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

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

24 May 2007 [shall come into force on 26 June 2007];

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

14 September 2017 [shall come into force on 13 October 2017].

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

The *Saeima*1 has adopted and

the President has proclaimed the following law:

**Investor Protection Law**

**Chapter I**

**General Provisions**

**Section 1.** The following terms are used in this Law:

1) [20 November 2003];

2) [20 November 2003];

3) **investor** – a person who transfers money or financial instruments to a participant to the system for the provision of an investment service;

4) **investment** – money or financial instruments which are transferred by investors to a participant to the system for the provision of an investment service;

5) **system of investor protection** (hereinafter – the system) – an aggregate of measures for the protection of the interests of investors, for ensuring the financial resources necessary for such protection, and for the disbursement of compensations in accordance with this Law;

6) **participant to the system** – a legal person which, in accordance with the laid down procedures, has obtained a special permit (licence) of the Financial and Capital Market Commission for the provision of investment services;

7) **irreversible loss of financial instruments** – a fact detected by the Financial and Capital Market Commission that the data which confirm the ownership rights of an investor to financial instruments and which are found in the computer system or in accounting of another type of the participant to the system have been irreversibly destroyed or damaged due to any activity, failure to act, or criminal offence and the participant to the system refuses to restore such data according to the documents presented by the investor;

8) **pending investment service** – an investment service which has been accepted by a participant to the system for execution, but has not been fully or partially performed thereby and an investor, as a result thereof, has suffered losses or financial instruments have been irreversibly lost;

9) **compensation** – the amount of money to be disbursed to an investor in accordance with the procedures and in the amount laid down in this Law, if a participant to the system is not able to fulfil its liabilities against the investor to full extent and within the laid down time periods;

10) **financial instrument portfolio of a participant to the system** – the total amount of financial instruments which is owned by investors of a participant to the system who have the right to compensation in accordance with the procedures and in the amount laid down in this Law and which has been calculated in accordance with this Law;

11) **joint financial instrument portfolio of participants to the system** – the total amount of portfolios of financial instruments of participants to the system;

12) **foreign company** – an investment service provider which is registered in a foreign country other than a country of the European Union or the European Economic Area and which, in accordance with the procedures laid down in the law, has commenced the provision of investment services in the territory of Latvia.

[*20 November 2003 /* *Paragraph 12 shall come into force on 1 May 2004.* *See Transitional Provisions*]

**Section 2.** (1) The purpose of this Law is to establish a system for the protection of the interests of investors.

(2) This Law prescribes the general principles of the system, the procedures for ensuring the financial resources necessary for its operation and for the disbursement of compensations.

(3) An investor has the right to receive a compensation if a participant to the system is not able to fulfil its liabilities against the investor to full extent and within the laid down time periods.

(4) This Law shall not apply to:

1) the investment service providers which have been recognised as to be liquidated, insolvent, or bankrupted until the day of coming into force of this Law;

2) the cases when financial instruments have been irreversibly lost before the day of coming into force of this Law;

3) the cases when investors have suffered losses due to fluctuations in prices of financial instruments or financial instruments have become illiquid.

(5) If a participant to the system terminates its activity, the investment services provided thereby are guaranteed in accordance with the procedures and in the amount laid down in this Law until complete fulfilment of liabilities.

(6) Latvian branches of investment service providers in foreign countries shall join the foreign system of investor protection, if it is determined by foreign legal acts. If the branch joins the foreign system of investor protection, it does not become a participant to the system.

(7) Latvian branches of investment service providers which, in accordance with the procedures laid down in the law, have commenced the provision of investment services in any of the countries of the European Union or the European Economic Area (if such system of investor protection is operating in the relevant country the amount of compensation laid down within the scope of which exceeds the amount laid down in this Law) are entitled to join the system of investor protection of the relevant Member State voluntarily. An investment service provider registered in Latvia which has voluntarily joined the system of investor protection of a country of the European Union or the European Economic Area shall also retain the status of a participant to the system laid down in this Law.

[*20 November 2003 /* *Paragraph seven shall come into force on 1 May 2004.* *See Transitional Provisions*]

**Section 3.** (1) Compensation per investor is calculated for:

1) irreversibly lost financial instruments;

2) losses caused by a pending investment service.

(2) Regardless of the day when a participant to the system has accepted an investment service for execution, compensation per investor shall be as follows:

1) from 1 January 2002 to 31 December 2003 – in the amount of 90 per cent from the value of irreversibly lost financial instruments or from losses caused by a pending investment service, but not more than LVL 3000;

2) from 1 January 2004 to 31 December 2005 – in the amount of 90 per cent from the value of irreversibly lost financial instruments or from losses caused by a pending investment service, but not more than LVL 6000;

3) from 1 January 2006 to 31 December 2007 – in the amount of 90 per cent from the value of irreversibly lost financial instruments or from losses caused by a pending investment service, but not more than EUR 15 000 which have been recalculated into lats in accordance with the currency rate determined by Latvijas Banka on the day when the decision on justification of the application for the compensation has been taken;

4) from 1 January 2008 – in the amount of 90 per cent from the value of irreversibly lost financial instruments or from losses caused by a pending investment service, but not more than EUR 20 000.

(3) Compensation shall be disbursed in EUR.

[*20 November 2003; 24 May 2007; 19 September 2013*]

**Section 4.** The Financial and Capital Market Commission shall ensure disbursement of compensations and carry out the following functions:

1) organise and supervise making of payments by participants to the system for disbursements of compensations;

2) verify the justification of applications for the compensation;

3) organise disbursement of compensations;

4) decide on loans to be able to carry out disbursement of compensations.

[*20 November 2003*]

**Chapter II**

**Disbursement of Compensations**

**Section 5.** (1) Compensation is disbursed only to such investors which have submitted an application for the following to the Financial and Capital Market Commission:

1) irreversible loss of financial instruments;

2) losses caused by a pending investment service.

(2) An application for the receipt of compensation should be submitted within a year since an investor has become aware that a participant to the system has not fulfilled its liabilities, but not later than five years from the day of non-fulfilment of the liabilities.

(3) The Financial and Capital Market Commission shall:

1) determine the procedures by which applications for the disbursement of compensation are accepted and the procedures by which the amount of compensation should be determined;

2) within 30 days, assess the application for the compensation received and decide on the justification of the disbursement of compensation or on refusal to disburse compensation;

3) aggregate the information on investors the applications for the receipt of compensation of which have been recognised as justified and notify the participants to the system of payments to be made by them.

[*20 November 2003*]

**Section 6.** (1) Compensation shall be disbursed within three months from the day when the decision to recognise the application for the compensation as justified has been taken.

(2) In exceptional cases and under special circumstances the Financial and Capital Market Commission may extend the time period referred to in Paragraph one of this Section for three months.

[*20 November 2003*]

**Section 7.** Compensation shall not be disbursed to:

1) a person for transactions due to which a judgment of conviction for money laundering has been rendered;

2) participants to the system, insurance companies, investment companies, or other investors which have made known that they are professional investors;

3) persons who are in one group of companies with the participant to the system;

4) pension funds;

5) the State and local governments;

6) members of the board of directors and of the council of the system, the head of the audit committee and members of such committee, the head of the internal audit service and members of such service, other employees of the participant to the system who are authorised to plan, manage, and control the operation of the participant to the system and who are responsible for it, and also persons who have directly or indirectly acquired more than five per cent of the capital of the participant to the system;

7) persons who are responsible for the audit of the accounting records of participants to the system laid down in the law;

8) persons who are first-level relatives or spouses of the persons referred to in Clauses 6 and 7 of this Section;

9) persons who operate on behalf of the persons referred to in Clause 7 of this Section;

10) persons in respect of whom the Financial and Capital Market Commission has detected that, on the basis of special provisions of a contract entered into individually, they have received high interest rates or financial concessions or have caused, or have used circumstances for their benefit which have caused financial difficulties for a participant to the system or have promoted deterioration of the financial state thereof.

[*20 November 2003*]

**Section 8.** (1) The amount of compensation shall be determined:

1) in case of irreversible loss of financial instruments – according to the market price of financial instruments belonging to the investor on the day when an application regarding irreversible loss of financial instruments was submitted to the Financial and Capital Market Commission. If it is not possible to determine the market price on the day when the application was submitted, the last available market price of financial instruments existing before the day of the submitting the application shall be used;

2) in case of a pending investment service – according to the losses caused to the investor by the pending investment service.

(2) The value of irreversibly lost financial instruments or the losses caused by a pending investment service shall be recalculated from foreign currency according to the exchange rate of the relevant foreign currency to be used in accounting on the day when the decision on justification of the application for the compensation was taken.

[*20 November 2003; 19 September 2013*]

**Section 9.** The Financial and Capital Market Commission shall publish information on the procedures and time periods for the disbursement of compensation in the official gazette *Latvijas Vēstnesis* and at least one daily newspaper.

[*20 November 2003*]

**Section 10.** Supervision of the disbursement of compensation shall be performed by the Advisory Financial and Capital Market Council of the Financial and Capital Market Commission.

[*20 November 2003*]

**Chapter III**

**Ensuring of Financial Resources Necessary for the Operation of the System**

[*20 November 2003*]

**Section 11.** (1) Participants to the system shall submit a quarterly report to the Financial and Capital Market Commission on their financial instrument portfolio.

(2) The financial instrument portfolio of a participant to the system shall be calculated by adding up those investments which are located at the participant to the system or which are managed by the participant to the system and which in relevant time period:

1) do not exceed the maximum amounts of compensation referred to in Section 3, Paragraph two of this Law and are compensated in the amount of 90 per cent from the investment;

2) exceed the maximum amounts of compensation referred to in Section 3, Paragraph two of this Law and are compensated in the amount of 90 per cent from the investment within the scope of this maximum by counting only the part of the investment which is being compensated.

(3) The procedures and time periods for the drawing up and submission of a report, and also the procedures for the calculation of the financial instrument portfolio of a participant to the system shall be determined by the Financial and Capital Market Commission.

[*20 November 2003*]

**Section 12.** (1) A participant to the system has an obligation, in accordance with the procedures laid down in this Law, to transfer the monetary resources into the account opened at Latvijas Banka for the disbursement of compensations.

(2) The participant to the system shall inform its current or future investors of its activity in the system and the amounts of a compensation, and also of the provisions to be conformed to in order to obtain the compensation in accordance with this Law. Information must be easy to perceive and understand.

(3) The participant to the system shall not use the information on activity in the system in an advertisement.

**Section 13.** (1) The Financial and Capital Market Commission has the right to request that participants to the system transfer monetary resources into the account opened at Latvijas Banka for the disbursement of compensations. The total amount of such resources shall not, within a year from the day when the first request of the Financial and Capital Market Commission was sent, exceed four per cent from the arithmetic average value of the joint financial instrument portfolio of participants to the system in the previous 12 months.

(2) Payments of each participant to the system for the provision of compensations shall be determined in proportion to its share in the joint financial instrument portfolio of participants to the system. When determining the share of each participant to the system, the financial instrument portfolio of such participant to the system shall be deducted from the joint financial instrument portfolio of participants to the system whose investors have the right to compensation in accordance with this Law on the basis of the data of reports submitted in the previous quarter on the financial instrument portfolio of the participant to the system.

(3) Participants to the system shall, within 30 days after a request of the Financial and Capital Market Commission regarding payments for the provision of compensations has been received, transfer the requested monetary resources into the account opened at Latvijas Banka.

(4) It shall only be permitted to use the monetary resources transferred by participants to the system into the account opened at Latvijas Banka for the disbursement of compensations.

(5) The amounts of money which have not been used for the disbursement of compensations shall be repaid, within two months from the day when they were transferred into the account, to the participants to the system in proportion to their payments for the provision of compensations.

(6) The Financial and Capital Market Commission may extend the time period referred to in Paragraph five of this Section for three months.

(7) The Financial and Capital Market Commission has the right to take loans for the disbursement of compensations if payments of the participants to the system are not sufficient in order to disburse compensations in accordance with this Law.

[*20 November 2003*]

**Section 14.** (1) If a participant to the system does not make the payments laid down in this Law, the Financial and Capital Market Commission shall calculate a fine in the amount of one per cent from the unpaid amount for each day of delay.

(2) If the participant to the system has delayed the laid down time period for payment for more than 30 days, the Financial and Capital Market Commission has the right to decide on suspension of the special permit (licence) for the provision of investment services.

(3) If it is not possible to collect the payment after the abovementioned measures, the Financial and Capital Market Commission has the right to decide on cancellation of the special permit (licence) for the provision of investment services by informing the participant to the system thereof 12 months in advance.

[*20 November 2003*]

**Section 15.** (1) The Financial and Capital Market Commission has the right of subrogation in the amount of the disbursed compensation against such participant to the system to whose investors compensation has been disbursed.

(2) The monetary resources recovered in accordance with the subrogation procedures shall be transferred into the account opened at Latvijas Banka.

(3) The monetary resources recovered in accordance with the subrogation procedures shall be disbursed, within a month from the day of recovery of money, to the participants to the system who have made payments for ensuring of compensations. The amount of money to be disbursed to each participant to the system shall be determined in proportion to its share in the compensation disbursed.

(4) If the Financial and Capital Market Commission does not exercise the rights referred to in Paragraph one of this Section within a year from the day of disbursement of compensations, it has the right to transfer them to the participants to such system who have made payments for ensuring of compensations.

(5) If the Financial and Capital Market Commission has not been successful in recovery of resources in accordance with the subrogation procedures, it has the right to transfer the right to subrogation action to the participants to the system who have made contributions for ensuring of a compensation.

[*20 November 2003*]

**Chapter IV**

**Investment Service Providers Registered in Foreign Countries, Countries of the European Union and the European Economic Area**

[*20 November 2003*]

**Section 16.** An investment service provider registered in foreign countries, before it has received a licence for the provision of investment services in the territory of Latvia, shall submit documents to the Financial and Capital Market Commission proving that investors of Latvia who will use the investment services of such investment service provider will have the right to receive compensation from the system of investor protection of the country of residence of the foreign company.

[*20 November 2003*]

**Section 17.** If the system of investor protection of the country of residence of the foreign company gives investors of Latvia the right to:

1) a lesser amount of compensation than the system – the foreign company shall become a participant to the system;

2) a larger amount of compensation than the system – the foreign company shall not become a participant to the system.

**Section 18.** (1) A foreign company shall ensure its current and future investors with information on the operation of the branch in the system of investor protection to the same extent as investors in its country of residence, but to not lesser extent than laid down in the laws and regulations in force in Latvia.

(2) An investment service provider registered in a country of the European Union or the European Economic Area which, in accordance with the procedures laid down in the law, has commenced the provision of investment services in the territory of Latvia shall ensure its current and future investors with information on its participation in the system of investor protection to the same extent as investors in its country of residence, but to not lesser extent than laid down in the laws and regulations in force in Latvia.

[*20 November 2003 /* *Paragraph two shall come into force on 1 May 2004.* *See Transitional Provisions*]

**Section 19.** (1) If the right to compensation is obtained by an investor of a foreign company, it has the right to submit an application to the Financial and Capital Market Commission which helps the investor to obtain compensation from the foreign system of investor protection.

(2) It the right to compensation is obtained by an investor using investment services of such investment service provider registered in a country of the European Union or the European Economic Area which, in accordance with the procedures laid down in the law, has commenced the provision of investment services in the territory of Latvia, such investor has the right to submit an application to the Financial and Capital Market Commission which helps to receive compensation from the system of investor protection of the relevant country of the European Union or the European Economic Area.

[*20 November 2003 /* *Paragraph two shall come into force on 1 May 2004.* *See Transitional Provisions*]

**Transitional Provisions**

1. The compensation referred to in Section 17, Clause 2 of this Law shall not exceed the amount laid down in Section 3, Paragraph two of this Law for longer than until 1 January 2008.

2. The Central Securities Depository which is the successor to rights and liabilities of the Latvian Central Depository shall be a participant to the system for as long as it holds the accounts of the investors other than participants in the system.

[*14 September 2017*]

3. Coming into force of Section 1, Clause 12, Section 2, Paragraph seven, Section 18, Paragraph two, and Section 19, Paragraph two of this Law shall be determined by a special law.

[*20 November 2003*]

4. Until the day of coming into force of the special law laid down in Paragraph 3 of Transitional Provisions, the investment service providers registered in countries of the European Union and the European Economic Area shall be considered as foreign companies.

[*20 November 2003*]

**Informative Reference to European Union Directive**

[*20 November 2003*]

The Law contains norms arising from Directive 97/9/EC.

The Law shall come into force on 1 January 2002.

The Law has been adopted by the *Saeima* on 8 November 2001.

President V. Vīķe-Freiberga

Riga, 23 November 2001