

Latvia

Chamber of commerce:

Latvian Chamber of Commerce and Industry
Kr Valdemara Street 35
LV 1010 Riga
Latvia
Tel: +371 722 5595
Fax: +371 782 0092
Email: info@chamber.lv
Web: www.chamber.lv

Professional body:

The Latvian Council of Advocates
Brivibas Bulvaris 34
LV 1050 Riga
Latvia
Tel: +371 735 8487
Fax: +371 735 8488
Email: adv-pad@latnet.lv

Upcoming amendments to financial regulation

Sandija Novicka
Lejins Torgans & Partneri
Riga

Amendments to the Commercial Law

Upon the request of the Riga Stock Exchange, the Finance and Capital Markets Commission has drafted amendments to the Commercial Law. The aim of the amendments is to eliminate controversies between the Commercial Law and the Financial Instruments Markets Law (FIML) regarding listed joint stock companies and their relations with shareholders.

Firstly, the amendments prescribe that it will be possible to publicly trade only registered shares. Bearer shares will have to be in a paper form. These amendments ensure that the issuers possess all information regarding their shareholders in order to guarantee investor protection, to prevent abuse of insider information and to prevent market manipulations. They also simplify banks' and investment broker companies' procedures for identifying clients.

Currently the Commercial Law states that a person obtains all of a shareholder's rights from the moment this person is entered in the company's shareholder register. According to the FIML, the financial instruments belong to their acquirer from the moment book entries, in respect of those financial instruments, are made in the financial instruments account of the acquirer.

To eliminate this controversy, the amendments prescribe that rights stemming from publicly traded shares must be determined in accordance with the FIML. Also the registration of these shares will be regulated by the FIML. Among other things, the amendments provide the possibility to all joint stock companies to entrust the registration of their shareholders to the Latvian Central Depository.

Furthermore, many joint stock companies whose shares are publicly traded have experienced that, in practice, it is not possible to comply with the rules of the Commercial Law regulating order in which the shareholder meetings of joint stock companies shall be convened. The problem arises because, according to the Commercial Law, the joint stock company shall inform all its registered shareholders 30 days before the shareholders' meeting.

However, according to the regulations of Latvian Central Depository, the shareholders possessing publicly traded shares must submit to their banks an order to block the shares in the financial instruments account only 10 days before the shareholders' meeting. Thus the shares can be traded up to the tenth day before the shareholders' meeting. As a result, the company cannot inform all its shareholders as prescribed by the Commercial Law. Due to this, the amendments provide that the joint stock company shall inform its shareholders through the stock exchange in which its shares are traded.

The amendments also clarify the rules of the Commercial Law by providing that the rights to dispose publicly traded shares cannot be restricted. In addition, the amendments provide that in case of a public offer, when the shares are publicly traded, the term for exercise of pre-emption rights to newly issued shares can be reduced to one week (the general term is one month).

It remains to be seen when and in what wording these amendments will be passed by the Latvian parliament (*Saeima*). However, the market participants already have expressed their support for the amendments considering that the controversies described above affect and burden the everyday life of listed joint stock companies.

Mifid in Latvia

On May 23 2007 the Latvian government approved substantial amendments to the FIML. The precise date the amendment will be passed by the Latvian parliament and will become effective

is not yet known. By these amendments Latvia will implement the Markets in Financial Instruments Directive (Mifid).

Aim of Mifid

Mifid replaces the Investment Services Directive. Member states have had to transpose and implement Mifid in their national legislation by January 31 2007, but they will only apply these measures from November 1 2007.

Mifid extends the coverage of the Investment Services Directive and introduces new and more extensive requirements that firms will have to adapt to, in particular for their conduct of business and internal organization. Therefore, at the end of this year the regulatory framework for investment firms will change significantly to reflect developments in financial services and markets.

Mifid aims to harmonize market conditions in financial instruments and the operation of investment firms. However, it leaves the regulation of many issues at the discretion of the member states

Scope of regulation

Latvia has decided not to include undertakings other than legal entities in the definition of investment firms. Furthermore, under Article 3 of Mifid, Latvia has decided to provide exemption from the regulations only to companies providing investment services to their board and supervisory board members and employees, as well as those in the same group of companies. This means that advisers and arrangers, which do not hold client money, will be subject to the requirements of the new rules.

Tied agents and eligible counterparties

The draft provides that investment firms will be allowed to appoint tied agents. However, they will not be permitted to handle clients' money or financial instruments. The draft also obliges the investment firms to verify whether tied agents are of sufficient good repute and have appropriate knowledge. For that purpose investment firms are required to keep a register of tied

agents and make it publicly available on its web page. The register must be correct and up to date, and has *prima facie* credibility.

According to the current draft, only those undertakings that are enumerated in Article 24(2) of Mifid will be recognized in Latvia as eligible counterparties.

Under the current draft of the amendments to the FIML no requirements in addition to Mifid are imposed on investment firms. There are also no national requirements or restrictions to the marketing of particular financial instruments over and above the requirements of Mifid. As a result of the amendments to the FIML, competition among security market operators in Latvia should increase as it will be possible to introduce a multilateral trading facility.

Banking and finance

Recommended firms	
Tier 1	Klavins & Slaidins Lejins Torgans & Partneri
Tier 2	Liepa Skopina/Borenis Loze Grunte & Cers Sorainen
Tier 3	Glimstedt & Partners Kronbergs & Cukste Skudra & Udris

Mergers and acquisitions

Recommended firms	
Tier 1	Klavins & Slaidins Lejins Torgans & Partneri Loze Grunte & Cers
Tier 2	Glimstedt & Partners Liepa Skopina/Borenis Sorainen
Tier 3	Blueger & Plaude Kronbergs & Cukste Law Firm Gencs Valters Skudra & Udris

After Latvia joined the EU, European investors rushed in to make Latvian acquisitions. Many of these have been reshaped and are now being sold on to financial investors such as German public funds. This restructur-

ing is still going on, especially of the old heavy structures of previously state-owned companies, and there have been a number of insolvencies.

The trend hasn't been restricted to corporates: over the years Latvia's banking sector has come under increasing pressure from international competition and foreign entities have been steadily buying up local banks. UniCredit bought HypoVereinsbank in November 2005 and a year later Société Générale re-entered the market with its acquisition of Inserviss Group.

In a bid for survival, many Latvian banks have sought out strategic investors. Now Parex Banka, the largest bank in Latvia and the only one which remains independent, is said to be looking to sell up if the price is right – in 2006 Gjensidige acquired Parex Apdrošināšana (Parex Insurance) for €23 million. And DekaBank is also apparently showing an interest in entering the market.

There has been an increasing interest in project finance, the most notable case of which is the Riga Northern Transport Corridor, the largest public-private partnership (PPP) in the Baltics. But PPP is not expected to grow too much in the near future. After all, as one finance lawyer pointed out: "You don't need to run for private money when you have EU money coming in."

Glimstedt & Partners

Glimstedt is increasingly establishing itself as a force to be reckoned with on the Latvian legal circuit. Although the firm is most highly regarded for its work with corporate clients, it is also becoming ever more visible on the financing side. The practice gained market recognition for the advice it gave in September 2006 to Norway's EBO International on a €400 million investment project with Riga International Airport on the development of a commercial park adjacent to the airport including office buildings, shopping centres and hotels. The team followed this up in June 2007, providing counsel to Austria's Meil Bank on the €35 million financing of the construction and operation of Gallery Azur, a shopping centre.

Glimstedt has also been gaining a name in capital markets. At the time of writing the practice had been acting on various matters in this category. In June 2007 the practice guided Mid Europa Partners through the issuance of €190 million senior secured floating-rate global notes and €110 million senior subordinated floating-rate global notes. Then in July a team aided Parex Bank as lead manager of the €5 million public offering (IPO) and private placement of 4 million new shares by Olainfarm. And at the time of writing the

firm was counselling Baltic textile production company Silvano Fashion Group in connection with its proposed share issue and listing on the Warsaw Stock Exchange.

Glimstedt was promoted a tier in the M&A rankings in the previous edition of the *IFLR1000*, and over the last year it has entrenched its position with another energetic performance. The M&A team has also been ramping up its capacity with the hiring of three new associates, most notably Roberts Rimša, who left his position as head of Balticum Bank's legal department to join the firm. Eriks Blumbergs is an individual mentioned by interviewees as being the "driving force" at the practice.

Highlights in 2006 included representing GE Money on the €5 million acquisition of the entire Mercedes-Benz vehicle leasing portfolio from the national distributor in July, and acting for Catella on the €20 million sale of Vika Wood, the largest Latvian sawmill company, in September. 2007 got off to a good start too with the practice steering Mid Europa Partners through the €430 million purchase of Bite GSM, the second-largest Baltic mobile operator – several special-purpose vehicles (SPVs) were set up and financing was attained from local banks and through a bond issue. In May the firm advised Alta Capital on its acquisition of Rigas Piensaimnieks, a dairy factory in Latvia, and the subsequent reorganization and refinancing.

Glimstedt & Partners is part of the regional Glimstedt association, which also has offices in Estonia, Lithuania and Sweden.

Klavins & Slaidins

"Klavins & Slaidins are the leaders no question" said one rival of the firm, which is the Latvian member of Lawin, a Baltic legal alliance. "Lawin were the first out of the block...they are number one," said another competitor. These remarks are representative of a market-wide consensus. Competitors admire the capabilities of the firm and the steady deal flow which courses through it, and clients are delighted with the "excellent service" of the practice.

In banking work, competitors report that Klavins & Slaidins is the firm they most frequently encounter in the market. This may be because clients are finding that the team is "very cooperative". One client reported: "Klavins & Slaidins would put in extra time and effort for no additional charge". Egons Pikelis is said by clients to have "an extra understanding of our needs", while Agnese Garda also attracts praise for her "very prompt, very efficient, very rounded advice".

Among the year's highlights the pair advised BayernLB as mandated lead arranger

of a €310 million syndicated loan to Parex Banka in July 2006, and a year later counselled DZ Bank, the arranger of an €85 million syndicated loan to Aizkraukles Banka. Commerzbank is another key client, which the duo were representing in June 2007 in relation to two syndicated loans the bank was arranging for Rietumu Banka and Parex Banka for €75 million and €500 million respectively.

Pekilis and Garda also practise in structured finance and securitization, and adeptly so. In November 2006 Ilga Gudrenika-Krebs joined the pair to assist CLD Finance in relation to the securitization of receivables from leasing arrangements. And in March 2007 Garda helped the Baltic American Enterprise Fund set up a Luxembourgian SPV to securitize transferred mortgage portfolios worth €125 million.

The firm is involved in most of the jurisdiction's equity capital markets transactions, even though they are fairly few and far between. In October 2006 a team advised Olympic Casino with regard to its €120 million pan-Baltic IPO, and in May 2007 the practice counselled AB City Service on a similar listing with a value of €17.5 million.

It is in the field of M&A however that the firm gets the most respect. "Klavins & Slaidins are the number one law firm in M&A," said one rival. "They really work with big names". And over the last year the practice has bolstered its potent M&A team with three new recruits at associate level.

Filip Klavins is consistently referenced among the market's leading lawyers, and is thought of as "a very professional lawyer with a very good reputation". One competitor said of Klavins: "He is extremely knowledgeable and efficient, and it is a great pleasure to work with him". Another rival who encountered Klavins recently said: "After 15 years of practising I was amazed to see that he was still actively representing clients... It was a pleasure to work with him because he did not try to justify his existence by disputing everything – he entered into constructive business-oriented negotiations that dealt with the important points."

And Klavins could be seen action lately advising News Corporation in May 2007 on the acquisition of shares in two Latvian holding companies which control television broadcasters LNT and TV5. The following month he was again visible: this time Incharge sought his advice in relation to its £60 million acquisition of a group of eight Latvian companies and one US company in the vehicle distribution industry.

In other noteworthy M&A business Vitol Group instructed the firm on its €90 million acquisition of shares in a public company

through a state auction in October 2006. And the following month the practice acted for Société Générale in relation to its acquisition of a privately held consumer finance company.

Besides its membership of Lawin, Klavins & Slaidins is the exclusive Lex Mundi member law firm for Latvia.

Leading lawyers

Filip Klavins
Egons Pikelis

Lejins Torgans & Partneri

Lejins Torgans & Partneri is another of Latvia's finest firms, commanding the respect of rivals and inducing gratitude in its clients. When one client was asked why he chose to use the firm his response was simple: "In one sentence, because they are the best law firm in Latvia." The firm's clients consistently commend its "excellent, fast service", and one commented that the practice is "very international-oriented, they know their business and are always on schedule". This sort of feedback, rounded off with a healthy deal flow including some heavyweight transactions, meant that the firm's sustained residence in tier one for both of the rankings was never in any doubt.

The preceding year has been a prosperous one for Lejins Torgans & Partneri. In banking and finance the firm has represented on various assignments many of its long-established and new financial and commercial clients including Barclays Capital, Citibank, DnB NOR, Dresdner Bank, HSBC, SEB Latvijas Unibanka and Swedbank.

Andrejs Lielkalns is the lawyer most regularly pinpointed by the market. As one market participant observed: "Lielkalns has been in the market for more than 10 years...It is easy to work with him because he has a very good understanding of risk, the market and the transactions." He was involved in the largest real-estate sale and refinancing transaction in Latvia, which came in December 2006. In this €230 million transaction he counselled Linstow Centre Development on the simultaneous sale of part of the group's shopping centre businesses in Latvia, the syndicated refinancing of the remaining shopping centres, and the extension of an existing facility provided by a banking syndicate formed by Swedbank.

And the team has carried on the good work into 2007. In May it represented the Latvian subsidiary of Consolis in connection with €212 million senior loan and €25 million mezzanine loan to fund an international acquisition. Then in June 2007 the practice assisted Deutsche Bank with a €445 million derivatives transaction to finance the con-

struction of the South Bridge access roads, a key Latvian infrastructure project. In other capital markets work in the same month, the firm advised SEB in connection with the €66 million IPO of Arco Vara, a Baltic real-estate group.

The M&A team is highly celebrated by the market. One client said: "I always feel comfortable when they are on my side". Dace Silava-Tomsone, who leads the corporate transactions team, comes in for praise from all quarters. Clients report that not only is she "very personable, very experienced" but she is also "a very wise negotiator" and is "creative and finds solutions". A rival commented: "Dace Silava-Tomsone is very good and professional. And I like her style of negotiations: she doesn't have to be aggressive as some of the others because she knows what she's doing". Also commended are the Guntars Zile and Toms Sulmanis. "Both are very quick, professional and investigated every issue," said one of their clients. The team added to its already impressive line-up in 2006, taking on Sandija Novicka from Deloitte in August and Aigars Gozitis from the Central Bank of Latvia in December.

Deals have been coming thick and fast for the team. In the most momentous deal – in fact the largest cross-border transaction in the Baltics – the practice advised TDC, a Danish directories group, on the €450 million sale in February 2007 of mobile telecoms company Bite to Mid Europa Partners. In March the firm gave counsel to the sole shareholder of Latvijas Energoceļnieks, one of the largest Latvian construction companies, in connection with the sale of shares to Alta Capital.

In other significant work, Guntars Zile steered SIA Stars Lizings through the sale and transfer of its leasing business to GE Money in July 2006 and a year later Silava-Tomsone and Sulmanis teamed up to counsel Reband Investments in connection with a joint venture with Latvian investors for the development of three residential and business real-estate projects into which €200 million is being channelled.

Lejins Torgans & Partners is a member of Meritas as well as a part of RoschierRaidla, with partners in Helsinki, Stockholm, Tallinn and Vilnius.

Leading lawyers

Andrejs Lielkalns
Dace Silava-Tomsone

Liepa Skopina/Borenus

The "business-oriented" Lauris Liepa is highlighted by interviewees as being the firm's biggest hitter in banking and finance law, and over the last year he has been visible on a

number of large operations. July 2006 was a particularly busy month in which he advised Raiffeisen Zentralbank Österreich on its financing of an acquisition in the food industry, and Darby Converging Europe Mezzanine Fund in the €8 million acquisition of Latvian dairy company Rigas Piensaimnieks. The real standout came more recently, in February 2007 when Liepa counselled Deutsche Bank on the €450 million financing of the acquisition by Mid Europa Partners of Bite, a Latvian and Lithuanian mobile telecoms company.

On the M&A front Lauris Liepa gets the most praise from the market and he was in the midst of the action over the last year. Towards the end of 2006 he was busy advising GE Money on its acquisition of a shareholding in Baltic Trust Bank as well as assisting a number of shareholders on the disposal of their shares in Creative Laboratory Ogilvy, an advertising agency, to Finnish agency Taivaan Vallat – both deals closed in November.

In another sizeable M&A deal, the firm advised a number of shareholders on the \$12 million sale of their shares in Robertson & Blums Corporation to Amazing Technologies in December 2006, and more recently counselled Pfizer on the disposal in May 2007 of its consumer healthcare business to Johnson & Johnson, as part of a global transaction with a value of \$16.6 billion.

Liepa Skopina/Borenus is part of the Borenus Group, which also has offices in Estonia, Lithuania and Finland.

Leading lawyers

Lauris Liepa

Loze Grunte & Cers

Loze Grunte & Cers is Latvia's largest law firm and is recognized in the market mainly for its work for big local clients, in particular in M&A and real-estate transactions. Janis Loze is widely regarded as "an excellent negotiator", but his deal profile has been slightly lower than usual due to his involvement in a court case involving fraud allegations in the digital television industry.

But he still appeared on a number of deals in the last year that show the firm is more than an M&A outfit. On the banking front Loze acted for ABG Sundal Collier in connection with the €132 million acquisition financing of three shopping centres in Latvia. He also advised Handelsbanken on the perfection of €15 million of securities in the financing of a project, and counselled Barclays Bank in a similar capacity but for a larger €188 million of securities.

In other work the firm has been assisting Sampo Bank in establishing a European com-

pany and other auxiliary legal services, and has also provided Franklin Templeton International Services with continuous legal assistance regarding the distribution of shares in Latvia.

Loze Grunte & Cers collaborates with Tark & Co in Estonia and Sutkiene Pilkauskas & Partneriai in Lithuania.

Leading lawyers

Janis Loze

Sorainen

Sorainen's Riga office is a well regarded practice comprising four partners and 21 associates. The firm has had a decent year in which there have been a few changes in personnel. Luc Nijs left the partnership to begin a role of counsel in April 2006 and in July Gints Vilgerts followed suit. The shortfall in partners was addressed with the appointments of Pekka Puolakka and Janis Taukacs to the partnership in July 2006 and January 2007 respectively.

Girts Ruda, who is widely respected as a "tough negotiator", heads the firm's six-lawyer finance team in Riga. The firm has recently provided legal assistance to Raiffeisen Zentralbank Österreich in its provision of €10 million and €16 million syndicated loans to Baltic Trust Bank in Latvia and a €21 million syndicated loan to Norvik Bank, the first international syndicated loans these retail banks had successfully taken out. The team also acted for Nordic Investment Bank in providing two long-term loans with a total amount of more than €20 million to the Freeport of Riga Authority for the purpose of expanding its fleet. Other public-sector banking instructions include loans totalling €18 million to five Latvian hospitals, and a loan of more than €10 million to the State Real Property Agency to restore a historic public building in the centre of Riga.

The firm also benefited from the growing interest in project finance based on the PPP model, acting with Lovells for Riga City Council on the first stage of the Riga Northern Transport Corridor, a 24 km high-capacity urban highway crossing the City of Riga. This is the first significant infrastructure PPP project in Latvia, with an estimated value of €1.4 billion. The practice also represented the State Agency for Interior Properties in organizing a tender to develop a public building in Ventspils, preparing a full set of tender documents, including a draft PPP contract.

Headed by partner Pekka Puolakka, the Riga office's seven-strong corporate department has also been involved in some notable transactions. These include advising Colemont UK Holdings, an international

insurance brokers group, in its acquisition of a Latvian insurance broker within a demanding timeframe. The firm also assisted Bergen Shipping, a Norwegian ship brokerage and management company, in its acquisition of a medium-sized Latvian shipping company; and counselled HeidelbergCement Sweden in connection with its acquisition of a local cement producer.

Leading lawyers

Girts Ruda

Other notable firms

Kronbergs & Cukste represented the Baltic Property Trust in a Baltic property portfolio acquisition, which closed in March 2007. In other work the practice advised Askembla on the acquisitions of SIA Rota & K and Technoland. The firm has also been counselling Behrens, an Icelandic clothing group, on a number of acquisitions as well as guiding Tennax on its restructuring.

Law Firm Gencs Valters is a 10-lawyer operation that is best known for its M&A work. The year's highlights for the firm include advising a bidder in February 2007 for the \$450 million purchase of shares in Latvia's third mobile telephone licence company Bite Latvija, and assisting German peat producer Hawita group in the acquisition of a minority interest in Balozi & Co the following month. At the time of writing a team was acting for Firebird Republic Funds, American investment group, in the hostile squeeze-out bid to remove SEB's minority shareholding in SEB Latvijas Unibanka, one of the biggest Latvian banks. In November 2006 the firm also notably counselled Selver, an Estonian retailer of food and household products, on its acquisition of supermarket assets from Lidl, which has reassessed its designs to develop the supermarket chain in Latvia.