Latvia

Chamber of commerce:
Latvian Chamber of Commerce and Industry
Brivibas Bulvaris 21
LV 1089 Riga
Latvia
Tel: +371 722 5595
Fax: +371 782 0092
Website: www.chamber.lv

Professional body:
The Latvian Council of Advocates
Brivibas Bulvaris 34
LV 1535 Riga
Latvia
Tel: +371 708 8206
Fax: +371 708 8280

Financial regulation in Latvia

Girts Lejins
Lejins Torgans & Partners
Riga

The Latvian banking, finance, insurance and investment services markets are regulated and supervised by the Finance and Capital Markets Commission (the FCMC), an autonomous and financially independent agency formed by the Latvian parliament. Since its formation in 2001 the FCMC has proactively exercised its regulatory powers. Its recent top priority has been to stop Latvian banking and finance system being used for international money laundering and terrorism financing. The FCMC's activities in this area culminated in new Regulations on Internal Procedures for the Prevention of Legalization of Unlawfully Obtained Funds and Terrorism Financing, which the FCMC issued in May 2006.

Prevention of money laundering and terrorism financing – legal framework

Latvia passed its first Law on the Prevention of Legalization of Unlawfully Obtained Funds in January 1998. The law applies to all banks, electronic money institutions and other financial institutions registered in Latvia, their foreign subsidiaries and structural units, as well as the Latvian branches of the EU and EEA member state and third country banks, electronic money institutions and financial institutions. The concept of *financial institutions* has been defined broadly, and is applicable to all companies formed to provide financial services or to hold shares in the capital of other companies, as well as to any other person or entity whose professional activities include providing financial services or advising in respect of financial services.

Since its adoption the law has been amended several times, most recently in June 2005, when new requirements were introduced concerning transactions entered into between banks registered in Latvia and foreign banks. Most notable among these amendments are the prohibition to carry out any transactions with shell banks, the obligation to conduct due diligence before commencing any new correspondent banking relationships, the obligation to institute internal policies and procedures to monitor client transactions, and the obligation to identify the true beneficiaries of financial services transactions.

Transactions with shell banks

Shell banks are defined as banks whose place of management, personnel or provision of financial services is in a country other than the country of its registration and which are not subject to supervision by any authority. Shell banks also include all non-banking companies performing non-cash money transmissions (transfers) on behalf of third parties, except for electronic money institutions and companies performing money transfers solely between the members of the same group of companies.

The prohibition to enter into transactions with shell banks is absolute, applies to all types of transactions and all types of shell banks, and is not subject to any exceptions or waivers. The prohibition applies to banks and other financial institutions, and also to such entities as post offices, currency exchange companies, auditors, tax advisers, real-estate brokers, art dealers and other persons performing professional activities related to financial services. Any breach of the prohibition can result in a fine of up to LVL100,000 ($182,500).

Due diligence to prevent money laundering

Since June 2005, before commencing any new correspondent banking relationships (other then with banks registered in OECD member countries), all credit institutions must take all reasonable measures to ensure that the law of the correspondent bank's country is preventing money laundering and terrorism financing, and that the correspondent bank complies with these laws. All measures the credit institution takes to conduct this due diligence must be duly documented and may be subject to inspection by the FCMC.

New requirements have also been imposed in respect of entering into transactions with foreign banks. According to the FCMC's new regulations, all Latvian credit institutions are now required to define criteria in respect of those foreign credit institutions with whom no business cooperation will be commenced by the Latvian credit institution, to review and evaluate the efficiency of the foreign credit institution's policies and procedures in respect of prevention of money laundering and terrorism financing, and to constantly monitor the transactions in the accounts of the foreign credit institutions with the Latvian credit institution.

Additional requirements have been imposed in respect of business cooperation between Latvian financial institutions and foreign entities registered in low-tax or no-tax jurisdictions or in jurisdictions which, although not qualified as low-tax or no-tax jurisdictions, have the legal regime allowing business to be carried out in a similar way to the low-tax and no-tax jurisdictions. Financial institutions are now required to implement procedures to obtain sufficient information on the purposes for which accounts are opened by their foreign clients, and to ascertain the origin of their financial resources.

High-exposure clients

All financial institutions have to specify all clients that qualify as *high-exposure clients*. According to the FCMC's regulations a high-exposure client is any client in relation to whom there is an increased risk that the client could be involved in money laundering or terrorism financing. High-risk clients include, among others: (i) all clients resident in countries included in an internationally recognized list of countries involved in money laundering or terrorism financing, or in the list of countries which do not cooperate with the FATF; (ii) any clients who regularly enter into unusual or suspicious financial transactions; (iii) all companies controlled by beneficiaries through bearer shares; (iv) all clients in respect of whom the financial institution does not have access to its financial statements (where such financial statements are mandatory under the law of client's country of registration); (v) any new clients (for the first three months) registered in no-tax and low-tax jurisdictions if the turnover in their accounts exceeds LVL200,000; and (vi) any politically exposed people, including foreign heads of state or government, chairpersons of foreign supreme or constitutional courts, members of parliament, family members of the above people, and any people who have held any of the above offices over the past year (and their family members). Each financial services provider has to work out a methodology of how to control and monitor those clients that are politically exposed persons.

Any cooperation with a high-risk client can only be started upon satisfactory results of the due diligence process. As well as other routine know-your-customer checks, financial institutions must verify the credibility of the origin of the financial resources of their high-risk clients, the sufficiency of these resources, and the credibility and sufficiency of all information obtained by them in respect of those high-risk client accounts which are used by the clients for their private needs. All information on high-risk clients must be updated regularly basis. On-site visits by the financial institution to its high-risk clients may be required, depending on the materiality of the client in the overall customer base of the financial institution.

Client and true beneficiary identification

Pursuant to the recent amendments to the Law on the Prevention of Money Laundering, all financial institutions must now carry out true beneficiary identification in all client identification cases. *True beneficiaries* are defined as any individuals directly or indirectly owning or controlling 25% or more of the capital or voting rights in a client, or persons in whose interests the transaction is being carried out. Before June 2005, true beneficiary identification was only required if the financial institution was aware, or had a suspicion, that the transaction was being carried out for a third party.

Banking and finance

Recommended firms
Tier 1
Klavins and Slaidins LAWIN
Lejins Torgans & Partners
Tier 2
Liepa Skopina/BORENIUS
Loze Grunte & Cers
Skudra & Udris
Sorainen Law Offices
Tier 3
Blueger & Plaude
Glimstedt & Partners
Kronbergs and Cukste Attorneys at Law

Corporate/mergers and acquisitions

Recommended firms
Tier 1
Klavins and Slaidins LAWIN
Lejins Torgans & Partners
Loze Grunte & Cers
Tier 2
Glimstedt & Partners
Liepa Skopina/BORENIUS
Skudra & Udris
Sorainen Law Offices
Tier 3
Blueger & Plaude
Kronbergs and Cukste Attorneys at Law
Law Offices of Valters Gencs

Klavins and Slaidins LAWIN

Klavins and Slaidins has been promoted to tier one for banking and finance after winning universal praise for the depth of its knowledge in this area. It also stays in the top tier for corporate advice.

In banking the firm has worked on a number of superb deals, the largest of which involved acting for Mizuho Bank and its UK counsel Denton Wilde Sapte on two syndicated loans made available to Latvian Parex Bank, one for €35 million and the other for €310 million. Egons Pikelis, who led that advice, also advised Dresdner Bank and its German counsel Linklaters Oppenhoff & Rädler on a €110 million syndicated loan to Rietumu Bank that closed in July 2006. Klaivins and Slaidins advised the lead arrangers on two €50 million syndicated loans: the first by HSH Nordbank to Aizkraukles Bank, and the second by Bayerische Landesbank to Latvijas Hipoteku un Zemes Banka.

The firm has a well-established finance and tax practice group that provides ongoing advice to some big-name clients, including Bloomberg on the introduction of trading services in Latvia and Unicredito, HVB and external counsel Freshfields Bruckhaus Deringer on the Latvian regulatory aspects of the Unicredito-HVB merger. It also acted for SEB Vilfima on the launch of a financial brokerage company in Latvia, and guided Euler Hermes through the launch of an insurance company.

Klaivins and Slaidins is part of the LAWIN group of Baltic law firms that includes Lepik & Luhaaar of Estonia and Lideika Petrausakas Valiunas ir partneriai of Lithuania. The firm was assisted by both these firms in its role as lead counsel on the €25 million acquisition of IT services group Microlink by three fixed-line telecommunication companies (Lattelekom, Elion and Lietuvas Telekomas).

Also in the field of telecommunications, Raimonds Slaidins acted for TietoEnator on its acquisition of a majority share in IT Alise, one of Latvia's top independent IT companies, for €2.5 million. The firm also advised investors Amber Trust and East Capital on the acquisition of a 25.5% strategic stake in the Elko Group, a computer equipment wholesaler, and acted for Dermot Desmond on his acquisition of 33.1% of Rietumu Bank's shareholding for $50 million, which closed in August 2005.

Finally, the firm has put in an impressive performance in the project finance arena too, including advising DnB on the financing of Linstow Varner's shopping centre development in Latvia for €30 million, acting for HSH Nordbank and Capman Capital Management on a €30 million financing package to Europrocessing and related parties, and advising ICA Baltics on the sale and leaseback of its Baltic logistics centre in Riga.

Klaivins and Slaidins is a member of Lex Mundi, a leading association of independent law firms.

Leading lawyers	**Key contact partners**
Filip Klaivins	Filip Klavins
Raymonds Slaidins	Egons Pikelis
	Raymonds Slaidins

Lejins Torgans & Partners

The market was united this year in recommending that Lejins Torgans & Partners should keep its tier one ranking in both practice areas. One firm stated "we have a lot of respect for them". Partners Girts Lejins and Dace Silava-Tomsone and senior associate Andrejs Lielkalns were most regularly singled out for praise. One client particularly liked Lielkalns because "he really goes very deep into problems, and is very experienced in financial law and in structuring financial deals". Former name partner Romualds Vonsovics left the firm in August 2005 and was replaced as head of the litigation department by Klavis Torgans.

Girts Lejins heads the firm's transaction and finance group, which recruited Elina Bedanova, formerly a consultant with SIA Deloitte and Touche, in May 2005. This year the firm has advised on a number of important real estate-related finance deals, including acting as lead counsel to MKB Bank and SEB Unibanka in connection with a €40 million syndicated loan facility for the development of major shopping centre in Riga. It also advised the Linstow group of companies on a shopping mall construction loan facility from DOB NOR Bank and a hotel construction loan facility from Hansabanka. Girts Lejins led the team advising Deutsche Bank on a derivatives transaction for financing the south bridge construction in Riga; at the time of writing the firm is advising on a number of other pending infrastructure projects.

In corporate and M&A work this year the firm has continued to win some of the largest mandates. In the past 12 months Silava-Tomsone has advised Elko Grupa and its shareholders on the sale of 25.5% of the company's shares to Amber Trust II and East Capital Fund. The team also advised Balta, a Latvian insurance company, on the sale of its 100% shareholding in life insurance company Balta Dziviba to SEB Unibanka, which closed in February 2006 and was worth over €40 million.

Elsewhere, the firm represented UAB BPT Optima on the acquisition of 100% of the shares in SIA Real Invest, owner of one of the largest shopping malls in Riga, and guided Mobil Plus and its shareholders through the sale of the company to the Altia Corporation in March 2006. In another outstanding mandate, Silava-Tomsone represented Latvenergo in all aspects of a €270 million deal to reconstruct the thermo-electric power station TEC-2.

Finally, Silava-Tomsone represented the First Data Corporation in obtaining merger clearance from the Latvian Competition Council in connection with the acquisition of EuroProcessing International, including SIA Banku Servisa Centrs, a leading Latvian card payment processing company, and also provided general financial advice on the provision of ATM cash withdrawal services in the Baltic states.

Lejins Torgans & Partners is a member of RoschierRaidla, a network that includes Roschier Holmberg of Finland, Raidla & Partners of Estonia and Norcous & Partners of Lithuania. It is also a member of the Meritas law firm network, which unites over 180 law firms in 62 countries.

Leading lawyers	**Key contact partners**
Girts Lejins	Girts Lejins
Andrejs Lielkalns	Dace Silava-Tomsone
Dace Silava-Tomsone	

Liepa Skopina/BORENIUS

Liepa Skopina/BORENIUS was described by one rival firm as having made "generally a good impression" over the last year. Certainly, its performance over the past 12 months has justified its elevation to tier one last year, a feat achieved after only two years of operation.

Name partner Lauris Liepa heads the banking and financial services department and was praised by rivals for "doing a good job". The firm is renowned for its knowledge of international finance. The highlight of the firm's year was its role on the €200 million eurobond for Parex Bank, in which the firm advised Deutsche Bank and HSBC. Among the year's other work, the firm advised HSH Nordbank on refinancing the loan it issued to Viesnica Hanzabanka, represented the European Bank for Reconstruction and Development in connection with its granting of various syndicated loans, and guided Snoras Bank through its mandatory share repurchase in Latvijas Krajbanka. Other clients in the financial services sector include IBS Suprema and the Royal Bank of Scotland.

It's been a relatively subdued year overall for capital markets in Latvia, but Liepa Skopina nevertheless picked up work from NCH in relation to the establishment of the joint-venture Lotus Wind Company, a deal that closed in December 2005.

In M&A the firm recruited Jevgenia Andronova to add depth to the team. In a steady year for the firm, it advised the target shareholders on the sale of advertising agency Creative Laboratory to Ogilvy & Mather's associated agency Taivas Maan Paalla, and Lauris Liepa and Zane Krecere also advised on the management buyout of Finance Management Solutions in May 2006. Other clients that have benefited from the firm's advice include Metro Capital Management, the Latvian Venture Capital Association and Merrill Lynch.

Liepa Skopina is linked with Finnish firm Borenius & Kemppinen, along with Regija Borenius in Lithuania and Luiga Mody Hääl Borenius in Estonia.

Leading lawyer	Key contact partners
Lauris Liepa	Lauris Liepa
	Laine Skopina

Loze Grunte & Cers

Loze Grunte & Cers remains the largest on the market with nine partners and 27 associates, as well as one specialist tax and finance advisor. Work in banking and financial services has included advising Franklin Templeton International Services, and representing Sampo Bank when it established a European company.

The firm's M&A practice received the most praise from rival firms and it is largely due to this praise that it retains its top-tier ranking. The team increased in size this year with the additions of associate Maris Brizgo, a lawyer from the European parliament, and Inguna Bolsakova, a tax and finance advisor recruited from Ernst & Young. Highlights of the year saw Janis Loze lead teams that advised on the merger of Severstallat and Latvijas Metals, the merger of Olympic Entertainment Group's daughter companies in Latvia, and the merger of Sampo Bank's three Baltic subsidiaries. Partner Ieva Judinska was involved in the merger of Olympic Entertainment Group daughter companies in Latvia.

Leading lawyers	Key contact partners
Gundar Cers	Gundar Cers
Ivars Grunte	Ivars Grunte
Janis Loze	Janis Loze

Skudra & Udris

Skudra & Udris maintains a solid tier two placing in both practice areas this year. Other firms came across them regularly, and clients were particularly positive about the quality of their corporate law advice. The firm has three partners and seven associates, and clients were particularly complimentary about the work of name partners Armands Skudra and Ziedonis Udris, both of whom are US-qualified.

On the finance side this year the firm provided Latvian counsel to the lending banks on three syndicated loans: the €470 million secured loan facility in connection with the international acquisition by French company Bonna Sabla of Finnish Consolis Group, the €188 million deal led by ING Bank for Parex Bank in Latvia, and the $85 million loan led by RZB Austria for the Latvian State Mortgage Bank.

In corporate work, meanwhile, the standout mandate was the firm's role advising Finnish company Altia on the acquisition of the alcohol retail company Mobil Plu in March 2006. Other clients to have benefited from Skudra & Udris' corporate advice include British Telecom, General Electric Capital and Wrigley, which the firm advised on the restructuring of its Baltic businesses.

Leading lawyer	Key contact partners
Armands Skudra	Armands Skudra
	Ziedonis Udris

Sorainen Law Offices

This rapidly expanding law firm is now the second largest in Latvia in lawyer numbers. It moves up to tier two this year for banking and finance, and also enters the mergers and acquisitions rankings in the second tier. One banking client praised the firm for its "pragmatic approach to finding legal solutions and supportiveness when liaising with clients".

In bank lending work the firm advised Raiffeisen Zentralbank Österreich on giving legal assistance on €10 million and €16 million syndicated loans to Baltic Trust Bank and a €21 million syndicated loan to Lateko Bank. It represented the same client, along with SEB Latvijas Unibanka, on drafting full transaction documentation for a €22 million term loan and revolving credit facility to Latvian company Bio-Venta.

Elsewhere, the practice advised the Nordic Investment Bank in providing two long-term loans with a total amount over €20 million to the Freeport of Riga Authority for the purpose of expanding the authority's fleet, and acted for the Nordic Environment Finance Corporation on a loan to local companies.

The firm provides financial services advice to a number of leading international banks, and has prepared a memorandum for one on the legal treatment of derivatives transactions in Latvia under the ISDA master agreement and credit support annex. It has also advised Barclays Capital on cross-border investment services in Latvia. Other clients of the firm for this type of work include Nordea Bank and Raiffeisen Zentralbank Österreich.

Capital markets activity in Latvia has been somewhat subdued of late, but the firm managed to pick up a plum role representing the Riga Stock Exchange in court proceedings on an appeal of the decision of the Financial and Capital Markets Commission. The firm was also instructed by Landsbanki Luxembourg in establishing a commercial pledge over two aircraft owned by Thor Aircraft Leasing, as security for financing the acquisition of the aircraft. It also acted for Danish real estate developer TK Development in the sale of one of the largest shopping centres in Latvia, Galerija Azur, for €40 million.

Sorainen Law Offices also assisted BNP Paribas Suisse in the insolvency proceedings and foreclosure of secured assets in Latvia, while in mergers and acquisitions the firm has caught the eye with some high-profile transactions. Among the highlights, the firm advised Vicus in contracts with subsidiaries of the SRV Group companies, a Finnish construction company, in acquiring a new distribution centre for DHL in Riga, Latvia and a new DIY store in Liepaja, Latvia. It also served as counsel to SIA Merks, a subsidiary of Merko Ehitus, when it acquired a 50% stake in SIA Zakusala estates, which has land use rights to 126,000 square metres of property on Zakusala island in central Riga.

Most recently, in April 2006, Sorainen advised Latvijas Mobilais Telefons in its acquisition of DT Mobile, which entailed obtaining approval from the Competition Council as well as preparing the share purchase agreement and related transaction documents.

Key contact partners
Pekka Puolakka
Girts Ruda
Agris Repss

Other notable firms

Baiba Plaude was singled out as a leading lawyer at **Blueger & Plaude,** a firm that boasts extremely impressive credentials in the burgeoning real estate market. Name partner Valentin Blueger has a strong relationship with the Rietumu Bank, and the firm has two other partners and four associates.

Glimstedt & Partners worked opposite Lejins Torgans when it advised Seb Unibanka on its acquisition of Latvian insurance company Balta Dviziba. It moves up a tier for corporate and M&A work this year after peers and clients noted its increased presence in the market. Partner Eriks Blumbergs was nominated as a leading lawyer, and major instructions in this area include representing the Danish Brewery Group in relation to its acquisition of Lacplesis Brewery. The firm has a sister office in Lithuania.

Kronbergs and Cukste, a firm with two partners and 12 lawyers, enters the banking and finance rankings this year on the advice of the market. In the past 12 months the firm has given advice to property investor Plaza Centres on a number of financial transactions, and acted for Deutsche Bank on the financial aspects of a property acquisition. In corporate work the firm advised on the restructurings of Latvian Railways and Latvenergo, advised Sampo Bank on the acquisition of Latvia's savings bank, and guided Straumberg through the acquisition of Lateko Bank. Finally, the practice represented Via Finance on the acquisition of Vaivari, a company that owned major real estate in the town of Jurmala.