firms licensed in the Republic of Latvia and investment firms licensed in Member States if they provide investment services in Latvia, to branches of foreign investment firms which have received a permit for the operation of a branch, and also investment holding companies, mixed financial holding companies, and mixed-activity holding activities insofar as it has not been laid down otherwise in other laws and regulations.

(3) Section 31, Paragraph one, Clauses 3, 9, 14, and 15, Sections 32 and 36, Chapter VII, Sections 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 53, 54, 55, and 56, Chapters IX and X, Sections 68, 70, and 73, Chapters XI and XIV of this Law shall not be applied to the investment firms referred to in Article 1(2) and (5) of Regulation No 2019/2033. The prudential requirements provided for in the Credit Institution Law and the regulatory provisions issued by the Commission on the basis thereof shall be applied to these investment firms. Compliance with these requirements shall be supervised in accordance with Article 1(2) of Commission Regulation No 2019/2033.

(4) Section 31, Paragraph one, Clauses 3, 9, 14, and 15, Sections 32 and 36, Chapter VII, Sections 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 53, 54, 55, and 56, Chapters IX and X, Sections 68, 70, and 73, Chapters XI and XIV of this Law shall not be applied to investment firms which have obtained the licence of a credit institution in accordance with Section 11.2 of the Credit Institution Law.

(5) The requirements of this Law shall not be applied to commercial companies which provide only the ancillary investment services referred to in Section 3, Paragraph five, Clauses 2, 3, 4, 5, and 6 of the Financial Instrument Market Law.

**Chapter II**

**Licensing of Investment Firms**

**Section 4. Rights of an Investment Firm to Provide Investment Services and Ancillary Investment Services**

(1) An investment firm is entitled to commence the provision of investment services only after obtaining the licence from the Commission for the provision of investment services (hereinafter – the licence). The Commission shall issue the licence for an indefinite period of time.

(2) The ancillary investment services referred to in Section 3, Paragraph five, Clause 1 of the Financial Instrument Market Law may be provided only upon obtaining the licence. The licence shall specify the investment services and ancillary investment services the investment firm is entitled to provide.

(3) An investment firm registered in a Member State is entitled to commence the provision of investment services and ancillary investment services in the Republic of Latvia in accordance with the procedures laid down in Section 17 of this Law.

(4) An investment firm has no right to conduct commercial activities which are not related with provision of investment services, ancillary investment services, other financial services or professional activity of an insurance broker – legal person.

(5) Only a capital company which has obtained the licence has the right to use the expression “ieguldījumu brokeru sabiedrība” [investment firm] or the abbreviation thereof “IBS” in its firm name.

**Section 5. General Requirements for Obtaining Licence**

An investment firm is entitled to receive the licence only if its:

1) initial capital conforms to the requirements laid down in Section 6 of this Law;

2) members of the executive board and supervisory board (if such has been established) meet the requirements of this Law;

3) stockholders or shareholders meet the requirements of this Law;

4) the chairperson of the executive board and at least one more member of the executive board are competent in investment matters;

5) head office is located in the same Member State where its registered office is.

**Section 6. Initial Capital of an Investment Firm**

(1) An investment firm proposing to obtain the licence shall ensure that the initial capital thereof amounts to at least:

1) EUR 750 000 if the investment firm proposes to provide investment services at least one of which is the investment service referred to in Section 3, Paragraph four, Clause 3 or 6 of the Financial Instrument Market Law;

2) EUR 750 000 if the investment firm proposes to provide the investment service referred to in Section 3, Paragraph four, Clause 9 of the Financial Instrument Market Law and to engage in dealing on own account;

3) EUR 150 000 if the investment firm proposes to provide services other than those specified in Clauses 1, 2, and 4 of this Paragraph;

4) EUR 75 000 if the investment firm proposes to provide any of the investment services referred to in Section 3, Paragraph four, Clause 1, 2, 4, 5, or 7 of the Financial Instrument Market Law and if this firm has no right to hold money belonging to clients or financial instruments belonging to clients.

(2) Capital elements making up the initial capital shall be determined in accordance with Article 9 of Regulation No 2019/2033.

**Section 7. Requirements for Stockholders or Shareholders of an Investment Firm**

Only the following persons may be stockholders or shareholders of an investment firm who have a qualifying holding:

1) who have an impeccable reputation;

2) who have financial stability and the lawfulness of the acquisition of financial resources of which may be proved by documentary evidence. In assessing the financial stability of stockholders or shareholders, if a person is not a credit institution or insurance company, it shall be taken into account whether the person has sufficient free capital;

3) whom it is possible to identify.

**Section 8. Requirements for Officials of an Investment Firm**

(1) Such person may be the chairperson of the executive board, a member of the executive board, the head of the internal audit service, the risk manager, the person responsible for controlling the compliance of the operation, the company controller, the person responsible for the fulfilment of the requirements for the prevention of money laundering and terrorism financing of an investment firm, the head of a branch of a foreign investment firm or a branch of an investment firm in another Member State:

1) who is competent in the financial management issues. Also a person who is competent in the management issues of an undertaking may be the person responsible for the fulfilment of the requirements for the prevention of money laundering and terrorism and proliferation financing;

2) who has the necessary education and three years professional work experience in a commercial company, organisation, or institution of the relevant size;

3) who has an impeccable reputation.

(2) The chairperson of the executive board, members of the executive board, the head of the internal audit service, the risk manager, the person responsible for controlling the compliance of the operation, the company controller, the person responsible for the fulfilment of the requirements for the prevention of money laundering and terrorism and proliferation financing of an investment firm, the head of a branch of a foreign investment firm or a branch of an investment firm in another Member State must have higher education.

(3) The following person may not be the chairperson of the executive board, a member of the executive board, the head of the internal audit service, the risk manager, the person responsible for controlling the compliance of the operation, the company controller, the person responsible for the fulfilment of the requirements for the prevention of money laundering and terrorism and proliferation financing of an investment firm, the head of a branch of a foreign investment firm or a branch of an investment firm in another Member State:

1) who has been punished for committing an intentional criminal offence against the State, against property or governance procedures or of committing an intentional criminal offence in national economy or while in service in a governmental authority, or of committing a terrorism related criminal offence;

2) who has been convicted of or on whom a prosecutor’s penal order has been imposed for committing an intentional criminal offence referred to in Clause 1 of this Paragraph, releasing from the punishment, or criminal proceedings against whom have been terminated for reasons other than exoneration – while a year has not passed after entering into effect of the relevant decision;

3) who has been deprived of the right to conduct commercial activities.

(4) The supervisory board of an investment firm has the obligation to remove the persons referred to in Paragraph one of this Section from the office without delay if they do not meet the requirements of Paragraph one of this Section or Paragraph three of this Section may be applied to them.

(5) A person who meets the requirements of Paragraph one of this Section may be the chairperson of the supervisory board and a member of the supervisory board of an investment firm. A person to whom Paragraph three of this Section may be applied may not be the chairperson of the supervisory board or a member of the supervisory board of the investment firm.

(6) The meeting of stockholders or shareholders has the obligation to remove the persons referred to in Paragraph five of this Section from the office without delay if they do not meet the requirements of Paragraph one of this Section or Paragraph three of this Section may be applied to them. If no supervisory board has been established, the meeting of shareholders has the obligation to remove the persons referred to in Paragraph one of this Section from the office without delay if they do not meet the requirements of Paragraph one of this Section or Paragraph three of this Section may be applied to them.

(7) The Commission shall not issue a licence to an investment firm while it has not been informed of the identity of stockholders or shareholders, of legal or natural persons who have a qualifying holding, and of the amount of the abovementioned holding.

(8) The Commission shall determine the documents to be submitted and the procedures for assessing whether members of the supervisory board and executive board, the head of the internal audit service, the risk manager, the person responsible for compliance control of the operation, the company controller, the person responsible for the fulfilment of the requirements for the prevention of money laundering and terrorism and proliferation financing of an investment firm, the head of a branch of a foreign investment firm or a branch of an investment firm in another Member State meet the requirements of this Law. The Commission shall determine the procedures by which the investment firm shall evaluate the persons who perform the principal functions.

**Section 9. Total Number of Positions of a Member of the Executive Board and Supervisory Board to be Held by a Member the Executive Board and Supervisory Board of an Investment Firm**

(1) When determining the number of positions of a member of the executive board and supervisory board of an investment firm which a member of the executive board and supervisory board (if such has been established) may hold simultaneously, individual circumstances, and also the nature, scope, and complexity of activities of the investment firm shall be taken into consideration.

(2) A member of the executive board and supervisory board (if such has been established) of an investment firm which is important in terms of its size, internal organisation and the nature, scope, and complexity of activities, may, except when he or she represents the Republic of Latvia, simultaneously hold no more than:

1) one position of a member of the executive board and two positions of a member of the supervisory board;

2) four positions of a member of the executive board.

(3) Within the meaning of this Section, one position of a member of the executive board and supervisory board (if such has been established) is considered to be those positions of a member of the executive board and supervisory board:

1) within the framework of one consolidation group;

2) in the institutions which are members of the institutional protection scheme meeting the provisions of Article 113(7) of Regulation No 575/2013;

3) in companies (including those that are not financial institutions) in which investment firms have a qualifying holding.

(4) Within the meaning of this Section, positions of a member of the executive board or supervisory board (if such has been established) in associations, foundations, and other organisations the activities of which are not aimed at generating profit shall not be considered a position of a member of the executive board or supervisory board.

(5) The Commission is entitled to allow a member of the executive board or supervisory board (if such has been established) of an investment firm to hold one additional position of a member of the supervisory board.

(6) The Commission shall regularly provide the European Banking Authority with information on permits granted in accordance with Paragraph five of this Section.

**Section 10. Documents Submitted by an Investment Firm for Obtaining the Licence**

(1) In order to obtain the licence, an investment firm shall submit to the Commission a submission specifying the investment services and ancillary investment services it proposes to provide.

(2) An investment firm shall submit concurrently with a submission the following documents:

1) information on members of the executive board and supervisory board (if such has been established) in accordance with Commission Delegated Regulation (EU) 2017/1943 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on information and requirements for the authorisation of investment firms (hereinafter – Regulation No 2017/1943);

2) a balance sheet and capital adequacy calculation regarding the situation on the last day of the previous month which have been prepared in accordance with the requirements of the laws and regulations governing the preparation of statements and capital adequacy calculation of investment firms, and also a financial statement audited by a sworn auditor or a commercial company of sworn auditors (hereinafter – the sworn auditor), a statement from a credit institution, documents attesting to changes in capital during the current year, and other documents attesting to the fulfilment of the initial capital requirements;

3) an internal control system policy of the investment firm necessary for the activities of the investment firm and qualitative provision of investment services and ancillary investment services and procedure descriptions:

a) a description of the organisational structure of the investment firm with the obligations and authorisation of members of the executive board and supervisory board (if such has been established) clearly specified, and also precisely specified and assigned tasks of any constituent bodies and the duties of the heads and employees of the constituent bodies providing investment services or ancillary investment services. If the establishment of branches is intended, the investment firm shall also submit a description of the organisational structure of the branches and the duties of heads and employees of the branches providing investment services or ancillary investment services;

b) the main principles of the accounting policy and organising of accounting record-keeping, including record-keeping of financial instruments and funds related to transactions in financial instruments;

c) a description of the management information system;

d) the provisions for the protection of the information system, including the provisions for the protection of the database for record-keeping of financial instruments and funds related to transactions in financial instruments;

e) a description of the internal audit system;

f) a description of internal control procedures for the prevention of money laundering and terrorism and proliferation financing which also includes a description of the procedures for the identification of clients and management of economic activity;

g) descriptions of policies and procedures for the management of significant operational risks;

h) descriptions of the compliance policy and procedures for the activities of the company;

4) an activity plan for at least the next three years of operation which provides an expanded reflection of the operational strategy, financial prognoses (including balance sheets, draft calculations of returns or losses, draft calculations of capital adequacy, forecast amount of costs per year), descriptions of market research, other information which is considered necessary by the investment firm and which allows the acquisition of a clear and true representation with regard to the planned activities;

5) a description of the procedures for provision and control of investment services and ancillary investment services for the provision of which the investment firm wants to obtain the licence;

6) a description of the procedures for identification of such transactions which are performed, using inside information or with a view to carry out market manipulations;

7) a description of the policy for the prevention of a conflict of interest;

8) a description of the policy for execution of orders;

9) information on stockholders or shareholders in the investment firm:

a) for natural persons – a copy of the page of a passport or other personal identification document specified by law which indicates the data identifying a person (given name, surname, citizenship, personal identity number (if any) or year and date of birth);

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

c) amount of directly and indirectly acquired qualifying holding of shareholders or members of the investment firm;

10) a document describing and explaining how the strategy of the investment firm, in accordance with Section 126.3 of the Financial Instrument Market Law, includes the exercise of the rights of a shareholder if the investment firm intends to provide portfolio management services by including such stocks of a joint stock company in the portfolio the registered office of which is in a Member State and the stocks of which are admitted to trading on a regulated market of the Member State.

(3) An investment firm need not submit the regulations governing the procedures for the record-keeping of financial instruments and funds related to transactions in financial instruments and regulations for the protection of accounting database of the financial instruments and funds related to transactions in financial instruments unless it plans to hold financial instruments.

(4) The Commission has the right to request the investment firm to clarify any documents and information submitted.

(5) If changes in the information specified in Paragraph two of this Section occur or amendments are made to the documents until the decision on the issuing of the licence is taken, the investment firm has the obligation to submit the new information or the full text of such documents with the amendments made to the Commission without delay.

**Section 11. Additional Requirements for the Preparation of Information**

(1) Additional requirements for the preparation of the information specified in Section 10 of this Law shall be determined by Regulation No 2017/1943.

(2) The sample forms, templates, and procedures necessary for the submission of the information referred to in Section 10 of this Law shall be determined by Commission Implementing Regulation (EU) 2017/1945 of 19 June 2017 laying down implementing technical standards with regard to notifications by and to applicant and authorised investment firms according to Directive 2014/65/EU of the European Parliament and of the Council.

**Section 12. Procedures for Granting the Licence**

(1) The Commission shall examine the submission of an investment firm for obtaining the licence and take a decision within six months after receipt of all the documents specified in this Law and prepared and drawn up in accordance with the requirements of the laws and regulations which are necessary for taking the decision.

(2) The Commission shall not issue the licence to an investment firm if:

1) during the establishment of the investment firm this Law and other laws and regulations have not been conformed to;

2) close links of the investment firm with third parties endanger or may endanger its financial stability or restrict the right of the Commission to perform the supervisory functions thereof specified in the law;

3) foreign laws and other legal acts related to persons who have close links with the firm firm restrict the right of the Commission to perform the supervisory functions thereof specified in the law;

4) the documents submitted by the investment firm contain incorrect or incomplete information;

5) the members of the executive board and supervisory board (if such has been established) of the investment firm do not meet the requirements laid down in this Law and the regulatory provisions of the Commission, and also if the Commission has not been able to ascertain to a satisfactory extent that members of the executive board and supervisory board (if such has been established) of the investment firm have impeccable reputation, sufficient knowledge, skills, and experience and that they dedicate sufficient amount of time for the performance of the functions assigned to them by the investment firm, or if there are objective and demonstrable grounds to believe that the executive board and supervisory board (if such has been established) of the investment firm may pose a threat to its effective, sound, and prudent management, and also might not adequately consider the interest of its clients and the integrity of the market;

6) the identity, reputation, or adequacy of free capital of such persons who have a qualifying holding in the investment firm cannot be verified, or if the Commission determines that the financial resources that are invested in the capital of the investment firm have been acquired in suspicious financial transactions or the lawfulness of the acquisition of these financial resources has not been proved by documentary evidence;

7) the Commission establishes that the influence of the persons who have acquired a qualifying holding in the investment firm would not ensure that the administration of it would be financially sound, prudent and in conformity with the laws and regulations governing activities of investment firms.

(3) The obstacles which may hinder efficient fulfilment of the supervisory obligations of the Commission referred to in Paragraph two, Clauses 2 and 3 of this Section are specified in Article 10 of Regulation No 2017/1943.

(4) Where the Commission has taken the decision to refuse to issue the licence, an application for obtaining the licence may be resubmitted after rectification of all the deficiencies referred to in the refusal.

(5) The Commission shall consult with the supervisory authority of the relevant Member State before issuing the licence to such investment firm:

1) which is a subsidiary of the investment firm, credit institution, regulated market operator, or insurance company licensed in a Member State;

2) which is a subsidiary of such a parent undertaking another subsidiary of which is an investment firm, credit institution, or insurance company licensed in a Member State;

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

(6) The Commission shall, before issuing the licence, and also during the course of supervision of the licensed investment firm, request and evaluate information from the relevant supervisory authority on suitability of stockholders of the investment firm and reputation and experience of the members of the executive board and supervisory board (if such has been established) if such persons are involved in the administration of commercial companies of such group of companies in which the relevant investment firm will be included.

(7) The sample forms, templates, and advisory procedures in the cases referred to in Paragraph five of this Section shall be determined by Commission Implementing Regulation (EU) 2017/981 of 7 June 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for the consultation of other competent authorities prior to granting an authorisation in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

(8) The Commission shall notify the European Securities and Markets Authority of issuance of the licence to an investment firm.

**Section 13. Notification of Changes after Obtaining the Licence**

(1) Within seven days after changes in the composition of the executive board or supervisory board (if such has been established) of an investment firm, the investment firm shall submit a notification to the Commission on the changes made. Concurrently with the notification, the investment firm shall submit the information referred to in Section 10, Paragraph two, Clause 1 of this Law on the new member of the executive board or supervisory board (if such has been established).

(2) The investment firm shall notify the Commission of all substantial changes which are related to the provision of the investment services and ancillary investment services specified in the licence issued thereto.

**Section 14. Change of Investment Services and Ancillary Investment Services Specified in the Licence**

(1) If an investment firm proposes to supplement the investment services or ancillary investment services indicated on the licence with new investment services or ancillary investment services, or proposes to abandon the provision of some investment service or ancillary investment service indicated on the licence, it shall submit to the Commission a relevant submission.

(2) If an investment firm wishes to commence the provision of new investment services or ancillary investment services it shall submit concurrently with the submission:

1) a supplement to the activity plan;

2) a description of the procedure of investment services and ancillary investment services the provision of which the investment firm wants to commence;

3) amendments to the descriptions of policies and procedures of the investment firm if such amendments have to be made in relation to the commencement of the provision of new investment services and ancillary investment services;

4) calculation of capital adequacy if greater initial capital is necessary for the investment firm in relation to the commencement of the provision of new investment services or ancillary investment services.

(3) The Commission shall, within one month after receipt of all the documents specified in this Law and prepared and drawn up in accordance with the requirements of laws and regulations which are necessary for taking of the decision, examine a submission from an investment firm for any change in the investment services and ancillary investment services indicated on the licence.

(4) An investment firm which has lost the right to the holding of financial instruments as provision of ancillary investment service shall handle the property owned by its clients in conformity with the requirements of Chapter XIII of this Law.

**Section 15. Re-registration of the Licence**

(1) If the firm name of an investment brokerage company is changed, the Commission shall re-register the licence.

(2) The submission of an investment firm for the re-registration of the licence shall be submitted to the Commission within five working days after re-registration of the firm name.

(3) The Commission shall re-register the licence within five working days after receipt of the submission.

**Section 16. Procedures for Cancelling the Licence**

(1) The Commission may cancel the licence issued to an investment firm in the following cases:

1) the investment firm has not commenced activities within 12 months from the day when the licence is issued;

2) it is established that the investment firm has provided false information in order to obtain the licence;

3) the investment firm has not been providing investment services and ancillary investment services indicated on the licence thereof for a period longer than six months;

4) the investment firm has failed to rectify the violations of the laws and regulations established by the Commission within the time period stipulated by the Commission;

5) the investment firm has commenced liquidation proceedings itself or liquidation proceedings for the investment firm are initiated in accordance with the procedures laid down in law;

6) an application for insolvency proceedings of the investment firm has been submitted to the court or the court has declared the insolvency proceedings of the investment firm;

7) the investment firm has submitted a written submission for cancelling the licence;

8) it is established that the investment firm no longer meets the requirements laid down in this Law and other laws and regulations for obtaining the licence;

9) the prohibition to exercise the voting right of shares belonging to shareholders of the investment firm with a qualifying holding has set in and it lasts for more than six months.

(2) The Commission shall inform the European Securities and Markets Authority of cancellation of the licence issued to an investment firm.

(3) The Commission shall implement the supervision of the investment firm specified in this Law until the investment firm has completely settled all of its obligations with regard to its clients.

(4) An investment firm the licence of which has been cancelled shall handle the property owned by its clients in conformity with the requirements of Chapter XIII of this Law.

(5) If the Commission has cancelled the licence issued to the investment firm in the cases specified in Paragraph one, Clauses 2, 4, and 9 of this Section, information on cancellation shall be published on the website of the Commission and stored for five years.

**Chapter III**

**Provision of Investment Services and Ancillary Investment Services in the Internal Market of the European Union**

**Section 17. Procedures by which an Investment Brokerage Company Registered in a Member State Commences Provision of Investment Services and Ancillary Investment Services in the Republic of Latvia**

(1) An investment firm registered in a Member State is entitled to provide only such investment services and ancillary investment services in the Republic of Latvia for the provision of which the investment firm has received a licence in the home Member State.

(2) A branch of an investment firm which is registered in a Member State may commence the provision of investment services and ancillary investment services in the Republic of Latvia only after:

1) the Commission has received a notification from the supervisory authority of the home Member State which shall include:

a) a certification stating that the relevant investment firm has a valid licence for the provision of investment services;

b) the operational programme of the branch;

c) the address of the branch;

d) the given name, surname, citizenship, personal identity number (if any) or year and date of birth of the head of the branch;

e) information on the system for the protection of investors in which the relevant investment firm is a participant;

f) a written declaration by the supervisory authority of the home Member State stating that, prior to the commencement of internal control, it will in a timely manner inform the Commission of inspections at any branches of investment firms in the Republic of Latvia and will not impede representatives of the Commission from any participation in those examinations, and also submit to the Commission without delay a notification on the inspection carried out after the end of the examination;

2) the Commission has informed the supervisory authority of the home Member State that it is ready to commence the supervision of the branch of the investment firm, or two months have passed since the day when the Commission has received the notification referred to in Paragraph two, Clause 1 of this Section from the supervisory authority of the home Member State.

(3) An investment firm registered in a Member State has the obligation to inform the supervisory authority of the home Member State and the Commission 30 days in advance of any amendments to the information referred to in Paragraph two, Clause 1 of this Section, and also of the intention to terminate the operations at the branch.

(4) An investment firm registered in a Member State is entitled to commence the provision of investment services and ancillary investment services in the Republic of Latvia without opening a branch if the Commission has received a relevant notification from the supervisory authority of the home Member State of such investment firm and has sent a certification to such authority regarding receipt of the notification.

(5) If an investment firm registered in another Member State, in commencing the provision of investment services and ancillary investment services in the Republic of Latvia, plans to use a tied agent registered in its home Member State, the supervisory authority of the home Member State of the investment firm shall, within one month after receipt of information, notify the identifying data of such tied agents to the Commission which the investment firm plans to use for the provision of investment services in the Republic of Latvia. The Commission shall make public the list of tied agents.

(6) If an investment firm uses a tied agent registered outside its home Member State, such tied agent shall be considered equivalent to a branch and the requirements laid down in laws and regulations for a branch of an investment firm shall apply thereto.

(7) If a credit institution registered in another Member State, in commencing the provision of investment services and ancillary investment services in the Republic of Latvia, plans to use a tied agent registered in its home Member State, the supervisory body of the home Member State of the credit institution shall, within one month after receipt of information, notify the identifying data of such tied agents to the Commission which the credit institution plans to use for the provision of investment services in Latvia. The Commission shall publish a list of tied agents on its website.

(8) If a credit institution uses a tied agent registered outside its home Member State, such tied agent shall be considered equivalent to a branch and the requirements laid down in laws and regulations for a branch of a credit institution shall apply thereto.

**Section 18. Procedures by which an Investment Firm Licensed in the Republic of Latvia Commences the Provision of Investment Services and Ancillary Investment Services in Another Member State**

(1) An investment firm licensed in the Republic of Latvia is entitled to provide only such investment services and ancillary investment services in another Member State for the provision of which it has obtained a licence.

(2) An investment firm licensed in the Republic of Latvia is entitled to commence the provision of investment services and ancillary investment services in another Member State with or without opening a branch.

(3) An investment firm licensed in the Republic of Latvia which proposes to commence the provision of investment services and ancillary investment services in any of the Member States shall submit a submission to the Commission. It shall specify in the submission the investment services and ancillary investment services intended to be provided, the Member State in which the provision of such investment services and ancillary investment services is intended, and also the manner in which they are intended to be provided (with or without opening a branch or using tied agents). If the investment firm plans to use tied agents, it shall submit data identifying such agents to the Commission. Upon request of the supervisory authority of the host Member State the Commission shall provide to it the data identifying those tied agents which the investment firm plans to use in the abovementioned Member State.

(4) An investment firm which proposes to commence the provision of investment services and ancillary investment services in any of the Member States shall, upon opening a branch, specify in the submission the address of the branch and the information referred on the head of the branch in accordance with Regulation No 2017/1943. The investment firm shall append such documents to the submission which give fair and true representation regarding the planned activities of the branch, the investment services and ancillary investment services to be provided, the structure and organisation of work corresponding thereto, and also the information on whether the relevant branch plans to use tied agents, and if plans – the identifying data of tied agents.

(5) If an investment firm plans to use tied agents registered in another Member State, the identifying data of tied agents, and also a description of the planned use of such agents and organisational structure, inter alia, reporting channels, shall be indicated in the submission, indicating the type of involvement of such agents in the corporate structure of the investment firm.

(6) If an investment firm uses a tied agent registered outside its home Member State, such tied agent shall be considered equivalent to a branch and the requirements laid down in laws and regulations for a branch of an investment firm shall apply thereto.

(7) The Commission shall, within one month after receipt of all the necessary documents prepared and drawn up in accordance with the requirements of this Law, examine the submission for the commencement of the provision of investment services and ancillary investment services in another Member State without opening a branch and notify the decision to the supervisory authority of the relevant Member State and the relevant investment firm. The Commission shall take the decision not allow the investment firm to commence the provision of investment services and ancillary investment services in any of Member States without opening a branch if the administrative structure or financial status of the investment firm does not correspond to the planned activity.

(8) The Commission shall, within three months after receipt of all the necessary documents prepared and drawn up in accordance with the requirements of this Law, examine the submission for the commencement of the provision of investment services and ancillary investment services in another Member State by opening a branch and notify the decision to the supervisory authority of the relevant Member State and the relevant investment firm. The Commission shall, within three months after receipt of all the necessary documents prepared and drawn up in accordance with the requirements of this Law, take the decision not to allow the investment firm to commence the provision of investment services and ancillary investment services in any of the Member States by opening a branch or using tied agents if the administrative structure or financial situation of the investment firm does not correspond to the planned activity. The Commission shall notify the decision to the supervisory authority of the relevant Member State and to the investment firm.

(9) Concurrently with the decision referred to in Paragraph seven of this Section, the Commission shall send the information provided by the investment firm and information on the system for the protection of investors and on the maximum amounts of compensation in effect in the Republic of Latvia to the supervisory authority of the relevant Member State.

(10) An investment firm shall, not later than one month prior to making of any amendments to the information referred to in Paragraphs three, four, and five of this Section or the intended termination of activities at the branch, inform the Commission and the supervisory authority of the relevant Member State in writing of making of amendments, and also of the intention to terminate activities at the branch.

(11) An investment firm may commence the provision of investment services and ancillary investment services in a Member State without opening a branch after the Commission has informed the supervisory authority of the relevant Member State in accordance with the procedures laid down in Paragraph seven of this Section.

(12) An investment firm may commence activities of a branch if the Commission has received a notification of the supervisory authority of the relevant Member State that it is ready to commence the supervision of the branch of the investment firm, or two months have passed since the day when the Commission has sent the notification referred to in Paragraph seven of this Section to the supervisory authority of the relevant Member State.

**Section 19. Additional Requirements for the Provision of Investment Services in the Internal Market of the European Union**

(1) A more detailed information to be notified to the subjects referred to in Sections 17 and 18 of this Law shall be determined by Commission Delegated Regulation (EU) 2017/1018 of 29 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards specifying information to be notified by investment firms, market operators and credit institutions.

(2) The sample forms, templates, and procedures necessary for the exchange of the information referred to in Sections 17 and 18 of this Law shall be determined by Commission Implementing Regulation (EU) 2017/2382 of 14 December 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for the transmission of information in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

**Chapter IV**

**Foreign Investment Firms**

**Section 20. Rights of Foreign Investment Firms to Provide Investment Services and Ancillary Investment Services**

(1) A foreign investment firm which is planning to provide investment services or ancillary investment services in the Republic of Latvia to clients with the status of a retail client or to clients which, in accordance with Section 124.1, Paragraph five of the Financial Instrument Market Law, have been granted the status of a professional client has the obligation to create a branch and to receive a permit of the Commission for the operation of a branch.

(2) A foreign investment firm is entitled to receive a permit for the provision of investment services with or without ancillary investment services only if:

1) the supervisory authority thereof has previously issued a permit for the provision of the relevant investment services and ancillary investment services in the relevant foreign country, if the provision of such services is being supervised, and also it is ensured within the scope of supervision of the foreign supervisory authority that the foreign investment firm pays due regard to any recommendations of the Financial Action Task Force in the field of combating money laundering and terrorism and proliferation financing;

2) cooperation arrangements which govern the exchange of information for the purpose of preserving the integrity of the market and protecting investors are in place between the Commission and the supervisory authority of the foreign investment firm;

3) the initial capital of the branch of the foreign investment firm satisfies the requirements of Section 6 of this Law;

4) the person or persons responsible for the branch of the foreign investment firm meet the requirements of Sections 8 and 9 of this Law and the requirements provided for in the regulatory provisions of the Commission;

5) such agreements have been signed between the Republic of Latvia and the relevant foreign country which fully corresponds to the standards laid down in Article 26 of the Model Tax Convention on Income and on Capital of the Organisation for Economic Co-operation and Development and ensure an effective exchange of information in tax matters, including, if any, multilateral tax agreements;

6) the foreign investment firm is a participant in such investor protection system which has been recognised in the relevant foreign country and is equivalent to the investor protection system of the Republic of Latvia.

(3) A foreign investment firm which is planning to obtain a permit for the provision of investment services and ancillary investment services in the territory of the Republic of Latvia with the intermediation of a branch shall submit the following to the Commission:

1) the name of the foreign supervisory authority which is responsible for the supervision of the foreign investment firm in the relevant foreign country. If several foreign supervisory authorities are responsible for supervision, information on the fields of competence of these foreign supervisory authorities shall be submitted;

2) any corresponding information on the foreign investment firm (the name, legal form, registered office, and actual address, members of the executive board and supervisory board (if such has been established), stockholders), its operational programme, listing the investment services and ancillary investment services which it is preparing to provide, the organisational structure of its branch, including a description of any essential functions of the operation if it is planned to entrust such activities to third parties;

3) information on such persons of the foreign investment firm who are responsible for the management of the branch and documents proving the conformity of such persons with the requirements provided for in Sections 8 and 9 of this Law and the requirements provided for in the regulatory provisions of the Commission;

4) information attesting that the initial capital of the foreign investment firm corresponds to the requirements laid down in Section 6 of this Law.

(4) The Commission shall examine the submission of the foreign investment firm for the receipt of a permit and take a decision within six months after receipt of all the documents specified in this Law and prepared and drawn up in accordance with the requirements of the laws and regulations which are necessary for taking of the decision.

(5) The Commission shall issue the permit referred to in Paragraph one of this Section only if:

1) all the conditions of Paragraph two of this Section have been met;

2) the Commission has ascertained that the foreign investment firm meets the requirements of Section 31, Paragraph one and Section 34, Paragraphs one, two, three, four, five, and six of this Law, Section 124.2, Section 125.1, Paragraph six, Section 126, Paragraph one, Sections 126.2, 127, 128, Section 128.1, Paragraph one, Sections 128.2, 128.3, 129, 129.1, 132.1, 133.4, 133.5, 133.6, 133.7, 133.8 of the Financial Instrument Market Law, and Articles 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, and 26 of Regulation No 600/2014.

(6) The conformity of the operation of the branch of the foreign investment firm with the requirements of this Law shall be supervised by the Commission.

(7) Additional requirements for the branch of the foreign investment firm for the provision of investment services are determined by Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (hereinafter – Regulation No 2017/565).

(8) The branch of a foreign investment firm which has obtained the permit in accordance with the procedures laid down in this Section shall, once a year, submit to the Commission:

1) information on the scope of investment services provided by the branch and the policy and procedures for risk management;

2) for a branch which provides the investment service specified in Section 3, Paragraph four, Clause 3 of the Financial Instrument Market Law – information on the monthly minimum, average, and maximum exposure to counterparties registered in the European Union, and also on the turnover of the abovementioned investment services and the total value of assets;

3) for a branch which provides the investment service specified in Section 3, Paragraph four, Clause 6 of the Financial Instrument Market Law – information on the total value of financial instruments originating from counterparties registered in the European Union and underwritten or placed on a firm commitment basis over the previous 12 months;

4) detailed information on investor protection arrangements available to the clients of the branch in accordance with the conditions laid down in Paragraph two, Clause 6 of this Section;

5) organisational structure and information in accordance with the conditions of Paragraph three, Clause 3 of this Section;

6) other information which the Commission deems to be necessary in order to ensure supervision of the activity of a branch.

(9) The Commission shall, once a year or upon request, submit to the European Securities and Markets Authority a list of the branches of investment firms which have obtained the permit for the provision of investment services, and also the following information:

1) the scope of investment services provided by branches;

2) the turnover of investment services of branches and the total value of assets;

3) the name of the third-country group which includes the relevant branch of a foreign investment firm.

(10) The directly applicable legal acts of the European Union shall determine the form of the information specified in accordance with Paragraphs eight and nine of this Section.

**Section 21. Investment Firm of a Third-country Group**

(1) An investment firm belonging to a third-country group the total value of assets of which in the European Union is at least EUR 40 billion may receive the licence, register with the Commercial Register, and operate in the Republic of Latvia only if at least one of the following conditions has been met:

1) the investment firm is the only credit institution or investment firm of the third-country group in the European Union;

2) the investment firm has a parent undertaking registered in the European Union;

3) the investment firm is a parent undertaking for a credit institution or investment firm registered in the European Union.

(2) The total value of assets of a third-country group in the European Union shall consist of the following sum:

1) the sum total of the value of assets of each credit institution and investment firm of the third-country group in the European Union on the basis of the data of consolidated financial statements or, if consolidated data are not available, on the basis of the individual financial report;

2) the sum total of the value of assets of each branch of a third-country group which has received a permit for the operation in the European Union as a credit institution or an investment firm.

(3) If an investment firm belongs to a third-country group and a credit institution or investment firm of the Member State also belongs to such group, then the third-country group has an obligation to create one parent undertaking in the European Union. The Commission may permit the creation of a second parent company in the European Union if it executes consolidated supervision of the investment firm in accordance with Chapters X and XI of this Law and one of the following conditions has been met:

1) the creation of one parent company in the European Union would not ensure the requirement for separating activities as stipulated by the legislative acts or supervisory authority of such foreign country in which the main management of the parent undertaking of the third-country group is located;

2) the creation of one parent company in the European Union would reduce the efficiency of resolution in comparison to the creation of two parent companies in the European Union.

(4) In the case referred to in Paragraph three of this Section, a parent company of an investment firm may be a credit institution registered in a Member State or a holding company which has been granted a permit in accordance with the requirements of Section 66, Paragraph two of this Law. A parent company may be an investment firm if no credit institution of the Member State belongs to a third-country group or the Commission allows to create the second parent company in the European Union in relation to the provision of investment services.

(5) The Commission shall provide the following information to the European Banking Authority on a third-country group operating in the territory of the Republic of Latvia:

1) the name and the total value of assets – on the credit institution and investment firm which belong to any third-country group;

2) the name, the total value of assets, and the type of operation – on the branch which is operating in the Republic of Latvia as a credit institution or an investment firm;

3) the name – on the credit institution and the parent company of the investment firm which is licensed in the Republic of Latvia, and also the name of such third-country group to which it belongs.

(6) The Commission shall cooperate with the foreign supervisory authority of the third-country group that is part of the relevant branch of a foreign investment firm, the European Securities and Markets Authority, and the European Banking Authority in order to ensure that all activities of the third-country group in the European Union are subject to the application of comprehensive supervision in accordance with this Law, the Financial Instrument Market Law, Regulation No 575/2013, Regulation No 600/2014, and Regulation No 2019/2033.

**Section 22. Provision of Investment Services Upon Initiative of a Client**

(1) If a retail client or professional client located in the Republic of Latvia, upon its own initiative, proposes the provision of an investment service by a foreign investment firm, the requirement provided for in Section 20 of this Law to obtain a permit shall not be applied to the service which is provided by the foreign investment firm to the abovementioned person.

(2) Such initiative of the client shall not give the right for the particular foreign investment firm to sell new investment products to such client or to provide new investment services otherwise than through a branch.

(3) Without prejudice to intragroup relationships, where a foreign investment firm, including through an entity acting on its behalf or having close links with such foreign investment firm or any other person acting on behalf of such entity, solicits clients or potential clients in Latvia, it shall not be deemed to be a service provided upon initiative of the client.

**Section 23. Cancellation of a Permit**

The Commission may cancel the permit referred to in Section 20 of this Law if a foreign investment firm:

1) has not commenced the operation within 12 months after the day when the permit was issued;

2) expressly renounces the permit;

3) has not performed the activity indicated in the permit for more than six months unless the Commission has issued a permit providing for special conditions for the use of the permit;

4) has provided false information or acted unlawfully in order to receive the permit;

5) does not conform to the requirements laid down in this Law for the receipt of the permit anymore.

**Chapter V**

**Qualifying Holding**

**Section 24. Rights to Acquire a Qualifying Holding**

(1) Only a person or several persons acting in concert on the basis of an agreement (hereinafter in this Chapter – the person) which meet the requirements laid down in this Law for stockholders or shareholders of an investment firm and ensure the fulfilment of the criteria laid down in Section 27, Paragraph one of this Law are entitled to acquire a direct or indirect qualifying holding in an investment firm, moreover such person must be financially sound.

(2) The Commission has the right to request the information on the persons who apply for a qualifying holding (the actual acquirers of the qualifying holding or persons suspected of having acquired such a holding), including the owners of legal (registered) persons (beneficial owners) who are natural persons in order to assess the conformity of such persons with the criteria laid down in Section 27, Paragraph one of this Law.

(3) The Commission has the right to identify founders (shareholders or members) and owners (beneficial owners) of legal (registered) persons who apply for a qualifying holding (the actual acquirers of the qualifying holding or persons suspected of having acquired such a holding) until information is acquired on the owners (beneficial owners) – natural persons. In order to identify such persons, the abovementioned legal persons have the obligation to provide information to the Commission requested thereby if such information is not available in the public registers from which the Commission is entitled to receive such information.

(4) If the persons who are suspected of having acquired a qualifying holding in an investment firm fail or refuse to provide the information referred to in Paragraph two or three of this Section and the holding thereof in total comprises 10 per cent and more of the equity capital or the number of stocks or shares with voting rights of the investment firm, such stockholders or shareholders may not exercise the voting rights attached to all stocks or shares belonging to them. The Commission shall, without delay, inform the relevant stockholders or shareholders and the investment firm of this fact and the restriction on the exercise of the voting rights of the stocks and shares.

**Section 25. Holding Acquired Indirectly**

In determining the amount of holdings acquired by a person indirectly, the following acquired voting rights of such person (hereinafter – the specific person) shall be taken into account:

1) voting rights which may be exercised by a third party with whom the specific person has entered into an agreement, imposing as obligation to coordinate the exercising of the voting rights and action policy in long-term in relation to the management of the specific issuer;

2) the voting rights which a third party is entitled to exercise according to an agreement which has been entered into with the particular person and provides for temporary transfer of the relevant voting rights;

3) voting rights which arise from 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) voting rights which may be exercised by the specific person for an unlimited period of time;

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 Clauses 1, 2, 3, and 4 of this Section;

6) voting rights which arise from shares transferred to and held by the specific person and which the person may exercise upon his or her own initiative, if special instructions have not been received;

7) the voting rights arising from stocks held in the name of a third party and for the benefit of the particular person;

8) voting rights which may be exercised by the specific person as an authorised person, when he or she is entitled to exercise the voting rights upon his or her own initiative if special instructions have not been received.

**Section 26. Obligation to Notify in Acquiring or Increasing the Qualifying Holding**

(1) If a person wishes to acquire a qualifying holding in an investment firm, the person shall notify the Commission thereof in writing in advance. The amount of the qualifying holdings to be acquired as a percentage of the equity capital of the relevant capital company or the number of stocks or shares with voting rights shall be indicated in the notification, and information provided for in the regulatory provisions of the Commission which is necessary in order to assess the conformity of the person with the criteria laid down in Section 27, Paragraph one of this Law shall be appended thereto. The list of information to be appended to the notification shall be published on the website of the Commission.

(2) If a person wishes to increase the qualifying holding so that it would reach or exceed 20, 33, or 50 per cent of the equity capital or the number of stocks or shares with voting rights in an investment firm, or if the relevant capital company becomes a subsidiary of this person, such person shall notify the Commission thereof in writing in advance. The amount of the qualifying holdings to be acquired as a percentage of the equity capital of the relevant capital company or the number of stocks or shares with voting rights shall be indicated in the notification, and information provided for in the regulatory provisions of the Commission which is necessary in order to assess the conformity of the person with the criteria laid down in Section 27, Paragraph one of this Law shall be appended thereto. The list of information to be appended to the notification shall be published on the website of the Commission.

(3) The Commission shall, within two working days from the day when the notification referred to in Paragraph one or two of this Section was received or within two working days after receipt of the additional information requested by the Commission in writing, inform the person of receipt of the notification or additional information and the deadline for the assessment period.

(4) The Commission has the right, during the assessment period specified in Section 27, Paragraph one of this Law but not later than on the fiftieth working day of the assessment period, to request additional information on the persons referred to in this Section in order to assess the conformity of such persons with the criteria laid down in Section 27, Paragraph one of this Law.

**Section 27. Rights and Obligations of the Commission**

(1) The Commission shall, not later than within 60 working days from the day when the information referred in Section 26, Paragraph three of this Law on receipt of the notification has been sent to the person, assess the free capital adequacy of a person for the acquisition of stocks or shares with voting rights in an investment firm, financial stability, and financial feasibility of the planned acquisition of a holding in order to ensure sound and prudent management of the investment firm in which the holding is planned to be acquired and also the possible influence of the person on the management and activities of the investment firm. During the evaluation process, the Commission shall take the following criteria into account:

1) impeccable reputation of the person and his or her conformity with the requirements laid down for stockholders or shareholders of the investment firm;

2) impeccable reputation and professional experience of such person who will manage the operation of the investment firm as a result of the planned acquisition of holding;

3) impeccable reputation of the persons (executive board, supervisory board (if such has been established), and senior management) who will manage the activities of the investment firm as a result of the planned acquisition of the holding and conformity of their knowledge and professional experience with the requirements of this Law;

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

5) whether an investment firm will be able to meet the requirements laid down in this Law and in other laws and regulations and whether the structure of such group of undertakings where an investment firm is going to be incorporated is not restricting the possibilities of the Commission to perform the supervisory functions thereof laid down in the law, to ensure effective exchange of information between the supervisory authorities, and to determine the allocation of the supervisory powers between the supervisory authorities;

6) whether there are reasonable doubts that, in relation to the planned acquisition of the holding, money laundering and terrorism and proliferation financing has been carried out or an attempt to carry out such activities has been made, or that the planned acquisition of the holding could increase such a risk.

(2) When determining whether the criteria referred to in Paragraph one of this Section have been met, the Commission need not take into account such stocks or shares with voting rights which may be held by investment firms because they have signed up for the issued financial instruments or their offer, providing the service referred to in Section 3, Paragraph four, Clause 6 of the Financial Instrument Market Law, provided that the voting rights are not implemented or otherwise exercised in order to become involved in the management of the issuer and that, within one year after acquisition of holding, the investment firm or credit institution alienates such stocks or shares with voting rights.

(3) If the Commission has interrupted the assessment period in accordance with Paragraphs four and five of this Section, the period of interruption shall not be included in the assessment period.

(4) When requesting the additional information referred to in Section 26, Paragraph four of this Law, the Commission has the right to suspend 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 abovementioned time for the suspension of assessment period for up to 30 working days if the person who wishes to acquire, has acquired, wishes to increase or has increased the qualifying holding thereof in an investment firm is not subject to the supervision of activities of investment firms, credit institutions, insurance companies, reinsurance companies, managers of alternative investment funds, or investment management companies or the place of residence (registration) of the person is located in a foreign country.

(5) If a person who wishes to acquire a qualifying holding is concurrently being assessed in another Member State in accordance with the provisions similar to Section 66 of this Law in relation to granting a permit, the Commission has the right to suspend the assessment period until the day when the relevant authority performing the consolidated supervision completes the assessment.

(6) The Commission shall, within the time period referred to in Paragraph one of this Section, take the decision by which the person is prohibited from acquiring or increasing a qualifying holding in an investment firm if:

1) the person does not meet the criteria specified in Paragraph one of this Section;

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

3) due to reasons beyond control of the person he or she was not able to provide the information specified in this Law or the additional information requested by the Commission.

(7) The Commission shall, within two working days from taking the decision referred to in Paragraph one of this Section, but not exceeding the assessment period referred to in Paragraph six of this Section, send that decision to the person who has been prohibited from acquiring or increasing a qualifying holding in an investment firm.

(8) If the Commission fails to, within the time period referred to in Paragraph seven of this Section, send to the person the decision by which it prohibits this person from acquiring or increasing a qualifying holding in an investment firm, it shall be considered that the Commission agrees that this person acquires or increases a qualifying holding in the investment firm.

(9) The provisions of Paragraph six, Clause 3 of this Section shall not be applicable to a legal (registered) person if the stocks thereof are listed in any regulated market of a Member State or in the regulated market registered in a Member State of Organisation for Economic Co-operation and Development and such legal (registered) person submits information to the Commission on the stockholders thereof who own a qualifying holding therein.

(10) If the Commission has agreed that a person acquires or increases a qualifying holding in an investment firm, such person shall acquire or increase the qualifying holding thereof in the investment firm within six months from the day when the information referred to in Section 26, Paragraph three of this Law on receipt of the notification or additional information is sent. If, until expiry of the abovementioned time period, the person fails to acquire or increase a qualifying holding in an investment firm, the consent of the Commission for acquiring or increasing a qualifying holding in the investment firm is no longer effective. Upon a motivated written request of the person the Commission may decide on the extension of the abovementioned time period.

(11) When assessing the notifications referred to in Section 26, Paragraphs one and two of this Law, the Commission shall consult with supervisory authorities of the relevant Member State if the acquirer of a qualifying holding in an investment firm is the investment firm, credit institution, alternative investment fund manager, investment management company, insurance company or reinsurance company registered in another Member State, a parent undertaking of the investment firm, credit institution, alternative investment fund manager, investment management company, insurance company or reinsurance company registered in another Member State, or a person who controls an investment firm, credit institution, alternative investment fund manager, investment management company, insurance company or reinsurance company registered in another Member State, and if, upon acquiring or increasing the qualifying holding by the relevant person, the investment firm becomes a subsidiary of such person or comes under its control.

(12) The Commission shall indicate in its assessment every opinion expressed by the supervisory authority of the responsible Member State on the potential acquirer of a holding referred to in Paragraph eight of this Section or an objection against it.

(13) If the influence of persons who have acquired a qualifying holding in an investment firm endangers or could endanger the sound and prudent administration and activities thereof in compliance with the laws and regulations, the Commission shall require that such influence be terminated without delay, and also, if necessary, that the executive board or supervisory board, or a member of the executive board or supervisory board (if such has been established) of the relevant capital company be recalled or prohibit such persons who have acquired the qualifying holding from exercising the voting rights in all of the stocks or shares owned thereby.

(14) Appeal of the administrative act referred to in Paragraphs six and thirteen of this Section and issued by the Commission shall not suspend its operation.

(15) Sample forms and templates for the submission of the information specified in Section 26 of this Law, and also the advisory procedures of the supervisory authorities of Member States referred to in Paragraph nine of this Section shall be governed by Commission Implementing Regulation (EU) 2017/1944 of 13 June 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for the consultation process between relevant competent authorities in relation to the notification of a proposed acquisition of a qualifying holding in an investment firm in accordance with Directives 2004/39/EC and 2014/65/EU of the European Parliament and of the Council.

(16) If the Commission has received notifications on the acquisition or increasing of a qualifying holding in an investment firm from two or more potential acquirers of a holding, such notifications shall be examined in a non-discriminatory manner.

**Section 28. Obligation to Notify in Reducing or Terminating the Qualifying Holding**

(1) If a person wishes to terminate a qualifying holding in an investment firm, the person shall notify the Commission of such decision in writing in advance. The person shall specify in the notification the equity capital shares of the relevant capital company or the proportion of stocks or shares with voting rights remaining therewith.

(2) If a person wishes to reduce the qualifying holding so that it would fall below 20, 33, or 50 per cent of the equity capital or the number of stocks or shares with voting rights in an investment firm or if the relevant capital company ceases to be a subsidiary of this person, such person shall notify the Commission of such decision in writing in advance.

**Section 29. Obligations of a Capital Company**

(1) An investment firm shall, without delay and as soon as it has become known, notify the Commission in writing of any acquisition, increase, or reduction of a qualifying holding by any person. The notification shall specify the proportion of the holding in the equity capital or the number of stocks or shares with voting rights held or information on the termination of a qualifying holding by the relevant person.

(2) An investment firm shall, by 31 January each year, submit a list of those stockholders or shareholders to the Commission which on 31 December of the previous year have had a qualifying holding in the relevant capital company, indicating the information on stockholders or shareholders and mutually related groups of stockholders or shareholders and the amount of holding as percentage of the equity capital or the number of stocks or shares with voting rights of the relevant capital company.

**Section 30. Consequences of Failure to Give Notice**

(1) If a person has failed to meet the requirements laid down in Section 26 of this Law, the Commission shall apply the restrictions on the rights referred to in Section 24, Paragraph four of this Law.

(2) If a person, in disregard of a prohibition by the Commission, acquires or increases a qualifying holding, such person has no right to exercise the voting rights of all the stocks or shares owned thereby, but the decisions of the meeting of stockholders or shareholders taken through the exercise of the voting rights attached to these stocks or shares shall be recognised to be null and void in accordance with the procedures laid down in the Commercial Law.

**Chapter VI**

**Provision of Investment Services**

**Section 31. General Requirements in Relation to the Activities of an Investment Firm**

(1) An investment firm shall, according to the licence issued thereto, fulfil and comply with the following requirements within the term of operation of the licence:

1) ensure conformity of the capital adequacy to the requirements of Regulation No 575/2013 or Regulation No 2019/2033 and this Law, and also that other requirements governing the activities of the investment firm are complied with;

2) establish such internal control systems, administrative and accounting procedures, and also register all of its transactions and document systems and processes in such a way as to allow the Commission to assess the conformity of its activities with the requirements of this Law and Regulation No 2019/2033;

3) develop a strategy and procedures that are appropriate, comprehensive, substantiated, and efficient for the nature, scope, and complexity of its activities in order to ensure continuous assessment and maintenance of such capital and liquid assets, elements, and structure which are considered thereby to be sufficient for the nature and level of risks which it might pose to others and to which it is or might be exposed to itself. An investment firm shall regularly review the abovementioned strategy and procedures in order to ensure that they are constantly comprehensive and proportionate to the nature, scope, and complexity of activities of the investment firm. The requirements for establishing a process of assessment of capital and liquidity adequacy shall be determined by the Commission;

4) ensure that the members of its executive board and supervisory board (if such has been established) are persons who have an impeccable reputation;

5) ensure that the chairperson of its executive board and at least one more member of its executive board are persons who are competent in investment matters;

6) ensure the internal supervision and auditing of activities, including the determination of procedures by which employees of the investment firm may receive investment services from that investment firm, and also from other investment firms and credit institutions;

7) ensure the execution of transactions to be made in financial instruments, the confidentiality of client financial instrument accounts and relevant transactions, in conformity with the requirements of the law;

8) implement security measures for the processing, storage, and transmission of data in accordance with the requirements of this Law, the regulatory provisions of the Commission, and internal rules of procedure of the investment firm;

9) have reasonable security mechanisms in place designed to guarantee the security and authenticity of the means of transfer of information, to minimise the risk of data corruption and unauthorised access, and to prevent information leakage prior to publishing thereof, always preserving data confidentiality;

10) ensure that the financial instruments of clients and the investment firm’s own financial instruments are permanently held separately;

11) ensure that the funds of clients and the investment firm’s own funds are permanently held separately;

12) ensure storage for five years of source documents of transactions performed with financial instruments and other services provided and transactions performed, and also conformity with the requirements brought forward in the regulatory provisions of the Commission and Regulation No 2017/565 related to the completion and keeping of source documents. The Commission is entitled to extend the time period specified in this Clause for up to seven years;

13) ensure compliance with the requirements for the storage of supporting documents also in relation to recordings of telephone conversations or electronic communications relating to transactions made when dealing on own account and the provision of services that relate to the reception, transmission, and execution of client orders. Such telephone conversations and electronic communications shall also include such communication that is intended to agree on transactions which would be concluded when dealing on own account or in the provision of services that relate to the reception, transmission, and execution of client orders, even if such communication does not result in the conclusion of the abovementioned transactions. In order to ensure the fulfilment of the requirements for the storage of supporting documents in relation to recording of telephone conversations or electronic communications, an investment firm:

a) shall take all reasonable steps to record the relevant telephone conversation and electronic communication which is made with, the materials of which are sent or received by equipment provided by the investment firm to an employee or contractor, or the use of which by an employee or contractor has been accepted or permitted by the investment firm;

b) shall make known to the clients that telephone conversations or electronic communications between the investment firm and the client which result or may result in transactions will be recorded. Such a notification may be made once – before the provision of the investment service to the client;

c) shall not provide, by telephone, investment services and activities to clients who have not been notified in advance of recording of their telephone conversations if such investment services and activities relate to the reception, transmission, and execution of client orders;

d) may place client orders using other channels of communication and concurrently ensuring that such communication takes place in a form that can be saved. The relevant face-to-face conversation with a client may be recorded by using written minutes or notes. Such orders shall be considered equivalent to orders received by telephone;

e) shall take all reasonable steps to prevent that an employee or contractor communicates with clients via telephone or electronically by using privately owned devices, thus making it impossible for the investment firm to record such communication or to take copies of the materials thereof;

14) establish comprehensive and effective internal control systems which are appropriate for the nature, scope, and complexity of its activities and shall take measures comprising the following basic elements:

a) organisational structure corresponding to the size of the investment firm and activity risks with clearly defined, unambiguous, and systematic distribution of duties, powers, and responsibility in respect of the performance and control of transactions between units of the investment firm and the responsible employees;

b) a system for the identification, management, supervision and reporting of inherent and potential risks for activities of the investment firm;

c) internal control procedures;

d) such remuneration policy and practice which ensure and promote prudent and effective risk management, but do not encourage risk-taking above the risk tolerance level set by the investment firm, and also ensure equal pay for men and women for equal work or work of equal value;

15) continuously and systematically provide investment services and ancillary investment services, using corresponding systems, means, and procedures;

16) ensure all the necessary and commensurate administrative and organisational measures in order to prevent the negative effect of the conflict of interest referred to in Section 127 of the Financial Instrument Market Law on the interests of clients;

17) create a corresponding organisational structure for the provision of investment services and ancillary investment services and conform to the criteria for skills, knowledge, and competence of the employees involved in the provision of such services;

18) develop a policy in relation to the services, products, and operations (transactions) offered or provided, taking into account the risk profile of the investment firm and the clients to whom the abovementioned services, products, and operations (transactions) are offered or provided, inter alia, providing for the performance of corresponding stress tests;

19) develop a remuneration policy of the responsible officials and employees who directly participate in the provision of investment services or ancillary investment services to clients in order to promote prudent and responsible operation of the institution, fair treatment of a client and to prevent situations of a conflict of interest in relationships with a client, taking into account the requirements of Regulation No 2017/565;

20) regularly assess the suitability and implementation of the strategic objectives of the investment firm, in providing investment services and ancillary investment services, the efficiency of the internal control system, and also the policy in relation to the conformity of the provision of investment services or ancillary investment services, and, if necessary, implement the relevant measures to eliminate deficiencies.

(2) Paragraph one, Clauses 6, 12, 16, 17, 18, 19, and 20 of this Section shall also be applied to investment firms which sell structured deposits or consult clients on them.

(3) An investment firm has the right to provide investment services with the intermediation of tied agents in conformity with the requirements of the Financial Instrument Market Law.

(4) The Commission shall determine the requirements in respect of the investment firm management system and the establishment and operation of its elements, and also the remuneration policy and practice.

(5) The Commission shall determine requirements for risk management of an investment firm, action plans for emergency situation, liquidity restoration and for ensuring continuity of the activities.

(6) The Commission may, in accordance with Regulation No 2019/2033, determine stricter requirements in specific areas than those defined in the abovementioned Regulation.

(7) Additional requirements for the provision of investment services are determined by Regulation No 2017/565.

**Section 32. Small and Non‐interconnected Investment Firm**

(1) An investment firm which is considered to be a small and non‐interconnected investment firm in accordance with Article 12 of Regulation No 2019/2033 (hereinafter – a small and non‐interconnected investment firm) shall not be subject to the application of the requirements of Section 31, Paragraph one, Clause 14, Sections 36 and 37 of this Law. A small and non‐interconnected investment firm shall ensure comprehensive and efficient procedures which correspond to the nature, scope, and complexity of its activities and adequate liquid assets, and also shall regularly review the abovementioned procedures in relation to the volume and complexity of the performed operations (transactions).

(2) A small and non‐interconnected investment firm shall monitor the impact of the risk‐to‐client, risk‐to‐market, risk‐to‐firm specified in Article 15 of Regulation No 2019/2033, and also the liquidity risk on own funds. The liquidity risk shall be monitored both in the context of one day and several relevant periods by making sure that sufficient liquid assets are available.

(3) In establishing conformity with the criteria of a small and non‐interconnected investment firm, an investment firm shall, within five working days after establishing such conformity, inform the Commission and ensure the fulfilment of the requirements laid down in Paragraphs one and two of this Section after six months if it continues to satisfy the criteria for a small and non‐interconnected investment firm throughout the six-month period.

(4) In establishing non-conformity with the criteria of a small and non‐interconnected investment firm, an investment firm shall, within five working days after establishing such non-conformity, inform the Commission and ensure the fulfilment of the requirements laid down in Section 31, Paragraph one, Clause 14 of this Law within 12 months from the day of establishing the non-conformity. The requirements stipulated by the Commission for the remuneration policy in relation to awarding the variable component of remuneration and disbursement for the provided services or performance results shall be applied by the investment firm starting from the next reporting year.

(5) A small and non‐interconnected investment firm shall not apply the requirements of Section 31, Paragraph one, Clause 3 of this Law.

**Section 33. Exposures of an Investment Firm**

An investment firm shall document data on exposures to its stockholders or shareholders who have a qualifying holding in the investment firm and the spouses, parents, and children of those stockholders or shareholders who are natural persons, members of the executive board and supervisory board (if such has been established) of the investment firm and their spouses, parents, and children, and also to commercial companies in which the abovementioned persons have a qualifying holding or significant influence or in which the abovementioned persons hold the position of the senior management or are members of the executive board or supervisory board (if such has been established). The investment firm shall provide the abovementioned information to the Commission upon request.

**Section 34. Outsourced Services**

(1) An investment firm has the right, by ensuring due skill and care and conforming to the procedures laid down in Division F.1 of the Financial Instrument Market Law, to delegate the provision of the following outsourced services to an outsourced service provider:

1) conducting of accounting;

2) management or development of information technologies or systems;

3) organising internal control;

4) provision of investment service and ancillary investment service or any significant element thereof.

(2) An investment firm may delegate the duties of the internal audit service as an outsourced service only to a sworn auditor which does not concurrently audit the annual statement and the consolidated annual statement of the investment firm or to a parent company of the investment firm – a credit institution, an insurance company, or an investment firm registered in the Member State.

(3) If an investment firm delegates the portfolio management service which is provided thereby to a retail client to an outsourced service provider registered in a foreign country, it shall ensure fulfilment of the following requirements in addition to that laid down in Division F1 of the Financial Instrument Market Law:

1) the outsourced service provider has obtained the licence for the provision of such service in its home country or is registered as a provider thereof and is subject to the supervision of financial status;

2) a corresponding agreement on the exchange of information has been entered into between the Commission and the supervisory authority of the service provider in accordance with Section 145 of the Financial Instrument Market Law.

(4) The Commission is entitled to allow an investment firm to delegate the portfolio management service which is provided thereby to a retail client to an outsourced service provider registered in a foreign country, without applying the conditions referred to in Paragraph two of this Section, if the guidelines of the policy referred to in Paragraph five of this Section are conformed to.

(5) The Commission shall approve the policy regarding the right of an investment firm to delegate the portfolio management service which is provided thereby to a retail client to an outsourced service provider registered in a foreign country and shall publish it on its website. This policy shall contain at least the following information:

1) examples for cases in which the Commission allows delegation of the relevant service to an outsourced service provider in a foreign country if one or both requirements of Paragraph three of this Section are not met;

2) justification why in the cases referred to in Clause 1 of this Paragraph it shall be regarded that the investment firm will be able to ensure the requirements set out for the provision of outsourced services in this Law.

(6) An investment firm has no right to:

1) delegate the responsibilities of management bodies of the investment firm laid down in accordance with the laws and regulations governing the activities of an investment firm or the articles of association of the company;

2) completely transfer the provision of investment services or ancillary investment services authorised in the licence to providers of outsourced services.

(7) In accordance with the conditions for the restriction on the provision of outsourced services specified in Section 142.2 of the Financial Instruments Market Law, the Commission is entitled to prohibit the investment firm from receiving the intended outsourced service.

(8) The Commission shall post on its website the list of those supervisory authorities of foreign countries with which it has entered into an agreement on the exchange of information.

(9) An investment firm has the right to provide investment services and ancillary investment services with the intermediation of another investment firm or credit institution in conformity with Section 128.1, Paragraphs eight, nine, and ten of the Financial Instrument Market Law.

**Section 35. Restriction on the Provision of Investment Services**

Until the circumstances referred to in this Section have ceased, the Commission is entitled to restrict the right of an investment firm to provide one or several investment services and to hold financial instruments if:

1) the investment firm has failed to fulfil the requirements laid down in this Law, the Financial Instrument Market Law, and other laws and regulations;

2) the investment firm has not implemented the administrative acts issued by the Commission or the administrative acts issued by other institutions which ensure the implementation of this Law and the regulatory provisions issued by the Commission on the basis thereof;

3) the investment firm performs activities which threaten or may threaten the financial stability, insolvency, or reputation of this investment firm.

**Section 36. Requirements in Relation to the Remuneration Policy and Practice in Case of Receipt of Aid for Commercial Activity**

(1) An investment firm which receives aid for commercial activity within the meaning of the Law on Control of Aid for Commercial Activity (hereinafter – the aid for commercial activity) shall review the remuneration policy and practice thereof, imposing restrictions on remuneration in order to ensure effective risk management and long-term development.

(2) An investment firm which receives the aid for commercial activity shall determine percentage restrictions for the amount of the net revenue thereof which may be used for awarding the variable component of remuneration and disbursement in order to ensure the maintenance of own funds corresponding for stable operation of the investment firm and timely termination of the aid for commercial activity.

(3) An investment firm which receives the aid for commercial activity shall not disburse the variable component of remuneration to the members of the supervisory board and executive board thereof.

**Section 37. Collection of Information Related to Remuneration Policy and Practice**

(1) The Commission shall collect the information related to remuneration policy and practice made public by investment firms in accordance with the requirements of Article 51(c) and (d) of Regulation No 2019/2033, and also information provided by those investment firms on pay gap between men and women and assess the remuneration trends. The Commission shall submit the abovementioned information to the European Banking Authority. The Commission has the right to determine the procedures for preparing and submitting the information referred to in this Section.

(2) An investment firm shall, using the band amounting to 1 million euros, provide information to the Commission on the number of the officials and employees of the investment firm whose remuneration during the reporting year is equal to or larger than 1 million euros, including the information on the duties, scope of activities, and major remuneration components of such officials and employees. The Commission shall collect and submit the abovementioned information to the European Banking Authority.

(3) The Commission has the right to request and an investment firm shall, according to such request, provide information to the Commission on the amount of the remuneration of each member of the supervisory board and executive board or the senior management. The Commission shall submit the abovementioned information to the European Banking Authority.

**Chapter VII**

**Reporting on Potential and Actual Violations**

**Section 38. Potential and Actual Violations**

(1) An investment firm and a branch of a foreign investment firm shall ensure that reports on potential and actual violations of the requirements of this Law and Regulation No 2019/2033 are received and examined.

(2) An investment firm and a branch of a foreign investment firm shall, in accordance with the scope of activity thereof, develop a procedure by which an independent and dedicated internal line for reporting on violations is established, ensuring that employees of an investment firm and a branch of a foreign investment firm may report on the violations referred to in Paragraph one of this Section.

(3) The procedure referred to in Paragraph two of this Section in relation to the establishment of an internal line for reporting on violations shall ensure conformity with the requirements of Sections 39 and 40 of this Law.

(4) The Commission shall establish and maintain a safe system for reporting on potential and actual violations referred to in Paragraph one of this Section on which any person may report to the Commission.

(5) The procedures by which reports on the violations referred to in Paragraph one of this Section are submitted to the Commission, and also received and examined thereby shall be determined by the regulatory provisions of the Commission.

**Section 39. Protection of Persons**

(1) In accordance with the laws and regulations regarding personal data protection, the system established by the Commission for reporting on violations shall ensure personal data protection of such person who is reporting on the violation, and also personal data protection of such natural person who is suspected of having committed the violation.

(2) The Commission shall ensure confidentiality of the person who is reporting on the violation, and also of the person of which there are suspicions that he or she has committed the violation, except when the disclosure of such information is provided by the laws and regulations of the Republic of Latvia.

(3) Reporting which, in accordance with Section 38, Paragraphs one and two of this Law, is done by employees of an investment firm and a branch of a foreign investment firm shall not be considered as a violation of the prohibition of disclosure of information specified in an employment contract or another contract equivalent thereto, or in any law or regulation, and the person may not be held liable for such reporting.

(4) An employee of an investment firm and a branch of a foreign investment firm who is reporting on the violations referred to in Section 38, Paragraph one of this Law in the operation of the employer may not be subject to discriminatory or other unjust actions due to the report provided.

**Section 40. Violation of the Prohibition to Cause Adverse Consequences and Elimination Thereof**

If the prohibition specified in Section 39, Paragraph four of this Law is not conformed to and adverse consequences are caused to a person due to the information provided thereby on the violations referred to in Section 38, Paragraph one of this Law, such adverse consequences shall be eliminated in accordance with that specified in the relevant laws and regulations.

**Chapter VIII**

**Supervision of Investment Firms**

**Section 41. Preparation, Verification, and Signing of the Annual Statement of an Investment Firm**

(1) An investment firm shall keep accounting and prepare an annual statement in accordance with this Law, the Accounting Law, and the regulatory provisions of the Commission. The annual statement of the investment firm as an aggregate shall consist of financial statements of the investment firm, the management report of the investment firm, and the statement of responsibility of the management of the investment firm. The Commission shall issue the regulatory provisions on the preparation of the annual statement according to the international accounting standards adopted in accordance with Regulation No 1606/2002.

(2) The Commission shall issue the regulatory provisions on the preparation of the consolidated annual statement according to the international accounting standards adopted in accordance with Regulation No 1606/2002.

(3) The annual statement and the consolidated annual statement, if any, shall be signed by the executive board of the investment firm or an authorised member thereof.

(4) The annual statement and consolidated financial statement shall also be signed by the person (accountant or outsourced accountant) who has entered into a written agreement with the investment firm in which the obligations, rights, and responsibility of such person in issues related to conducting of accounting have been laid down, and he or she has prepared the abovementioned statement, indicating his or her given name, surname, and name of full position or name of the company, or firm name and name of the position of the economic operator. An investment firm having an accounting unit and accounting employees may appoint a person responsible for conducting accounting and preparation of an annual statement (accountant or another person responsible for conducting accounting) who signs the annual statement and consolidated annual statement. In such case, the given name, surname, and name of full position of such person shall be indicated.

(5) The annual statement and consolidated annual statement, if any, prepared by an investment firm shall be audited and the auditor’s report on the results of the audit carried out shall be provided by a sworn auditor in accordance with the Law on Audit Services. If such audit has not been carried out, it is prohibited for the meeting of stockholders or shareholders of the investment firm to approve the annual statement and consolidated annual statement, if any.

(6) If a serious violation of the regulatory and administrative acts governing the conditions for granting a licence or the activity of an investment firm is established during the provision of audit services or during the performance of another assurance engagement specified in laws and regulations, or other facts are discovered due to which the fulfilment of liabilities or continuity of the activity of the investment firm are exposed to danger or due to which the sworn auditor refuses to give his or her opinion or gives his or her opinion with objections or a negative opinion, the sworn auditor shall, without delay, submit a written report to the Commission.

(7) A sworn auditor has the obligation to submit, without delay, a written report to the Commission on the facts referred to in Paragraph six of this Section which are discovered during the provision of audit services to a customer with whom the investment firm is associated in relations of holdings or close links in a control way or during the performance another assurance engagement specified in laws and regulations.

(8) The Commission is entitled to request in writing from sworn auditors the information necessary for the performance of the tasks thereof and the work documents of the sworn auditor.

(9) Provision of the information referred to in Paragraphs six, seven, and eight of this Section to the Commission shall not be considered disclosure of non-disclosable information, and the civil liability shall not set in for a sworn auditor.

(10) An investment firm shall notify the Commission of disbursing the dividends one month in advance. The Commission has the right to prohibit an investment firm from disbursing the dividends if:

1) as a result of disbursing the dividends, the investment firm will fail to conform to the indicators and restrictions the amount (level) of which affects the disbursement of the dividends, determined in this Law and the directly applicable legal acts of the European Union;

2) the opinion included in the auditor’s report is with objections.

(11) In addition to that laid down in Paragraph five of this Section, a sworn auditor shall prepare a report to the management of an investment firm. Specific deficiencies shall be indicated, and also specific issues related to the activity of the investment firm shall be considered in the report. A copy of the report shall be submitted by the investment firm to the Commission within 10 working days after receipt of the report, but not later than on 1 April of the year following the reporting year.

(12) In addition to that laid down in Paragraphs five and eleven of this Section, the Commission is entitled to require that an investment firm submits an extended report prepared by a sworn auditor with comments regarding adequacy of the internal control system, an operational risk analysis of the investment firm, and an assessment of the conformity with the requirements of laws and regulations and the regulatory provisions of the Commission. The Commission shall determine the deadline for the preparation of the report in agreement with the sworn auditor.

**Section 42. Submission and Publishing of the Annual Statements of an Investment Firm**

(1) An investment firm shall, within 10 days after approval of the annual statement and within three months after the end of the reporting year, submit a copy of the annual statement and of the report of a sworn auditor in the Electronic Declaration System of the State Revenue Service, together with an extract from the minutes of the meeting of stockholders or shareholders regarding approval of the annual statement. The investment firm which prepares a consolidated annual statement in addition to that laid down in the first sentence of this Paragraph shall, within 10 days after approval of the consolidated annual statement and within seven months after the end of the reporting year, also submit in the Electronic Declaration System of the State Revenue Service a copy of the consolidated annual statement and of a report of the sworn auditor together with an extract from the minutes of the meeting of stockholders or shareholders regarding approval of the consolidated annual statement. The sworn auditor shall examine and confirm in the Electronic Declaration System of the State Revenue Service that the submitted annual statement and consolidated annual statement, if any, according to the content of the information provided conforms to the annual statement or consolidated annual statement, if any, regarding which the sworn auditor has provided auditor’s report.

(2) The State Revenue Service shall, within five working days, electronically transfer the documents referred to in Paragraph one of this Section to the Enterprise Register. The Enterprise Register shall ensure public access to the received documents. The documents shall be transferred to the Enterprise Register, using online data transmission mode.

(3) After receipt of the documents referred to in Paragraph two of this Section, the Enterprise Register shall publish them on the website thereof.

(4) An investment firm to which the regulatory capital adequacy requirements are applicable individually and on the level of consolidation group in accordance with this Law, in addition to the conditions laid down in Paragraph two of this Section, shall ensure itself that the annual statement is made public together with a report of the sworn auditor not later than on 1 April of the year following the reporting year, but the consolidated annual statement together with a report of the sworn auditor – not later than seven months after the end of the reporting year. The abovementioned annual statement and the consolidated annual statement shall be identical to the statement examined by a sworn auditor. The investment firm may make the relevant information public on its website or also choose another corresponding information medium or place for making the information public.

(5) A branch of a foreign investment firm or of an investment firm of a Member State shall ensure that the annual statement of the foreign investment firm or investment firm of a Member State is made public not later than seven months after the end of the reporting year. At least the balance sheet, the profit or loss account of the annual statement, and the opinion of the sworn auditor must be translated into Latvian. A branch of a foreign investment firm or of an investment firm of a Member State may make the relevant information public on its website or choose other appropriate information medium or place for making the information public.

**Section 43. Inspection of Supervision and Assessment**

(1) The Commission shall introduce corresponding supervisory measures which ensure the fulfilment of the requirements laid down in this Law for investment firms.

(2) The Commission shall, taking into account the size, risk profile, and business model of an investment firm and whether it holds professional indemnity insurance, inspect the strategy, procedures, and measures implemented by the investment firm to ensure conformity with the requirements of this Law, the directly applicable legal acts of the European Union, and the regulatory provisions and decisions issued by the Commission, and also assess the following in order to ensure proper management and coverage of the risks thereof:

1) the risk‐to‐client, risk‐to‐market, risk‐to‐firm specified in Regulation No 2019/2033, and also the liquidity risk;

2) geographic location of exposures of an investment firm;

3) business model of an investment firm;

4) a systemic risk assessment, taking into account the criteria established by the European Banking Authority in accordance with Article 23 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (hereinafter – Regulation No 1093/2010) and the recommendations of the European Systemic Risk Board;

5) the risks posed to the security of the network and information systems of the investment firm in order to ensure confidentiality, integrity, and availability of the processes, data, and assets thereof;

6) the exposure of the investment firm to the interest rate risk in the non-trading book;

7) the governance arrangements of the investment firm and the ability of the members of the executive board and supervisory board (if such has been established) to perform their duties.

(3) The Commission shall, taking into account the laws and regulations governing the segregation applicable to the client money held, determine the scope and frequency of the inspection and assessment referred to in Paragraph two of this Section, depending on the nature, scope, and complexity of activities of an investment firm, and also taking into account the principle of proportionality and the systemic importance of the investment firm.

(4) The Commission shall decide on a case-by-case basis whether and how it will perform the inspection and assessment referred to in Paragraph two of this Section of a small investment firm if, in its opinion, such inspection and assessment are necessary due to the nature, scope, and complexity of activities of such investment firm.

(5) When performing the inspection and assessment referred to in Paragraph two, Clause 7 of this Section, the Commission has the right to examine the agendas, minutes, and other documents of the meetings of the executive board and supervisory board (if such has been established) of an investment firm, and also of the meetings of the committees established, and also the results of the internal or external evaluation of performance of the members of the executive board and supervisory board (if such has been established).

(6) An investment firm, an investment firm of a Member State, and a branch of a foreign investment firm have the obligation to inform the Commission without delay of all circumstances which may affect further activities of the investment firm.

(7) If the Commission establishes that an investment firm does not comply with or if the Commission has a reason to deem that, within 12 months, an investment firm will not comply with the requirements laid down in this Law, the directly applicable legal acts of the European Union, or the regulatory provisions and decisions issued by the Commission, the Commission shall request that the investment firm implements the measures necessary for the prevention of the relevant problems in a timely manner.

(8) The Commission shall notify the European Banking Authority of the following:

1) the process of the inspection and assessment referred to in Paragraph two of this Section;

2) the methodology used to determine the requirements laid down in Section 45, Paragraphs one, four, and five and Sections 54 and 55 of this Law.

**Section 44. Powers of the Commission in the Acquisition and Investigation of Information**

(1) When supervising conformity with the requirements of this Law and Regulation No 2019/2033, the Commission shall have full powers of acquisition and investigation of information in relation to investment firms, branches of foreign investment firms, investment holding companies, mixed financial holding companies, mixed holding companies, persons belonging to those entities, and third parties with whom those entities have entered into outsourcing contracts for operational functions or activities.

(2) The Commission or an authorised person thereof has the right to require from the persons referred to in Paragraph one of this Section the information necessary for the Commission to perform its functions, to become acquainted with the documentation at the disposal of the persons, to verify the accounting data and records and to receive any extracts and copies thereof, to receive explanations and information from the persons referred to in Paragraph one of this Section or their representatives or employees regarding commercial companies in which the consolidation group has investments, or to interview any other person who has consented thereto in order to acquire information on the subject to be verified.

(3) In addition to the rights referred to in Paragraph two of this Section, the Commission has the right, if it is the group supervisory authority, to perform all the necessary inspections at the premises of the persons referred to in Paragraph one of this Section and of the undertakings the conformity of which with the group capital criterion is being supervised, informing the other relevant supervisory authorities in advance.

(4) The information and documents referred to in this Section shall be submitted within the time periods stipulated by the Commission. The fulfilment of the abovementioned requirements may not be refused, including by excusing it as a commercial secret.

**Section 45. Rights of the Commission in the Supervision Process**

(1) When applying the provisions of Section 43, Paragraphs two, three, four, five, and seven, Section 53, Paragraphs four and five of this Law and the requirements of Regulation No 2019/2033, the Commission is entitled, in conformity with the principle of proportionality, to request that an investment firm:

1) ensures additional own funds exceeding the requirements laid down in Article 11 of Regulation No 2019/2033 in accordance with Section 54 of this Law or adjusts the required own funds or liquid assets if there have been significant changes in the commercial activities of the investment firm;

2) improves its strategy, procedures, and measures to be implemented in order to meet the requirements laid down in Section 31, Paragraph one, Clauses 3 and 14 of this Law;

3) draws up and, within one year, submits a plan to the Commission for resuming compliance with the provisions of this Law, other laws and regulations, the directly applicable legal acts of the European Union, and the regulatory provisions issued by the Commission, determining the time period for the implementation of the measures included in the plan, and also makes changes in the submitted plan in respect of the areas of commercial activities and the time periods for the implementation of the measures specified therein;

4) applies a policy of recognition and assessment of special provisioning or assets for the purpose of calculation of own funds;

5) narrows down or restricts its commercial activities, transactions or the cooperation network of the investment firm, or abandons the areas of activity which pose excessive threat to the financial stability;

6) reduces the risks inherent to its activity, including activities which have been outsourced, products, or systems;

7) limits the variable component of remuneration as a percentage of net revenues if the abovementioned remuneration does not satisfy the requirements for the maintenance of a sound capital base;

8) redirects the profit after payment of taxes to strengthen own funds;

9) reduces or does not perform distribution of profits or interest payments to stockholders or shareholders and holders of the instruments included in the Additional Tier 1 capital if it does not result in failure of the investment firm to fulfil its obligations;

10) provides additional statements or provides them more frequently than required in accordance with the requirements of this Law and Regulation No 2019/2033, including statements regarding the capital and liquidity items of the investment firm;

11) complies with the special liquidity requirements imposed thereon in accordance with Section 56 of this Law;

12) makes public the information referred to in Section 57, Paragraph one of this Law more frequently than on an annual basis in accordance with the publication timeframe stipulated by the Commission;

13) reduces the risks posed to the security of the cooperation network and information systems of the investment firm in order to ensure confidentiality, integrity, and availability of the processes, data, and assets thereof.

(2) The Commission has the right to prohibit an investment firm from establishing close links or to request to terminate close links with third parties, or to prohibit transactions therewith where such relations may or do endanger the financial stability of the investment firm or restrict the rights of the Commission to perform the supervisory functions specified in the law.

(3) The Commission is entitled to request that the management bodies of an investment firm revoke the decisions on the appointment of members of the executive board or supervisory board (if such has been established) if they do not meet the requirements of this Law.

(4) The Commission is entitled to request an investment firm to fulfil the requirement laid down in Paragraph one, Clause 10 of this Section if, in conformity with the provisions of Paragraph five of this Section, the requested information is not considered to be duplicative and at least one of the following circumstances exists:

1) one of the cases referred to in Section 43, Paragraph seven of this Law;

2) the Commission considers this to be necessary in order to substantiate that the investment firm will not comply with this Law, the directly applicable legal acts of the European Union, or the regulatory provisions issued or decisions taken by the Commission within the next 12 months;

3) the additional information is necessary for the performance of the inspection supervision and assessment process in accordance with the provisions of Section 43, Paragraphs two, three, four, and five of this Law.

(5) The information requested in accordance with Paragraph one, Clause 10 of this Section shall be considered to be duplicative if the Commission already has the same or substantially the same information, if the Commission can prepare such information itself, or if it can obtain it through other means than a request for the investment firm to report it. The Commission is not entitled to request the investment firm to provide additional information if it has such information in a different format or level of detail and if such different format or level of detail does not preclude the Commission from preparing substantially similar information.

(6) For the purpose of ensuring the activities of investment firms in accordance with the requirements of this Law and the directly applicable legal acts of the European Union, the Commission is entitled to determine additional requirements governing the activities of investment firms in the areas not governed by the directly applicable legal acts of the European Union in respect of the specific risks inherent to the financial market of Latvia and activities of investment firms in order to reduce the risks caused by investment firms and to protect the interests of investors, and also to determine the requirements arising from the decisions, guidelines, and recommendations adopted by the European Securities and Markets Authority, the European Central Bank, or the European Banking Authority in order to ensure a uniform, effective, and constructive supervision practice in Member States, taking into account the nature of cross-border activities of the European financial supervision system.

(7) The Commission is entitled to determine the provisions for the submission of reports related to separate corporate actions, preparation and submission of statements, and also the procedures for the preparation and provision of information necessary for the supervision of investment firms and the procedures for the receipt of the necessary permits if it has not been determined by the European Commission.

(8) An investment firm shall prepare and submit to the Commission statements on the financial position of the investment firm and other statements in accordance with the procedures and within the time periods stipulated by the Commission.

**Section 46. Competence and Obligations of the Commission**

(1) In performing the supervision of investment firms, the Commission shall cooperate with the European Systemic Risk Board, the European Banking Authority, and other members of the European System of Financial Supervision.

(2) In performing supervision and applying sanctions, the Commission shall, before taking decisions, rely on the information at its disposal and take into account the possible impact of decisions on the stability of the financial system in Latvia and in other Member States, and also in the European Union as a whole, in particular in emergency situations.

(3) Without prejudice to the requirements of this Law determining the responsibility of the supervisory authorities of the host Member State, the Commission shall be responsible for the prudential supervision of investment firms licensed in the Republic of Latvia.

**Section 47. Cooperation of the Commission with the Supervisory Authorities of Other Member States in Prudential Supervision**

(1) In order to ensure the supervision of investment firms operating in one or more Member States, the Commission has the obligation, in cooperation with the supervisory authorities of the relevant Member States and in accordance with the requirements of this Law and Regulation No 2019/2033, to provide and the right to request information necessary for supervision, including the following information on the investment firm:

1) management and stockholders or shareholders;

2) conformity with the own funds requirements;

3) conformity with the concentration risk requirements and liquidity requirements;

4) management and accounting procedures and internal control mechanisms;

5) other relevant facts that may affect the risk profile of the investment firm.

(2) The Commission shall inform the supervisory authority of the relevant Member State of sanctions and restrictions on activities which have been imposed thereby on such investment firms licensed in the Republic of Latvia which provide investment services in the territory of the relevant Member State.

(3) If the Commission, when performing the supervision of an investment firm licensed in the Republic of Latvia, has identified potential problems and risks posed by the investment firm to the protection of clients or the stability of the financial system in the host Member State, it shall, without delay, provide the supervisory authority of the host Member State with all the information and findings.

(4) The Commission shall, in agreement with the relevant supervisory authority of the host Member State, take any measures necessary to prevent the problems and risks referred to in Paragraph three of this Section. The Commission shall, upon request of the supervisory authority of the relevant host Member State, explain how it has taken into account the information provided by the supervisory authorities of the host Member State.

(5) The Commission shall, upon receipt of the information from the supervisory authority of the home Member State on potential problems and risks posed by the investment firm to the protection of clients or the stability of the financial system in Latvia, agree with the relevant supervisory authority of the home Member State on the measures necessary to prevent those potential problems and risks.

(6) If the Commission establishes that the supervisory authority of the home Member State has not taken the measures referred to in Paragraph five of this Section, it is entitled, after informing the supervisory authority of the home Member State, the European Banking Authority, and the European Securities and Markets Authority, to take the measures necessary to ensure the protection of the interests of investors or the stability of the financial system in Latvia.

(7) The Commission is entitled to inform the European Banking Authority of cases when the supervisory authorities of other Member States have not provided essential information or, upon a substantiated request of the Commission, have refused to cooperate, or have failed to act within a corresponding (reasonable) time period.

(8) If the Commission disagrees with the measures taken by the supervisory authorities of the host Member State, it is entitled to refer the matter to the European Banking Authority for the resolution of disputes in accordance with Regulation No 1093/2010.

(9) The Commission is entitled to request information from the supervisory authority of the home Member State of the clearing member on the margin model and the parameters used for the calculation of the margin requirement of the relevant investment firm in order to assess the compliance with the condition laid down in Article 23(1)(c) of Regulation No 2019/2033.

**Section 48. Supervision of an Investment Firm Registered in Another Member State**

(1) The Commission shall supervise the conformity of a branch of an investment firm licensed in another Member State which operates in the Republic of Latvia with the requirements of Section 31, Paragraph one, Clauses 12 and 13 of this Law, Sections 126, 126.1, 126.2, 128, 128.1, 128.2, 128.3 of the Financial Instrument Market Law, and Regulation No 600/2014. The Commission has the right to inspect the measures taken by such branch in order to ensure compliance with the abovementioned requirements. If the Commission establishes that a branch of an investment firm registered in this Member State which operates in the Republic of Latvia undertakes activities which are in contradiction with the requirements of Section 31, Paragraph one, Clauses 12 and 13, Sections 126, 126.1, 126.2, 128, 128.1, 128.2, 128.3 of this Law and Regulation No 600/2014, it shall, without delay, request the investment firm of such Member State to cease such activities.

(2) If a branch of an investment firm registered in another Member State which operates in the Republic of Latvia continues activities which are in contradiction with the requirements of Section 31, Paragraph one, Clauses 12 and 13, Sections 126, 126.1, 126.2, 128, 128.1, 128.2, 128.3 of this Law and Regulation No 600/2014, the Commission shall inform the supervisory authority of the home Member State and take measures to eliminate such violations. Within the framework of such measures, the Commission is entitled to prohibit the relevant investment firm from continuing the provision of investment services in the Republic of Latvia until such violations are eliminated. The Commission shall inform the European Commission and the European Securities and Markets Authority of the measures taken in accordance with the requirements laid down in Section 147 of the Financial Instrument Market Law. The Commission is entitled to address the European Securities and Markets Authority with a request, according to the authorisation granted thereto, to examine a violation of such branch of an investment firm which operates in the Republic of Latvia.

(3) If the Commission establishes that a branch of an investment firm registered in another Member State which operates in the Republic of Latvia carries out activities that are in contradiction with the requirements of the applicable laws and regulations governing the financial instrument market in force in the Republic of Latvia, other than referred to in Paragraph one of this Law, the Commission shall, without delay, inform the supervisory authority of the home Member State thereof and request it to eliminate the established violations, and also to inform the Commission of the measures taken.

(4) If the Commission establishes that an investment firm registered in another Member State which provides investment services without opening a branch carries out activities that are in contradiction with the laws and regulations governing the financial instrument market in force in the Republic of Latvia, it shall, without delay, inform the supervisory authority of the home Member State thereof and request it to eliminate the established violations, and also to inform the Commission of the measures taken.

(5) If a branch of an investment firm registered in another Member State which operates in the Republic of Latvia or such investment firm registered in another Member State which provides investment services in the Republic of Latvia without opening a branch continues activities which are in contradiction with the laws and regulations governing the financial instrument market in force in the Republic of Latvia, it shall inform the supervisory authority of the home Member State and take measures to eliminate such violations. The Commission is entitled to prohibit the relevant investment firm from continuing the provision of investment services in the Republic of Latvia until such violations are eliminated. The Commission shall inform the European Commission and the European Securities and Markets Authority of the measures taken in accordance with the requirements of Section 147 of the Financial Instrument Market Law. The Commission is entitled to address the European Securities and Markets Authority with a request, according to the authorisation granted thereto, to examine a violation of such branch of an investment firm which operates in the Republic of Latvia.

(6) The requirements of Paragraphs one, two, three, and four of this Section do not prohibit the Commission from carrying out activities to prevent violations that are in contradiction with the laws of the Republic of Latvia protecting the public interest. The Commission is entitled to prohibit the relevant investment firm from continuing the provision of investment services in the Republic of Latvia until such violations are eliminated.

(7) The provisions of this Section do not restrict the right of an investment firm registered in another Member State to disseminate information in the Republic of Latvia and to advertise the services provided thereby if such information and advertising is not in contradiction with the laws and regulations protecting the public interest.

(8) The supervisory authority of the home Member State has the right to inspect itself or through a person authorised thereby the branch of an investment firm established in the relevant Member State and operating in the Republic of Latvia, and also to become acquainted with the information referred to in Paragraph 47, Paragraph one of this Law which is necessary for the inspection. The supervisory authority of the home Member State shall, in a timely manner, inform the Commission of the commencement of the inspection in writing.

(9) The Commission has the right, if it considers this to be necessary for the stability of the financial system in the Republic of Latvia or for supervisory purposes, to perform inspections at a branch of an investment firm registered in another Member State and operating in the Republic of Latvia and to request the branch to provide information on its activities. The Commission shall, in a timely manner, inform the relevant supervisory authority of the home Member State of the performance of such inspections. After the inspection performed, the Commission shall, without delay, provide the supervisory authority of the home Member State with the information obtained in relation to the risk assessment of the relevant investment firm.

(10) The Commission has the right to, under a reasoned decisions and by informing also the European Securities and Markets Authority thereof, refuse a supervisory authority of another Member State to perform an inspection within the territory of the Republic of Latvia upon request of the supervisory authority of such Member State, and also to reject the participation of authorised representatives of a supervisory authority of another Member State in such a inspection or to provide information to the supervisory authority of the Member State if:

1) such inspection or participation of authorised representatives of the supervisory authority of another Member State therein would have an adverse effect on the national sovereignty, security, or State policy of the Republic of Latvia;

2) court proceedings for the same violation and against the same persons have already been initiated in the Republic of Latvia;

3) a court judgment in respect of the same violation and the same persons has already been taken.

(11) The Commission shall prohibit a branch of an investment firm registered in another Member State which operates in the Republic of Latvia or an investment firm registered in another Member State which provides investment services in the Republic of Latvia without opening a branch from continuing the provision of investment services if it has received a notification from the supervisory authority of the home Member State on the cancellation of the licence issued to the investment firm.

(12) The Commission has the right to directly address an investment firm registered in another Member State which is a member of a regulated market operator licensed in the Republic of Latvia and makes transactions on a regulated market without opening a branch, by informing the supervisory authority of the relevant Member State thereof.

(13) Information which may be requested when carrying out internal controls in accordance with Paragraphs eight and nine of this Section is determined by Commission Delegated Regulation (EU) 2017/586 of 14 July 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the exchange of information between competent authorities when cooperating in supervisory activities, on-the-spot verifications and investigations.

(14) The sample forms, templates, and procedures necessary for the supervisory activities and on-site controls referred to in Paragraphs eight and nine of this Section are determined by Commission Implementing Regulation (EU) 2017/980 of 7 June 2017 laying down implementing technical standards with regard to standard forms, templates and procedures for cooperation in supervisory activities, for on-site verifications, and investigations and exchange of information between competent authorities in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

(15) For statistical purposes or for ensuring the supervision of the fulfilment of the obligations specified in this Section, the Commission has the right to request that an investment firm registered in another Member State operating in the Republic of Latvia regularly reports on its activities.

(16) The requirements laid down in Paragraph fifteen of this Section may not be more stringent that those laid down for investment firms licensed in Latvia.

**Section 49. Supervision of an Investment Firm Licensed in the Republic of Latvia which Provides Investment Services in a Member State**

(1) The Commission shall inform the supervisory authority of the relevant Member State prior to carrying out any internal control at a branch of such investment firm licensed in the Republic of Latvia which provides investment services in this Member State.

(2) The supervisory authority of a Member State is entitled to, upon its own initiative, and also upon request of the Commission, carry out internal control at the branch of an investment firm licensed in the Republic of Latvia and operating in its territory.

(3) The Commission shall, without delay, inform the supervisory authorities of the relevant Member States of the cancellation of any licence of such investment firms licensed in the Republic of Latvia the branches of which operate in Member States or which provide investment services in Member States without opening a branch.

**Section 50. Significant Branches of Investment Firms**

(1) If an investment firm registered in a Member State and subject to the regulatory capital adequacy requirements in accordance with the laws and regulations governing financial instrument market and limits to large exposures has a branch in the Republic of Latvia, it may be recognised as significant. The Commission shall, by providing a justification, send a request to the supervisory authority of the home Member State of the investment firm or such consolidating supervisor which supervises the investment firm with a branch in the Republic of Latvia to harmonise opinions for decision-making (hereinafter – the harmonised decision) in order to recognise the abovementioned branch as significant.

(2) In order to recognise a branch to be significant, the conformity thereof with the following criteria shall be taken into account:

1) suspension or closure of the activities of the branch is likely to affect financial market liquidity and the payment, clearing and settlement systems in the host Member State;

2) the volume of transactions of the branch and the number of clients are important for the financial market or financial system of the host Member State.

(3) The Commission and the supervisory authority of the home Member State or the consolidating supervisor of the branch shall cooperate and undertake all the necessary activities in order to take the harmonised decision to recognise a branch as significant within two months from the day of sending the request referred to in Paragraph one of this Section.

(4) The decision referred to in Paragraph three of this Section may be appealed in accordance with the procedures laid down in the legal acts of the home Member State of the consolidating supervisor or the branch.

(5) If, within two months from sending the request referred to in Paragraph one of this Section, the harmonised decision is not taken, the Commission shall, in conformity with the opinion of the supervisory authority of the home Member State or the consolidating supervisor, take the decision to recognise the relevant branch as significant within the following two months without harmonising opinions.

(6) The supervisory authority of another Member State may address the Commission with a request to recognise a branch of the investment firm licensed in the Republic of Latvia which is registered in the abovementioned Member State to be significant or, if the Commission is the consolidating supervisor, with a request to recognise a branch of the investment firm included in the consolidation group which is registered in another Member State to be significant. The Commission shall undertake all the necessary actions to, within two months from the day of receipt of the request, take the harmonised decision to recognise a branch to be significant.

(7) The decision referred to in Paragraph six of this Section may be appealed to the Regional Administrative Court.

(8) The Commission shall notify the decision taken to recognise a branch to be significant to the relevant supervisory authorities of the Member States.

(9) The Commission shall cooperate with the supervisory authorities of the host Member States of significant branches of investment firms licensed in the Republic of Latvia when receiving information on negative development trends of the investment firms which may materially influence the activity of the investment firms, and also on sanctions and supervisory measures which are implemented by the supervisory authorities of the host Member States in respect of investment firms, including the imposed obligation to maintain a higher level of own funds than the total sum of the minimum capital requirements and any restrictions specified on the use of the advanced operational risk measurement approach. The Commission shall participate in the measures taken to prepare for, and also to deal with emergency situations, including such emergency situations as may arise as a result of a deterioration in the financial position of investment firms or adverse developments in financial markets. The supervisory measures provided for emergency situations shall include a joint assessment of the situation, the implementation of a crisis management plan, and the provision of public information. During the process of exchange of information, already established types of exchange of information shall be used for the provision of crisis management as much as possible.

(10) If the Commission establishes an emergency situation, including unfavourable development trends of financial markets which have an impact on the situation in an investment firm, it shall, in accordance with the provisions for the disclosure of restricted access information and using already established types of exchange of information as much as possible, immediately warn the central banks of the host Member States included in the European System of Central Banks, the European Central Bank, and the European Systemic Risk Board of the emergency situation and shall notify all the material information related to the performance of the tasks thereof.

(11) If an investment firm licensed in the Republic of Latvia has significant branches in other Member States but the investment firm is not included in the consolidation group, the Commission shall, together with the supervisory authorities of such Member States in which the significant branches of the investment firm have been registered, establish and manage a college of supervisors in order to ensure cooperation with the supervisory authorities of the relevant Member States when implementing the activities referred to in Paragraphs nine and ten of this Section. The Commission shall establish a college of supervisors by entering into a cooperation agreement with the supervisory authorities of the host Member States.

(12) The Commission shall, taking into account the importance of the planned or coordinated supervisory measures for the supervisory authorities of the host Member States and the potential impact on the stability of the financial system in the relevant Member States, particularly in emergency situations, determine those supervisory authorities which have an obligation to participate in meetings of the college of supervisors.

(13) The Commission shall, in due time, inform all participants of the board of supervisors of organising meetings of the board of supervisors, the main issues to be examined and the planned activities, and also the decisions taken or the measures implemented in the meetings.

**Section 51. Right of the Commission to Apply the Requirements of Regulation No 575/2013 to Certain Investment Firms**

(1) The Commission has the right to apply the requirements of Regulation No 575/2013 to investment firms which provide investment services at least one of which is the investment service referred to in Section 3, Paragraph four, Clause 3 or 6 of the Financial Instrument Market Law the total value of the consolidated assets whereof, calculated as an average of the previous 12 months, is equal to five billion euros or more and to which one or more of the following criteria apply:

1) the investment firm carries out the abovementioned activities on such a scale that the insolvency proceedings or financial difficulties of the investment firm could lead to systemic risk;

2) the investment firm is a clearing member as defined in Article 4(1)(3) of Regulation No 2019/2033;

3) such decision by the Commission is justified, taking into account the nature, scope, and complexity of activities of the relevant investment firm in conformity with the principle of proportionality or one or more of the following factors:

a) the importance of the investment firm for the economy of the European Union or of Latvia;

b) the significance of cross-border activities of the investment firm;

c) the impact of the investment firm on the financial system.

(2) Paragraph one of this Section shall not be applied to commodity and emission allowance dealers within the meaning of Article 4(1)(150) of Regulation No 575/2013 and to investment management companies or insurance companies.

(3) If the Commission decides to revoke the decision taken in accordance with Paragraph one of this Section, it shall immediately inform the investment firm.

(4) A decision taken by the Commission in accordance with Paragraph one of this Section shall be revoked if the investment firm no longer complies with the total value of the consolidated assets thereof, calculated as an average of the previous 12 months, specified in the abovementioned Paragraph.

(5) The Commission shall immediately inform the European Securities and Markets Authority of any decision taken in conformity with Paragraphs one and four of this Section.

**Section 52. Payments to Finance the Operation of the Commission**

(1) An investment firm licensed in the Republic of Latvia, a branch of an investment firm of another Member State, and a branch of a foreign investment firm shall pay to the Commission up to one per cent of the average gross income of the transactions of the investment firm per quarter, but not less than EUR 2845 per year.

(2) The Commission shall issue regulatory provisions on the amount of payments referred to in Paragraph one of this Section, and also the procedures for the calculation and settlement of such payments.

(3) Late fee shall be calculated for late transfer of the payments referred to in Paragraph one of this Section or transfer in incomplete amount, the amount of the late fee being 0.05 per cent from the unpaid sum for each late day.

**Chapter IX**

**Internal Model Approach, Additional Own Funds and Indication Thereof, Special Liquidity Requirements, and Disclosure of Information**

**Section 53. Permission to Use the Internal Model Approach**

(1) The Commission shall, on a regular basis, but not less than once every three years, inspect whether an investment firm which, in accordance with the requirements laid down in Article 22 of Regulation No 2019/2033, has received the permission to use the alternative internal model approach for the calculation of own funds conforms to the conditions for the receipt of the permission included in the capital requirements of Regulation No 575/2013. The Commission shall inspect, in a more enhanced manner, the following during the abovementioned inspection:

1) changes in the business model of an investment firm;

2) application of the internal model approach to new investment products;

3) how the investment firm improves the internal model approach on the basis of proven modern technologies and practices.

(2) If, during the inspection referred to in Paragraph one of this Section, the Commission establishes that the internal model approach of the investment firm does not cover all material risks, it shall request that the established deficiencies are eliminated. In order to mitigate risks until deficiencies are eliminated, the Commission may determine:

1) a higher coefficient which shall be used for the calculation of the own funds according to the internal model approach;

2) additional own funds or take other appropriate and effective measures.

(3) If it has been established during the inspection of the internal model used for the calculation of the own funds for market risk of an investment firm that the internal model is not or is no longer sufficiently accurate as, upon applying of back testing in accordance with Article 366 of Regulation No 575/2013, it has been established that the number of overshootings does not correspond to the allowed level, the Commission shall require the investment firm to eliminate such deficiencies without delay or shall cancel the permission to use the internal model.

(4) If the Commission establishes that an investment firm does not conform to the conditions for the receipt of the permission to use the internal model approach and the investment firm is not able to provide reasonable evidence that such non-conformity has no material impact on the calculation of own funds, the Commission shall request the investment firm to develop and implement a plan of measures to ensure that the non-conformity is eliminated. The Commission shall request that the investment firm amends its submitted non-compliance remedy plan if the measures provided for therein do not ensure restoration of complete compliance or the time periods for the implementation thereof are not acceptable.

(5) If there are grounds to believe that an investment firm is not capable to restore the conformity of the the internal model approach with the conditions for the receipt of the permission of the use thereof within an acceptable time period and the investment firm has not provided reasonable evidence that the non-compliance does not have significant effect on the calculation of own funds, the Commission shall cancel the permission to use the internal model approach or shall permit the use thereof only in such areas in which complete compliance with the conditions for obtaining the permission is ensured or will be ensured within an acceptable time period.

(6) In performing the inspection referred to in Paragraph one of this Section, the Commission shall take into account the following of the European Banking Authority:

1) the performed analysis of the internal models of investment firms in general and of the use of internal models by investment firms for similar risks or exposures;

2) the developed guidelines.

**Section 54. Additional Own Funds Requirement**

(1) The Commission shall, on the basis of the inspection referred to in Section 43, Paragraphs two, three, four, five and Section 53 of this Law, request that an investment firm ensures the additional own funds requirement referred to in Section 45, Paragraph one, Clause 1 of this Law in the following cases:

1) the investment firm is exposed to risks or elements of risks, or poses risks to others which are material and that, in accordance with the provisions laid down in Paragraph two of this Section, are not covered or are not sufficiently covered by the capital requirement or the concentration risk requirement laid down in Regulation No 2019/2033;

2) the investment firm has failed to meet the requirements laid down in Section 31, Paragraph one, Clauses 3 and 14 of this Law and there are reasonable grounds to believe that the application of other supervisory measures will not be sufficient to ensure conformity with the abovementioned requirements within a time period which is recognised suitable by the Commission;

3) the value adjustments carried out by the investment firm to the items of the non-trading book should not be considered sufficient to enable the investment firm to sell these items within a short period of time or to limit the risks related to such items without material losses under circumstances of a functioning market;

4) the level of capital is inadequate, taking into account the inspection performed by the Commission in accordance with the provisions of Section 53 of this Law as the investment firm which has received the permission to use internal models for the calculation of the own funds requirements no longer conforms to the conditions for the receipt of such permission;

5) the investment firm is repeatedly unable to create or ensure sufficient Common Equity Tier 1 capital in order to cover the recommended capital buffer requirement notified to the investment firm in accordance with the provisions of Section 55, Paragraph three of this Law.

(2) Risks or elements of risks are not covered or are not sufficiently covered by the capital requirements or concentration risk requirements laid down in Regulation No 2019/2033 if the amount, elements, and structure of the capital that the Commission, taking into account the inspection of the assessment of the investment firm conducted in accordance with Section 31, Paragraph one, Clause 3 of this Law, deems adequate exceed the requirements laid down in Regulation No 2019/2033.

(3) The capital referred to in Paragraph two of this Section which the Commission deems adequate may include risks or elements of risks that are excluded from the capital requirements or concentration risk requirements laid down in Regulation No 2019/2033.

(4) The Commission shall determine the level of additional own funds requested in accordance with Section 45, Paragraph one, Clause 1 of this Law as the difference between the capital deemed adequate in accordance with the provisions laid down in Paragraph two of this Section and the capital requirements or concentration risk requirements laid down in Regulation No 2019/2033.

(5) An investment firm shall meet the additional own funds requirement required by the Commission in accordance with Section 45, Paragraph one, Clause 1 of this Law with own funds which meets the following requirements:

1) at least three quarters of the additional own funds requirement shall be conformed to with Tier 1 capital;

2) at least three quarters of the Tier 1 capital referred to in Clause 1 of this Paragraph consist of Common Tier 1 capital;

3) the own funds referred to in Clauses 1 and 2 of this Paragraph shall not be used to fulfil the own funds requirements laid down in Article 11(1)(a), (b), and (c) of Regulation No 2019/2033.

(6) The Commission shall notify the investment firm in writing of its decision taken to determine the additional own funds requirement in accordance with Section 45, Paragraph one, Clause 1 of this Law, justifying the latter based on the assessment conducted in accordance with the provisions laid down in this Section. In the case referred to in Paragraph one, Clause 5 of this Section, the Commission shall include in its justification a specific explanation as to the reasons for which the level of capital determined in accordance with Section 55, Paragraph one of this Law is no longer deemed adequate.

(7) The Commission may, on the basis of a case-by-case assessment and if it considers it to be justified, request a small investment firm to meet the additional own funds requirement in accordance with the provisions laid down in this Section.

**Section 55. Recommended Capital Buffer Requirement**

(1) For an investment firm which is not considered to be a small investment firm, the Commission may, taking into account the principle of proportionality and depending on the systemic significance, the nature, scope, and complexity of activities, request the investment firm to ensure a level of own funds which, on the basis of Section 31, Paragraph one, Clause 3 of this Law, is sufficiently above the capital requirements laid down in Regulation No 2019/2033 and the requirements of this Law, including the additional own funds capital requirement referred to in Section 45, Paragraph one, Clause 1 of this Law, in order to ensure that cyclical economic fluctuations do not lead to a violation of the abovementioned requirements or undermine the ability of the investment firm to restrict and terminate its activities.

(2) Where appropriate, the Commission shall verify the level of own funds established for an investment firm other than a small investment firm in accordance with Paragraph one of this Section and, if necessary, notify it of the conclusions made as a result of the abovementioned verification, including the adjustments to be made to the level of own funds and the deadline by which the abovementioned adjustments are to be made.

**Section 56. Special Liquidity Requirements**

(1) The Commission shall determine the special liquidity requirements referred to in Section 45, Paragraph one, Clause 11 of this Law only if, on the basis of the inspection referred to in Section 43, Paragraph two, and also Section 53 of this Law, it establishes that an investment firm which is not considered a small investment firm or an investment firm which is considered a small investment firm but is not exempt from the liquidity requirement in accordance with Article 43(1) of Regulation No 2019/2033:

1) is exposed to such liquidity risk or elements of liquidity risk which are material and, in conformity with the provisions of Paragraph two of this Section, are not covered or are not sufficiently covered by the liquidity requirement laid down in Regulation No 2019/2033;

2) has failed to comply with the requirements laid down in Section 31, Paragraph one, Clauses 3, 9, 14, and 15 and Paragraph four of this Law and there are reasonable grounds to believe that the application of other measures will not be sufficient to ensure fulfilment of the abovementioned requirements within a time period which is recognised suitable by the Commission.

(2) Liquidity risks or elements of liquidity risk are not covered or are not sufficiently covered in accordance with the liquidity requirement laid down in Regulation No 2019/2033 if the amounts and types of liquid assets that the Commission, taking into account the inspection performed thereby, deems adequate are above the liquidity requirement laid down in Regulation No 2019/2033.

(3) The Commission shall determine the level of the special liquidity requirement laid down in Section 45, Paragraph one, Clause 11 of this Law as the difference between the level of liquidity requirement deemed adequate in accordance with the provisions of Paragraph two of this Section and the level of liquidity requirement laid down in Regulation No 2019/2033.

(4) An investment firm shall meet the special liquidity requirement laid down in Section 45, Paragraph one, Clause 11 of this Law with the liquid assets specified in Article 43 of Regulation No 2019/2033.

(5) The Commission shall notify the investment firm in writing of its decision to determine the special liquidity requirements in accordance with Section 45, Paragraph one, Clause 11 of this Law, providing appropriate justification and assessment in accordance with the provisions of this Section.

**Section 57. Disclosure of Information by Investment Firms**

(1) An investment firm which is not considered a small investment firm or an investment firm which is considered a small investment firm which is subject to the application of the requirement laid down in Article 46(2) of Regulation No 2019/2033 shall publicly disclose the information referred to in Article 46 of Regulation No 2019/2033 more frequently than annually, disseminating the information within two months after the end of the relevant reporting period.

(2) The investment firms referred to in Paragraph one of this Section shall publicly disclose the information on their website or choose another appropriate information medium or place for making the information public.

(3) An investment firm which is the parent company shall publicly disclose annually, either in full or by reference, indicating where the information is available, information on the legal structure of the group of investment firms, and also the organisational structure of governance and operation thereof ensuring compliance with the requirements of Section 10, Paragraph two, Clause 9, Section 12, Paragraph two, Clauses 2, 3, and 6, and Section 31, Paragraph one, Clauses 9, 14, 15 of this Law.

(4) An investment firm the average value of the balance sheet and off-balance sheet asset items of which over the last four reporting years, excluding data of the annual statement, exceeds 100 million euros shall disclose the following information in accordance with Article 46 of Regulation No 2019/2033:

1) the proportion of voting rights held by the investment firm and attached to the stocks of a joint stock company held thereby directly or indirectly, broken down by Member State and sector;

2) a detailed description of the exercise of voting rights at meetings of stockholders of joint stock companies the stocks of which are held in accordance with the conditions of Paragraph six of this Section, an explanation of the voting and the proportion of the proposals submitted to the meeting of stockholders of the executive board and supervisory board (if such has been established) which have been approved by the investment firm;

3) the use of the services of authorised advisers;

4) the exercise of voting rights in companies the shares of which are held in accordance with the conditions of Paragraph six of this Section.

(5) The requirement for the disclosure of information referred to in Paragraph four, Clause 2 of this Section shall not apply if, in accordance with a contractual agreement with all stockholders represented by the investment firm at the meeting of stockholders, the investment firm is not entitled to vote on behalf of those stockholders unless those stockholders have instructed the investment firm to vote upon receipt of the agenda for the meeting of stockholders.

(6) The investment firm referred to in Paragraph four of this Section shall apply the requirements for the disclosure of information only to joint stock companies the stocks of which are admitted to trading on a regulated market and only in respect of stocks to which voting rights are attached if the proportion of the voting shares held directly or indirectly by the investment firm exceeds five per cent of the total stocks issued by the relevant company. The calculation of voting rights takes into account all issued voting stocks, including stocks the use of which has been suspended.

**Chapter X**

**Supervision of Investment Firm Groups**

**Section 58. Requirements for the Management System and Remuneration Policy at Group Level**

(1) If an investment firm is bound by the requirements laid down in Section 31, Paragraph one, Clause 14, Sections 36 and 37 of this Law, and also in the regulatory provisions of the Commission in respect of establishing a management system of the investment firm, the remuneration policy and practice, and concurrently the requirements of Article 8 of Regulation No 2019/2033 are applied to group supervision, the abovementioned requirements for the management system and remuneration policy shall be complied with on an individual level.

(2) If an investment firm is bound by the requirements laid down in Section 31, Paragraph one, Clause 14, Sections 36 and 37 of this Law, and also in the regulatory provisions of the Commission in respect of establishing a management system of the investment firm, the remuneration policy and practice and concurrently the prudential consolidation requirements of Article 7 of Regulation No 2019/2033 are applied, the abovementioned requirements for the management system and remuneration policy shall be complied with both on an individual level and on the level of consolidation group.

(3) The requirements laid down in Section 31, Paragraph one, Clause 14, Sections 36 and 37 of this Law, and also in the regulatory provisions of the Commission in respect of establishing a management system of the investment firm, the remuneration policy and practice shall not apply to the subsidiaries of an investment firm which perform their main activity abroad and which are included in the consolidation group in accordance with the requirements laid down in Article 4(1)(11) of Regulation No 2019/2033 if the investment firm can justify to the Commission that the legal acts of the foreign country where the relevant subsidiary performs its main activity does not provide for the application of the abovementioned requirements.

**Section 59. Determination of the Group Supervisory Authority**

(1) The Commission shall carry out supervision of parent investment firms of the European Union licensed in the Republic of Latvia with regard to compliance with the group capital test and shall perform consolidated supervision at the level of the parent investment firm.

(2) The Commission shall carry out supervision of investment firms with regard to compliance with the group capital test or consolidated supervision of an investment holding company or a mixed financial holding company on the level of consolidation group if:

1) the parent company of an investment firm licensed in the Republic of Latvia is a European Union parent investment holding company or a European Union parent mixed financial holding company;

2) the parent company of an investment firm licensed in the Republic of Latvia and registered in at least one other Member State is the same European Union parent investment holding company licensed in the Republic of Latvia or European Union parent mixed financial holding company licensed in the Republic of Latvia.

(3) The Commission shall perform supervision with regard to compliance with the group capital test or consolidated supervision if the investment firm licensed in the Republic of Latvia holds the largest total assets and:

1) the parent company of investment firms licensed in the Republic of Latvia and registered in at least one other Member State is an investment holding company or a mixed financial holding company licensed in the Republic of Latvia and registered in at least one other Member State, and the investment firm, i.e. subsidiary, is also registered in each such Member State;

2) the parent company of an investment firm licensed in the Republic of Latvia and of an investment firm registered in at least one other Member State is the same European Union investment holding company or European Union mixed financial holding company that is not licensed in the Republic of Latvia and registered in another Member State where another investment firm is registered.

(4) The Commission is entitled, in agreement with the supervisory authorities of the relevant Member States, not to apply the requirements of Paragraph two, Clause 2 and Paragraph three of this Section and to take the decision on the application of appropriate and effective supervisory measures with regard to compliance with the group capital test or consolidated supervision, taking into account the importance of the investment firms involved and their activities in the relevant Member States.

(5) Prior to taking the decision referred to in Paragraph four of this Section, the Commission shall inform a European Union parent investment holding company, a European Union parent mixed financial holding company, or an investment firm licensed in the Republic of Latvia holding the largest total assets and shall give the abovementioned holding companies or the investment firm the opportunity to express their view on the possible decision. The Commission shall inform the European Commission and the European Banking Authority of the decision referred to in Paragraph four of this Section.

(6) If the Commission identifies an emergency situation, including the situation referred to in Article 18 of Regulation No 1093/2010, and also unfavourable trends in the development of financial markets which could endanger the liquidity of the financial market and the stability of the financial system in any of the Member States in which group companies of investment firms are registered, it shall, in accordance with the provisions laid down in Section 41, Paragraphs six, seven, eight, and nine, Sections 83 and 84 of this Law, immediately warn the European Banking Authority, the European Systemic Risk Board, and relevant supervisory authorities of the emergency situation and communicate all the information relevant for the fulfilment of their tasks.

**Section 60. Colleges of Supervisors**

(1) If necessary, the Commission shall, in accordance with Section 59, Paragraph one of this Law, establish a college of supervisors and:

1) chair the meetings of the college of supervisors and take decisions, including informing all members of the college of supervisors of the organisation of the meetings of the college;

2) inform of the main issues to be discussed and the planned actions;

3) inform all members of the college of supervisors in writing of the decisions taken or actions taken at the meetings;

4) ensure that the decisions taken are consistent with the supervisory measures planned or coordinated by the supervisory authorities referred to in Paragraph four of this Section.

(2) The Commission shall ensure the following in accordance with Paragraph one of this Section:

1) compliance with the requirements of Section 59, Paragraph six of this Law;

2) coordination of requests for information required for taking of the consolidated supervision measures in accordance with Article 7 of Regulation No 2019/2033;

3) coordination of requests for information if the supervisory authorities of several investment firms within a single group have the necessity to request information from the supervisory authority of the home Member State of the clearing member or the supervisory authority of a qualifying central counterparty on the margin model and parameters used to calculate the margin requirements of the relevant investment firms;

4) exchange of information among all supervisory authorities of the college of supervisors, the European Banking Authority in accordance with Article 21 of Regulation No 1093/2010, and the European Securities and Markets Authority in accordance with Article 21 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC;

5) cooperation with the relevant foreign supervisory authorities, including for the application of the requirements of Article 23(1)(c) and (2) of Regulation No 2019/2033 and for the exchange of information on the margin model with the supervisory authorities of qualifying central counterparties and updating thereof;

6) delegation of supervision duties and increasing the efficiency thereof by avoiding duplication of the supervisory requirements.

(3) If necessary, the Commission shall also establish a college of supervisors if a subsidiary of a group of investment firms the parent company of which is a European Union investment firm, a European Union parent investment holding company, or a European Union parent mixed financial holding company is located abroad.

(4) The college of supervisors shall consist of the supervisory authorities responsible for the supervision of an investment firm the parent company of which is a European Union investment firm, a European Union parent investment holding company, or a European Union parent mixed financial holding company and, if necessary, foreign supervisory authorities if the legal acts of such foreign country, on the basis of the opinion of all the supervisory authorities forming the college of supervisors, provide for requirements equivalent to the requirements of Section 41, Paragraphs six, seven, eight, and nine, Section 83, Paragraph four of this Law.

(5) The Commission shall establish a college of supervisors by entering into a cooperation agreement with the involved supervisory authorities.

(6) The Commission is entitled to apply to the European Banking Authority for the resolution of disputes related to the activities of the college of supervisors in accordance with Article 19 of Regulation No 1093/2010.

**Section 61. Cooperation Requirements**

(1) The Commission shall, in cooperation with the supervisory authorities of other Member States, exchange with information necessary for carrying out supervision, including information on:

1) the legal and governance structure, including the organisational structure, of an investment firm group, indicating all licensed or registered (hereinafter – regulated) firms and unlicensed or unregistered (hereinafter – unregulated) firms in the group, unregulated subsidiaries and parent companies, and the supervisory authorities of the regulated firms within the investment firm group;

2) the procedures to be complied with upon receipt of information from investment firms which are part of an investment firm group and the procedures for the verification of such information;

3) negative development trends of the investment firm or other companies of the investment firm group which may have a significant impact on activities of the investment firm;

4) significant sanctions, administrative measures, and supervisory measures in emergency situations imposed by the Commission in accordance with this Law;

5) the decision to determine a higher level of the own funds requirement in accordance with Section 45, Paragraph one, Clause 1 of this Law.

(2) The Commission may, in accordance with Article 19(1) of Regulation No 1093/2010, apply to the European Banking Authority if the supervisory authorities of other Member States have not provided the information referred to in Paragraph one of this Section or, upon request of the Commission, have refused to cooperate, or have failed to act within a corresponding (reasonable) time period.

(3) Prior to taking of decisions important for the performance of the supervisory functions of other Member States, the Commission shall consult with the supervisory authorities of the relevant Member States on the following matters:

1) on such changes in the composition of stockholders or shareholders, organisational or administrative structure of investment firms being part of an investment firm group which require a permission from the supervisory authorities;

2) on significant sanctions, administrative measures, and supervisory measures which the Commission intends to impose on investment firms;

3) on the obligation to ensure a higher level of the own funds requirement in accordance with Section 45, Paragraph one, Clause 1 of this Law.

(4) The Commission shall consult the group supervisory authority before taking the decisions referred to in Paragraph three, Clause 2 of this Section in respect of investment firms licensed in the Republic of Latvia which are part of an investment firm group.

(5) In urgent cases or if the consultations referred to in Paragraph three of this Section might jeopardise the effectiveness of the decision-making, the Commission need not consult with the supervisory authorities, but shall immediately notify them of the decision not to consult them.

**Section 62. Verification of Information Provided on Companies Located in Other Member States**

(1) For the purpose of verifying the veracity of information received by the Commission during supervision of investment firms, investment holding companies, mixed financial holding companies, financial institutions, ancillary service undertakings (undertakings the main activity of which is the acquisition or management of immovable property, the management of data processing services, or similar activities which are ancillary to the main activity of one or more investment firms), mixed holding companies or subsidiaries located in another Member State, including subsidiaries which are insurance companies, the Commission is entitled to send a request to the supervisory authority of the relevant Member State to carry out internal control at the relevant entity.

(2) If the supervisory authority of the relevant Member State has granted permission, the Commission shall itself carry out the control referred to in Paragraph one of this Section or shall participate in the abovementioned control if it is carried out by the supervisory authority of the relevant Member State or by another person authorised thereby.

(3) If the Commission has received a request from the supervisory authority of another Member State to verify the veracity of the information provided on the entities licensed in the Republic of Latvia and referred to in Paragraph one of this Section, it is entitled to carry out internal control or to authorise the supervisory authority of the relevant Member State or a certified auditor to carry out the abovementioned control and to inform, without delay, the supervisory authority of the relevant other Member State of the results of the abovementioned control. If the supervisory authority of the relevant Member State does not carry out the control, it is entitled to participate in the control carried out by the Commission.

**Chapter XI**

**Supervision of an Investment Holding Company, a Mixed Financial Holding Company, and a Mixed Holding Company**

**Section 63. Investment Holding Companies and Mixed Financial Holding Companies**

(1) Supervision of compliance with the group capital test shall be performed for an investment holding company and a mixed financial holding company.

(2) The members of the executive board and supervisory board (if such has been established) of an investment holding company or a mixed financial holding company shall have an impeccable reputation, sufficient knowledge, skills, and experience in order to carry out their duties effectively, taking into account the specific nature of the main activity of the relevant holding company.

**Section 64. Mixed Holding Companies**

(1) If the parent company of an investment firm is a mixed holding company, the Commission is entitled to request the holding company to provide information which is relevant for the supervision of the abovementioned investment firm.

(2) An investment firm the parent company of which is a mixed holding company has the obligation to provide information to the Commission on its transactions with the parent company and other subsidiaries thereof. The investment firm shall establish a system for risk management and internal control, and also develop reporting and accounting procedures in order to determine, assess, and control transactions with the parent company thereof which is a mixed holding company and with other subsidiaries thereof.

(3) The Commission has the right to inspect a mixed holding company or to instruct a person authorised thereby to carry out an inspection in order to verify the information received from the mixed holding company and its subsidiaries.

**Section 65. Assessment of Supervision Performed by a Foreign Country**

(1) If two or more investment firms registered in the Republic of Latvia and in another Member State which are subsidiaries of the same foreign parent company are not effectively supervised at group level, the Commission shall assess whether the investment firms are subject to the consolidated supervision requirements equivalent to the requirements laid down in this Law and Regulation No 2019/2033.

(2) If it is established in the assessment referred to in Paragraph one of this Section that the consolidated supervision by the foreign supervisory authority does not meet the consolidated supervision requirements laid down in this Law and Regulation No 2019/2033 and the Commission would be the group supervisory authority if the relevant parent company would be registered in the European Union, it shall, after consulting with other supervisory authorities involved, perform the consolidated supervision of such investment firms in accordance with the requirements laid down in this Law and Regulation No 2019/2033. The Commission shall inform other supervisory authorities involved, the European Banking Authority, and the European Commission of any measure taken in accordance with the provisions of this Paragraph.

(3) If the Commission is the group supervisory authority, it is entitled to request that a foreign investment firm establishes an investment holding company or a mixed financial holding company that would conduct commercial activity in the European Union so that the abovementioned investment holding company or mixed financial holding company would be subject to the application of the requirements laid down Article 7 or 8 of Regulation No 2019/2033.

**Section 66. Additional Requirements for Holding Companies**

(1) A parent financial holding company in a Member State, a parent mixed financial holding company in a Member State, a European Union parent financial holding company, and a European Union parent mixed financial holding company, a financial holding company and a mixed financial holding company (hereinafter in this Section – the holding company) the consolidated supervision of which is performed by the Commission shall submit an application and the following information to the Commission as the consolidated supervisor:

1) information on the organisational structure of such group to which the financial holding belongs, indicating the location and type of activity of the subsidiary and parent undertaking of the group and each company belonging to the group;

2) information on at least two members of the executive board of the holding company and the conformity of the abovementioned persons with the requirements of Section 8 of this Law;

3) information on the conformity of stockholders or shareholders of the holding company who have a qualifying holding in the holding company with the requirements of Section 7 and Section 27, Paragraph one of this Law;

4) information on the creation of an internal control system – at least on the division of the responsibilities, functions, and competence in relation to decision-making in the group, the prevention of conflicts of interest in the group, and the application of internal procedures and policies in the group management.

(2) The Commission as the consolidating supervisor shall permit the holding company to be a parent undertaking of an investment firm if:

1) the internal control system in the group conforms to the purpose of ensuring compliance with the requirements laid down in this Law and Regulation No 575/2013 on a consolidated or sub-consolidated basis;

2) the organisational structure of such group to which the holding company belongs does not limit the possibilities of the Commission as the consolidating supervisor to effectively supervise subsidiaries and parent companies in relation to individual, consolidated, or sub-consolidated liabilities;

3) the conformity of the members of the executive board of the holding company with the requirements of Section 8 of this Law and the conformity of stockholders or shareholders who have qualifying holding in the holding company with the requirements of Section 7 and Section 27, Paragraph one of this Law is ensured.

(3) The holding company shall not need the permit referred to in Paragraph two of this Section, if all of the following conditions are met:

1) the principal activity of the holding company is to acquire holdings in subsidiaries;

2) the holding company is not a resolution entity within the meaning of the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms;

3) a credit institution which is a subsidiary is entitled to ensure the conformity of the group with prudential requirements on a consolidated basis and it has all the necessary resources to ensure it;

4) the holding company does not participate in taking such management, operational, or financial decisions which affect the group or its subsidiary which is a credit institution, investment firm, or financial institution;

5) there are no impediments to the effective supervision of the group on a consolidated basis.

(4) The Commission as the consolidating supervisor may request additional information which is necessary for the assessment of the conformity referred to in Paragraphs two and three of this Section.

(5) The Commission as the consolidating supervisor shall take the decision on granting the permit referred to in Paragraph two of this Section or on the application of the exception referred to in Paragraph three within four months from the day when complete information has been received, but not later than within six months from the day when the application and complete information were submitted.

(6) If a holding company is registered in another Member State, the Commission as the consolidating supervisor shall, prior to taking of the decision, cooperate with the supervisory authority of the Member State and provide its assessment thereto on the conformity of the holding company with the conditions of Paragraph two or three of this Section. Within two months from the day of preparation of the evaluation, the Commission as the consolidating supervisor shall, having joint discussions and coordinating opinions with the supervisory authority of the Member State and the coordinator within the meaning of the Financial Conglomerates Law, take the decision to grant the permit or on the application of an exception in accordance with Paragraph three of this Section. In the absence of such decision, the Commission, as the consolidating supervisor, has the right to refer the matter to the European Supervisory Authority for the resolution of disputes in accordance with Regulation No 1093/2010.

**Chapter XII**

**Liability**

**Section 67. Types of Sanctions**

The Commission may impose the following sanctions:

1) a warning;

2) public notice;

3) a fine;

4) cancellation of a licence or a permit.

**Section 68. Warning**

A warning is a written condemnation of an offence committed by the natural or legal person responsible for the violation.

**Section 69. Public Notice**

(1) A public notice is a notice which indicates the natural or legal person responsible for the violation and the essence of the violation.

(2) The Commission shall post the public notice on its website, indicating information on the natural or legal person responsible for the violation and the violation committed thereby.

(3) A public notice may be imposed in addition to the sanctions referred to in Section 67, Clauses 1, 3, and 4 of this Law.

(4) A public notice shall be available on the website of the Commission for a period of five years from the date of the posting thereof.

**Section 70. Fine**

The Commission is entitled to impose a fine:

1) for a legal person, up to 10 per cent of the total annual turnover of the legal person on the basis of the approved annual statement for the previous financial year. If the legal person is a subsidiary which prepares a consolidated annual statement in accordance with the requirements of the laws and regulations applicable to the preparation of its annual statements and consolidated annual statements, the total annual turnover shall consist of the total annual turnover of the previous financial year or the corresponding type of income on the basis of the approved consolidated statement of the ultimate parent company for the previous financial year;

2) for a legal person, up to double the amount of the income generated a result of the violation or of the prevented possible losses;

3) up to five million euros for the natural person responsible for the violation, including an official, an employee of the investment firm or a natural person who, at the time of committing the violation, is responsible for taking certain actions.

**Section 71. Cancellation of a Licence or a Permit**

The Commission is entitled to cancel a licence or a permit due to a serious violation referred to in Section 73 of this Law.

**Section 72. Types of Administrative Measures**

(1) The Commission may impose the following administrative measures:

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

2) to impose a temporary prohibition on a member of the executive board or supervisory board or another natural person responsible for the violation from performing the duties assigned thereto until the day when the final ruling enters into effect, but not longer than two years.

(2) The Commission may impose one or both administrative measures separately or in addition to the sanctions.

**Section 73. Violations in the Field of Activities of Investment Firms**

(1) The Commission is entitled to impose the sanctions or administrative measures specified in this Law in the following cases:

1) failure to comply with the requirements for publishing information or failure to provide information, inadequate provision of information, or provision of false information to the Commission;

2) failure to comply with the prudential requirements;

3) violations of the internal control system;

4) failure to comply with the requirements imposed on stockholders or shareholders, or members of the executive board and supervisory board (if such has been established);

5) failure to comply with the qualifying holding requirements.

(2) For non-compliance with the accounting requirements, the Commission is entitled to impose a fine of up to EUR 14 200 on a natural or legal person responsible for the violation.

(3) The Commission is entitled to impose sanctions or administrative measures specified in this Law on investment holding companies, mixed financial holding companies, mixed-activity holding companies for violations identified during the supervision process and for violations in relation to the use of the internal models approach.

**Section 74. Imposing of Sanctions and Administrative Measures**

When taking the decision on the imposition of sanctions and administrative measures on natural or legal persons responsible for the violation of the laws and regulations governing the financial and capital market and on the amount of the fine, the Commission shall take into account the severity of the violation, the duration of the violation, the degree of liability of the person, the income gained by the person as a result of the violation, the losses caused as a result of the violation, collaboration of the person in inspection of the violation, experience of the person in the financial and capital market, the financial status of the person and previous violations of the person in the financial and capital market, and also the measures taken by the person to prevent the recurrence of the violation and to mitigate the possible systemic consequences of the violation and the extent of the damage caused to third parties thereby, and also assess the proportionality, effectiveness, and deterrent nature of the applicable sanctions and administrative measures.

**Section 75. Statute of Limitation**

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

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

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

(4) The Commission shall terminate the proceedings if the decision on the imposition of sanctions and administrative measures specified in this Law has not been taken within the time period specified in Paragraph three of this Section.

**Section 76. Informing of the Sanctions and Administrative Measures Imposed**

(1) The Commission shall post information on its website on the sanctions and administrative measures imposed on natural or legal persons responsible for the violation after notification thereof to the addressee, indicating information on the person and the violation committed thereby, and also on contesting of the administrative act issued by the Commission and the ruling rendered.

(2) The Commission shall post the information referred to in Paragraph one of this Section on the website, without identifying the person if it has been ascertained that disclosure of data of such natural person to whom a sanction or administrative measure has been applied is not commensurate or that disclosure of data of the natural or legal person may pose a threat to the stability of the financial market or the course of initiated criminal proceedings, or cause incommensurate damage to the persons involved.

(3) The information posted on the website of the Commission shall be available for five years from the day of its posting.

**Section 77. Appeal Against an Administrative Act Issued by the Commission**

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

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

**Section 78. Obligation of the Commission to Provide Information to the European Commission, the European Securities and Markets Authority, and the European Banking Authority**

(1) The Commission shall inform the European Banking Authority of the sanctions, administrative measures, and actions implemented, and also of the appeals against the administrative act issued by the Commission and the ruling rendered.

(2) The Commission shall inform the European Commission and the European Securities and Markets Authority of the actions taken thereby in accordance with Section 48, Paragraph two of this Law.

**Chapter XIII**

**Insolvency and Liquidation of an Investment Firm, Special Provisions for the Renewal of Activities and Resolution Thereof**

**Section 79. Handling Funds of Clients**

(1) The liquidator or administrator of insolvency proceedings of an investment firm (hereinafter – the administrator) shall, within five days after a court ruling on liquidation has been rendered or the investment firm has been declared insolvent, invite the clients of the investment firm to receive the funds held by the investment firm and determine the procedures for the receipt thereof. The liquidator or administrator of the investment firm shall send a written invitation to each client, and also publish a notification in the mass media and the official gazette *Latvijas Vēstnesis*.

(2) The time period for receipt of the funds referred to in Paragraph one of this Section shall be three months. The running of the time period shall begin on the day of publication of the notice in the official gazette *Latvijas Vēstnesis*.

(3) Funds that are not withdrawn by the clients of an investment firm within the time period specified in Paragraph two of this Section shall be deposited by the liquidator or administrator of the investment firm with a credit institution licensed in the Republic of Latvia and selected at his or her own discretion by concluding a written agreement. The liquidator or administrator of the investment firm shall publish a written notification on depositing funds with a credit institution in the mass media and in the official gazette *Latvijas Vēstnesis*.

(4) Fee for the custody of the funds of clients of an investment firm deposited with a credit institution shall be deducted in accordance with the price list of the credit institution from the amount of funds due to the clients.

(5) If a client of an investment firm has not withdrawn his or her funds within 10 years from the moment the funds were deposited with a credit institution, the client shall lose the right to claim them. The funds due to the clients of the investment firm and with regard to claims of which a prescription period has set in shall be transferred to the State as vacant property. Upon expiry of the limitation period, the credit institution shall, without delay, provide information on the ownerless case to the State Revenue Service.

(6) Upon conclusion of a written custody agreement with a credit institution, the liquidator or administrator of an investment firm shall submit information to the Commission on the credit institution with which the funds have been deposited and a list of the remaining clients of the investment firm, indicating identification data of each client and amount of money due to each of the clients.

(7) After complete expiration of liabilities of the liquidator or administrator of an investment firm towards clients of the investment firm, the liquidator or administrator shall submit information to the Commission on the fact of expiration of liabilities.

**Section 80. Handling Financial Instruments of Clients**

(1) The liquidator or administrator of an investment firm shall, within five days after a court ruling on liquidation has been rendered or the investment firm has been declared insolvent, invite the clients of the investment firm to receive the financial instruments held by the investment firm and determine the procedures for the receipt thereof. The liquidator or administrator of the investment firm shall send a written invitation to each client, and also publish a notification in the mass media and the official gazette *Latvijas Vēstnesis*.

(2) The time period for the receipt of the financial instruments referred to in Paragraph one of this Section shall be three months. The running of the time period shall begin on the day of publication of the notice in the official gazette *Latvijas Vēstnesis*.

(3) Upon expiry of the time period specified in Paragraph two of this Section, the financial instruments belonging to the clients of the investment firm shall be disposed in a public auction. The liquidator or administrator of the investment firm shall organise the auction and draw up its regulations.

(4) The procedures laid down in Section 79, Paragraphs three, four, five, six, and seven of this Law for the disposal of client funds shall be applied after disposal of financial instruments in an auction.

**Section 81. Legal Framework for the Recovery of Activities and Resolution, Insolvency Proceedings, and Liquidation of Investment Firms**

(1) The provisions of this Law for the recovery of activities and resolution of an investment firm shall be applicable insofar as the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms does not provide otherwise.

(2) The Commission is entitled to appoint an authorised person for an investment firm in the cases laid down in the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms. The provisions of Chapter VII of the Credit Institution Law shall be applied to the appointment of the authorised person and activities thereof.

(3) The norms of the Commercial Law and the Insolvency Law governing insolvency proceedings and liquidation shall be applied to an investment firm insofar as they are not in contradiction with the norms of this Law and the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms.

(4) An insolvency application of the investment firm shall be submitted only with the consent of the Commission.

(5) A court may initiate an insolvency case against the investment firm in respect of which the Commission has taken the decision on further actions in accordance with the procedures laid down in the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms only on the basis of the application of the Commission.

(6) In initiating an insolvency case against an investment firm, a court shall inform the Commission thereof without delay regardless of whether the resolution is applied to the investment firm or the decision is published in accordance with the procedures laid down in the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms.

(7) In fulfilling the information obligation specified in Paragraph seven of this Section, a court may examine an insolvency application if the Commission has notified the court that it does not plan to take resolution activities in respect of the investment firm, or the Commission has not provided any reply to the court within seven days.

(8) If the Commission has, upon receipt of the information specified in Paragraph six of this Section, notified a court that the investment firm conforms to the resolution provisions and that it plans to take resolution activities in respect of the investment firm, the court shall give a ruling to reject the insolvency application.

**Section 82. Special Procedures for Covering the Creditors’ Claims**

(1) The funds remaining after covering the expenses of insolvency proceedings or liquidation of the investment firm shall be distributed for the satisfaction of the principal sums (without interest) of the creditors’ claims according to the following procedures:

1) disbursements to investors to whom compensation is to be disbursed in accordance with the Investor Protection Law. Disbursements shall be determined in the amount of compensation provided for in the Investor Protection Law. If the investor has received the compensation, he or she shall lose the right of claim as regards the amount received, and the relevant claim shall be treated as claims of this group. The calculation submitted by the Commission of the costs incurred by the liquidator or administrator in the amount of the compensations disbursed to investors shall be deemed to be a creditor’s claim to be settled in priority to other claims of non-secured creditors at the time when the liquidator or administrator has taken all the actions required by laws and regulations to ascertain the validity of the claim;

2) after the disbursements referred to in Paragraph one, Clause 1 of this Section are covered in full amount – disbursements to natural persons and micro-enterprises, small and medium-sized enterprises (within the meaning of the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms) above the amount disbursed in the compensation, except for disbursements for such investments which have been made using a branch of an investment firm located outside the European Union.

(2) If the funds of the debtor are not sufficient to completely settle all the creditors’ claims referred to in Paragraph one, Clause 2 of this Section, the liquidator has the obligation to take the decision on the commencement of insolvency proceedings and submit an application for insolvency proceedings to a court, requesting the court to declare insolvency of the investment firm and to take the decision on the commencement of insolvency proceedings on behalf of the investment firm.

(3) After the disbursements referred to in Paragraph one of this Section are covered and creditors' claims, other claims of non-secured creditors shall be covered in accordance with the procedures for covering of creditors' claims laid down in the Insolvency Law.

(4) Claims arising from a debt security the initial maturity of which, according to the contract or the prospectus, is at least one year, which is not considered a derivative financial instrument, which does not contain a derivative financial instrument, and in relation to which a lower quality has been specified in the contract or the prospectus than for those claims of the creditors which are similar to those specified in Paragraph one of this Section shall be settled after settlement of the claims specified in Paragraph three of this Section. A security debt with a variable interest rate to be determined on the basis of a base interest rate generally recognised in the financial market and a security debt which is not expressed in the national currency of the issuer, provided that the principal sum, sum to be repaid, and the interest rate are expressed in the same currency, shall not be considered such debt security in which a derived financial instrument is included only due to the indications referred to in this sentence.

(5) Creditors’ claims not arising from Tier 2 capital instruments for funds which have been loaned by creditors to an investment firm for a specific period of time under the condition that they may be requested early only in case of liquidation of the investment firm shall be covered after covering of the claims specified in Paragraphs three and four of this Section.

(6) Claims arising from liabilities which an investment firm that is subject to the application of the conditions laid down in Section 61 of the Law on Recovery of Activities and Resolution of Credit Institutions and Investment Firms has issued to a resolution entity and which a resolution entity has purchased directly or indirectly with the intermediation of other entities of the same resolution group or which the investment firm has issued to the current shareholder which is not included in the same resolution group, and which the shareholder has purchased, shall be covered after covering the claims specified in Paragraph five of this Section.

**Chapter XIV**

**Disclosure and Exchange of Information**

**Section 83. Restricted Access Information**

(1) Information on an investment form and its client, activities of the investment firm and its client which has not been previously published in accordance with the procedures laid down in the law or the disclosure of which has not been governed by other laws, or a decision on disclosure of which has not been taken by the Commission, and also the information received in accordance with this Section from Member States, foreign countries, and persons, structures, and institutions of such countries shall be deemed to be restricted access information and shall not be disclosed to third parties other than in the form of an overview or summary so that it would be impossible to identify a specific investment firm or its client. Such information shall also have the status of restricted access information also if insolvency proceedings or liquidation have been initiated for the investment firm or it has been liquidated.

(2) The Commission is entitled to use restricted access information collected and provided in conformity with the requirements of this Law and Regulation No 2019/2033 or received from the supervisory authority of a Member State or a foreign country for the performance of its functions, in particular for the following purposes:

1) in order to verify information provided by investment firms for the purpose of obtaining the licence;

2) to supervise compliance with the requirements of this Law and Regulation No 2019/2033;

3) to impose sanctions and administrative measures for the violations of this Law and Regulation No 2019/2033;

4) in cases of contesting the decisions of the Commission;

5) during the court proceedings wherein the administrative acts issued by the Commission or its actual actions are appealed;

6) to exercise supervision over the activities, administrative and accounting procedures, and internal control mechanisms of the investment firm.

(3) The information referred to in Paragraph one of this Section may be disclosed to third parties for whom it is necessary for the performance of their functions as specified in the law only with a prior written consent of the Commission or the supervisory authority of the relevant Member State or a foreign country and only for the purposes for which the Commission or the relevant supervisory authority has agreed to disclose such information.

(4) The provisions of this Section do not prohibit the Commission from providing restricted access information to the European Commission, and also the European Securities and Markets Authority, the European Systematic Risk Board, the European Banking Authority, central banks of Member States, the European Central Bank in the status of monetary institutions and other authorities responsible for the supervision of payments, clearing and settlement systems if such information is necessary for them for the performance of their functions specified in the law.

**Section 84. Exchange of Restricted Access Information with Foreign Supervisory Authorities**

(1) The Commission is entitled to enter into contracts on the exchange of information for the performance of the supervisory functions specified in this Law with foreign supervisory authorities, institutions, or other legal persons which:

1) perform the supervision of financial markets and financial institutions, including the supervision of financial institutions licensed to operate as central counterparties if central counterparties are recognised in accordance with Article 25 of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories;

2) are responsible for the liquidation and other similar procedures of investment firms;

3) are responsible for the supervision of such authorities which are involved in the liquidation and other similar procedures of investment firms;

4) are responsible for the performance of audits of financial institutions or institutions which manage compensation schemes;

5) are responsible for the supervision of the persons who carry out the audit of financial institutions;

6) are responsible for the supervision of such persons which are operating on emission allowances markets;

7) are responsible for the supervision of such persons which are operating on the markets of agricultural commodity derivatives.

(2) The Commission is entitled to enter into agreements on the exchange of information with the authorities and institutions referred to in Paragraph one of this Section if the legal acts of the relevant foreign country provide for such liability for unauthorised disclosure of restricted access information which is equivalent to the liability specified in the laws and regulations of the Republic of Latvia and the requirements applicable in the Republic of Latvia in the field of personal data protection have been complied with. Such information shall only be used to supervise the participants of the financial and capital market or the functions specified in the law for the relevant authorities. The relevant foreign institutions are entitled to disclose the received information only with a written consent of the Commission and only for the purposes for which such consent was given.

**Section 85. Publication Requirements**

(1) The Commission shall make all of the following information publicly available on its website at one specific access address:

1) an indication of where the laws and regulations in the field of prudential supervision of investment firms can be found;

2) the manner in which the options and discretions provided for in the legal acts of the European Union in the field of prudential supervision of investment firms have been exercised in the process of implementation and enforcement;

3) the general criteria and methodology used by the Commission for the inspection supervision and assessment referred to in Section 43 of this Law;

4) aggregated statistical data on the main aspects of the application of the requirements laid down in the laws and regulations in the field of prudential supervision of investment firms.

(2) The format, structure, content, and deadlines for the annual publication of the information referred to in Paragraph one of this Section shall be determined by the directly applicable legal acts of the European Union.

**Transitional Provisions**

1. A third-country group which includes more than one credit institution or investment firm of a Member State and the total asset value of which in the European Union was at least 40 billion euros on 27 June 2019, and which continues its activities on the day of coming into force of this Law shall, in accordance with the requirements of the Section 21 of this Law, establish a parent company in the European Union by 30 December 2023.

2. The holding company referred to in Section 66 of this Law which carried out activities on 27 June 2019 and continues activities on the day of coming into force of this Law shall receive a permit in accordance with the procedures laid down in the abovementioned Section within six months from the day of coming into force of this Law.

3. The regulatory provisions issued by the Financial and Capital Market Commission on the basis of the Financial Instruments Market Law until the date of coming into force of the Law on Investment Firms which apply to investment firms shall apply until the date of coming into force of the relevant regulatory provisions of the Financial and Capital Market Commission issued on the basis of this Law, but not longer than until 30 June 2022.

**Informative Reference to Directives of the European Union**

The Law contains legal norms arising from:

1) Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU;

2) Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy;

3) Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures;

4) Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU.

The Law has been adopted by the *Saeima* on 28 April 2022.

President E. Levits

Adopted 17 May 2022