

European Corporate Governance Network

A Survey on Latvian Corporate Governance Rules, Statistics and Institutions.¹

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Table of contents

1	Introduction	1
2	Qualitative survey: rules and regulations	2
2.1	Company types according to the old commercial code	2
2.2	Company types according to the new commercial code.....	4
2.2.1	Main features	4
2.3	Laws currently applicably to legal forms (also under new law).....	5
2.4	Legal definitions of groups	5
2.5	Ownership disclosure rules	6
2.5.1	Company law (all types).....	6
2.5.2	Accounting rules (public ltd. liability)	9
2.5.3	Competition rules (public ltd. liability)	9
2.5.4	Large Holdings Directive (88/627/EEC).....	9
2.6	Inside supervision	11
2.6.1	Boards.....	11
2.6.2	Manager independence.....	12
2.6.3	Shareholder meeting.....	13
2.7	Outside supervision.....	14
2.7.1	Stock markets	14
2.7.2	Public offerings	14
2.7.3	Insider trading.....	14
2.7.4	Takeover rules	15
2.7.5	Auditors	15
3	Quantitative analysis.....	16
3.1	Basic population statistics.....	16
3.1.1	Active and registered companies by legal form at March 1, 2000 (Enterprise Register)	16
3.1.2	Enterprises Registered on 1 December 1999 (Statistical Office).....	17
3.2	The sample used for the analysis	17
3.2.1	Number of companies by sector of activity in the final data set	17
3.2.2	Number of companies by size (total assets 1999, local currency)	18
3.3	Boards structures: a quantitative analysis	18
3.3.1	Average Supervisory and Management Board Size by company size	18
3.4	Ownership and control of companies.....	19
3.4.1	Average percentage of direct shares owned by the largest investor for investor type and size	19
3.4.2	Ownership structure. Average percentage of direct shares owned by the 1 st , 2 nd , 3 rd and 4-10 th largest investor by company size.....	20
3.4.3	Ownership structure. Average percentage of direct shares owned by the 1 st , 2 nd , 3 rd and 4-10 th largest investor by sector of activity.....	20
3.4.4	Ownership structure. Average percentage of direct shares owned by the 1 st , 2 nd , 3 rd and 4-10 th largest investor by company size and investor type	21
3.4.5	Ownership structure. Average percentage of direct shares owned by the 1st, 2nd, 3rd and 4-10th largest investor by company size and investor type	21
3.4.6	Direct shares owned by the 1 st -5th largest owner, by investor type	21
3.4.7	Official list companies - investor type and direct shares owner by 1st, 2nd, 3rd, 4th and 5th investor for each company.....	22
3.4.8	Second List companies - investor type and direct shares owner by 1st, 2nd, 3rd, 4th and 5th investor for each company.....	22
4	Final remarks	23

1 Introduction

This survey is based on the questionnaire proposed by the European Corporate Governance Network. It provides information on legal aspects of corporate law in connection to ownership and governance and summarises the data on direct ownership in tables.

First the different company types are discussed under the current law and then under the new Commercial Code that will come into force this year. After this, the different legal mechanisms concerning governance, ownership and disclosure rules pertaining to public joint – stock companies are discussed.

In the second part of the survey the quantitative results are presented. First comes the population statistics. After that, the ownership of the sample companies is presented in the form of tables. The sample consists of the companies listed on Riga Stock Exchange (Official list, Second list and Free list) as of January 2001. This gives us the sample of 58 companies for which the information on ownership and size is available. Only direct ownership information is available in all cases. The information on blockholdings is not available despite the formal transposition of the Large Holdings Directive.

2 Qualitative survey: rules and regulations

2.1 Company types according to the old commercial code

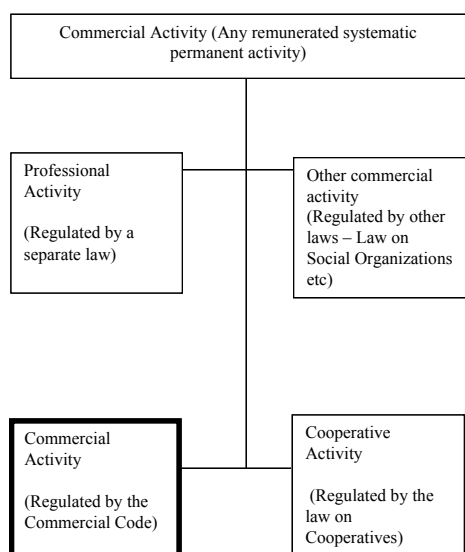
Indicator	Individual work	Single owner enterprise	Family enterprise	Partnership	Company			Co-operative
Local name								
	Individuālais darbs	Individuālais uzņēmums Zemnieku saimniecība Zvejnieku saimniecība Pašvaldības uzņēmums Valsts uzņēmums Sabiedriskās organizācijas uzņēmums Statutsabiedrības uzņēmums Reliģiskas organizācijas uzņēmums Sabiedriskā organizācija	imenes uzņēmums	Līgumsabiedrība ar pilnu atbildību Komandītsabiedrība	Paju sabiedrība	Sabiedrība ar ierobežotu atbildību (SIA)	Akciju sabiedrība (AS)	Kooperatīvā sabiedrība Kooperatīvo biedrību savienības Kooperatīvo biedrību uzņēmums Kooperatīvo biedrību savienība
Limited vs. unlimited liability?								
	Unlimited Liability	Differs	Limited liability	Unlimited Liability. Limited liability for some partners in case of Komandītsabiedrība	Limited Liability	Limited Liability	Limited Liability	Limited Liability
Minimum capital?								
	None	None	Ls 2000	None			Statutory	

Indicator	Individual work	Single owner enterprise	Family enterprise	Partnership	Company		Co-operative
						capital Ls 2 000 000 for banks Ls 1 000 000 for life insurance Ls 500 000 for insurance Ls 10 000 for pawnshops Ls 5 000 for other JSCs	
Minimum number of owners?							
	Only 1 owner		At least 1 owner, but not more than 50	At least 2 owners		At least 3 owners. 1 owner if it is state, foreign, or a closed pension fund	At least 3 founders
Minimum number of managers?							
	-	-	Board consists of 1-12 members			Board consists of 3-12 members	

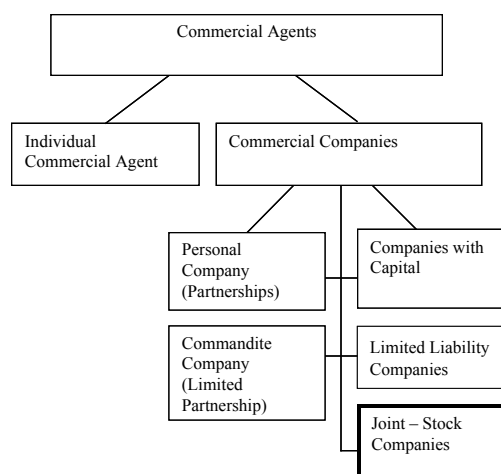
2.2 Company types according to the new commercial code

The new Commercial Code clarifies the concept of ‘commercial activity’ and reduces the number of legal forms to five (Scheme 2). All the for-profit commercial activities are regulated by a single Commercial code set to come into force on April 1. This date is was initially set to be January 1, 2001, but due to the complexity (mostly administrative) of enforcing the law and the need to define re-registration procedures (by a separate law on bringing the Commercial Law into force) the date was moved to April 1st. This second law on procedures has not been passed yet, which makes it doubtful whether the Commercial Code will actually be introduced by April 1. In addition to this, a two-year “grace period” will be

Scheme 1. Commercial Activities in Latvia



Scheme 2. Types of Commercial Agents



given; in which re-registered firms (all firms need to re-register) and all new firms will be governed by the Commercial Code and all the firms which have not registered yet – by the old set of laws.

2.2.1 Main features

Indicator	Individual Companies	Limited Liability Companies	Joint Stock Companies	Personal Companies (Partnerships)
Local name				
	Individuālais uzņēmums	Sabiedrība ar ierobežotu atbildību (SIA)	Akciju sabiedrība (AS)	Līgumsabiedrība ar pilnu atbildību
Limited vs. unlimited liability				

Minimum Capital				
	None, required to register only if has certain turnover, permanent workplace or employs over 5 people	2 000 LVL (same)	25 000 LVL (increased)	None
Smallest Number of Owners				
	1	1	1 (reduced)	2
Smallest Number of Managers				
	1	1	1	

Under the new Commercial Code the first four legal types will be regulated by the Commercial Code and the Cooperatives by a separate law on Cooperatives. Currently each legal company type is regulated by a separate law.

2.3 Laws currently applicably to legal forms (also under new law)

Legal Type	Name of the Law	Name of the Law (local language)
Limited Liability Company	Law on Limited Liability Companies	Par sabiedrībām ar ierobežotu atbildību, Par paju sabiedrībām
Joint – Stock Company	Law on Joint – Stock Companies	Par akciju sabiedrībām
Partnerships	Law on Partnerships	Par līgumsabiedrībām
Individual Company	Law on individual (family), agricultural activities and individual work	Par individuālo (ģimenes) uzņēmumu, zemnieka vai zvejnieka saimniecību un individuālo darbu
Cooperative	Law on cooperatives.	Kooperatīvo sabiedrību likums

2.4 Legal definitions of groups

What is the legal definition of the group, as set out in company law?
A basic definition of a group is found in the law On Concerns in force from April 2000. Concern can be formed upon a contract in which a company agrees to pass either its management or its profit (or its part) to another company. Concern is also formed if one company has decisive control over another. Decisive control is defined in the following way: a company has majority of votes in another company; a company has a right to elect or remove majority of Management or Supervisory Board members.
What is the definition of group according to the rules on drawing up consolidated accounts (transposition of Directive 83/349/EEC)?
The law on Consolidated Accounts, which entered into force on 1 January 2000 applies if the mother company in direct or indirect way (through agreement with another controlled undertaking or as stated in statutes) has over 50% in voting rights of the daughter company or has the possibility to elect (remove) majority of members of Board of Directors or Supervisory council
What is the definition of group applied by the competition authorities?
The law “On Competition” which is in force from August 1997 treats the undertakings belonging to the same group as a single company. All the companies on which another company has decisive control (defined above) are treated as a single company.

2.5 Ownership disclosure rules

2.5.1 Company law (all types)

SINGLE OWNER ENTERPRISE	PARTNERSHIP	LIMITED LIABILITY COMPANY	JOINT STOCK COMPANY	SHARE HOLDING COMPANIES	CO-OPERATIVES
Register when the company is founded					
State Enterprise Register	State Enterprise Register	State Enterprise Register	State Enterprise Register	State Enterprise Register	State Enterprise Register
Documents that the company has to deposit when the company is founded					
	Foundation Agreement	Foundation Agreement Company Charter Protocol of the foundation meeting	Foundation Agreement Company Charter		Foundation Agreement Company Charter Protocol of the foundation meeting
What is the legal procedure for transferring shares? (e.g. Anonymous, registered shares can be transferred with consent of the company, company has a register which is/is not public)					
			Closed issue: in accordance to the statutes of the company or according to Chapter 34 Articles 1-6 of the law “On Joint Stock Companies Public issue: in accordance with the law “On securities”		
Limits on the Directors to hold ownership certificates in the company					
			None. Cannot buy (sell) for at least six month after the purchase (sale)		

Sole proprietor	General partnership	Limited partnership	Private limited liability company	Public limited liability company	Commercial association
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Company notification for acquisitions or holdings of a stake in another company and applicable thresholds.					
No	No	May not hold 100% of another company	Listed JSCs must file an immediate note to the SMC and RSE in two cases: * If the total amount purchased constitutes more than 10, 25 ... (every 25 per cent) of the paid up capital of the issuer of the company * if the issuers participation in the enterprise constitutes 10, 25, 50 per cent (Art 4.20 of the Regs on Disc of Material Events) All JSCs must file a note to SMC (RSE) for all transactions if the total amount constitutes more than 50, 75 (every next 50) per cent of the paid up capital		
Is the list of owners deposited?					
Yes	Yes, in the Foundation Agreement	Yes, in the Foundation Agreement	Yes, in the Foundation Agreement (Founders and Directors)	Yes, in the Foundation Agreement	Yes, only the founding members in the Foundation Agreement
Is the companies register centralised%					
Yes.					

Main change concerning Joint – Stock companies under the new Commercial Code is that all of them become public. All closed JSCs have a choice of re-registering as Limited Liability Companies or becoming Public JSCs. Some of the companies currently registered as closed JSCs will need to increase their capital to be able to register as JSCs

Sole proprietor	General partnership	Limited partnership	Private limited liability company	Public limited liability company	Commercial association
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The company register is centralized and open to public through Lursoft interface. Most of the information (legal address, balance sheet data, list of activities, list of board of directors and Supervisory board member, shareholdings over 5% (on a voluntary basis), and also connections between the companies on the basis of ownership, same persons sitting on boards of the companies or other) is fee based and available in html format

2.5.2 Accounting rules (public ltd. liability)

What ownership information do these companies have to report in the annex of their annual reports (Fourth Company Law Directive, 78/660/EEC of 25 July 1978 covering all limited liability companies; Seventh Company Law Directive 83/349/EEC of 13 July 1983 on consolidated accounts) ?
All direct stakes over 5%
Which national law transposed the accounting standards directives ? (4th Directive 78/660/EEC and 7th Directive 83/349/EEC)
Law "On accounting" ("Par grāmatvedību"), law "On annual reports of enterprises" (Par uzņēmumu gada pārskatiem). Adopted on 14.10.1992 and in force from 1.01.1993
Has the country imposed additional requirements via its national accounting standards (e.g. as a result of the activities of the International Accounting Standards Committee or rival standards)?
No.
Is the information from this source only available on paper (the printed annual report) or in computer readable form
Available on paper. Available on computer readable format for Listed Companies
If the information is available from databases, is the information from the different sources consistent (the printed annual report being the benchmark) ?
Yes, for selected companies checked

2.5.3 Competition rules (public ltd. liability)

Are there any competition (anti-trust) rules on ownership stake notifications that apply to this type of company ?
No, only that a company has to notify the competition authority if a company, temporarily or permanently acquires control over other company (ies). The notification must be given before the merger and approved by the competition authority if a) the joint turnover for all the companies in question exceeds 25 million LVL or if at least one of the parties held a domination position in the market (40% or higher). If the companies fall under one of the two categories they cannot register at the Enterprise Register before the clearance from the Competition Council.
Whom do the companies have to notify and where is this data published ?
The companies need to notify the Competition Council in the cases described above. The clearance is given with 60 days. The law does not make provisions for publishing the decisions.

2.5.4 Large Holdings Directive (88/627/EEC)

The transparency directive was transposed in the Law on Securities. However, the transposition of the directive does not result in availability of blockholdings data for the public joint – stock companies. There was no initial notification of the blocks at the moment the directive was transposed. However, since the date of transposition the companies are notifying the Securities Markets Commission when the thresholds stated in the law are exceeded. There is no data on whether all of the companies report. The SMC actively monitors the market and if it suspects non-disclosure it launches an investigation, involving the parties in question, and the custodian banks which disclose all the holdings held in their securities accounts. Sometimes the notification comes on part of the issuer, not the blockholders. The notifications are stored in paper files for each company in chronological order. Other information stored includes securities issue prospectuses, lists of shareholders at

GSMs, minutes of the meetings etc. Since there is no information on how exhaustive is this data and no initial blockholdings were taken, it is impossible to construct a dataset on blockholdings for all companies. The notifications are not available in electronic format, or cumulatively in any form. The Securities Market Commission is planning to make an electronic database of all information, including changes in blockholdings.

When was the Transparency Directive transposed, and in what law/regulation?
30/10/1997
When did the legislation become effective? (or, when is it estimated to become effective?)
14/11/1997 (rev. 2000)
Which are the “competent authorities or authorities” referred to in Article 13?
Securities Commission and the Stock Exchange for Listed Companies
The Transparency Directive left the Member States a considerable degree of freedom in implementing the individual articles (see text of directive in Appendix). Indeed, Article 3 allows the Member States to tighten up the transposition at will, converting the provisions of the directive into common minimum standards – has this been done?
No.
Is the first time notification threshold referred to in Article 5 10% or lower?
No first time notification
Do natural persons or legal entities have to notify why they notified (i.e. which of the possibilities in Article 7 apply)?
No.
Do natural persons or legal entities have to notify how they control an undertaking (a, b or c in Article 8)?
No.
How much time may pass between crossing a threshold and reporting to the company (and the competent authority/authorities)?
7 days
How much time may pass between the notification of the company (and the competent authority/authorities) and the notification of the public; Art. 10(1)?
9 days
Who notifies the public; Art. 10(1)?
Securities Markets Commission
Does the national law prescribe that "a company must also be informed in respect of the proportion of the capital held by a natural person or legal entity"; Art. 4(1)(3)?
No.
By what means are the company and the competent authority/authorities notified; Art. 4(2)? How does the competent authority store the notifications (paper, computer)?
In writing. They are then stored in paper format in per company files
In addition to the immediate distribution mentioned in the directive (unless the company is responsible) does the competent authority distribute the notifications cumulatively (e.g. on floppy disk upon request)?
Only for a limited number and on special request.
Does the competent authority/authorities have to declare how often it has applied the waiver rule set out in Article 11 (and for which natural person, legal entity)?
There is no waiver rule.

What are the sanctions mentioned in Article 15? How are these sanctions applied (or, what powers are conferred upon the competent authority/authorities for the performance of their duties; Art. 12(2))?
A fine on a legal entity – in the amount of up to 200 minimum monthly salaries, on a natural person – a fine in accordance with the Latvian Code of Administrative Violations. In case of a repeated violation, the Commission may prohibit this person from engaging in transactions with securities in public circulation for a time period up to three years, or apply other sanctions provided for in legislative acts. (Article 67.3). Sanctions are applied upon decision of SMC. The cases are made public via the SMC website.
Apart from the transposition of the transparency directive, are there any other regulatory rules that impose additional ownership data reporting requirements (distinguish between different markets if country has more than one)? If yes, is the ownership data available and from where?
n.a.
Apart from the transposition of the transparency directive and any other rules imposed on the stock markets and its participants, does the stock exchange itself impose additional ownership data reporting requirements (distinguish between different markets if country has more than one)? If yes, is the ownership data available and from where?
n.a.
What companies are subject to the Transparency Directive, and how many are actually reporting?
All public companies
Is there a noticeable difference between the data reported according to the directive and data available on direct stakes?
n.a.
What are the thresholds chosen?
1/10, 1/5, 1/3, _ or 2/3,3/4 of votes in case of acquisition. In case of disposal if the voting power is decreased by at least 5% as the result.
General comments
Formally implemented but does not result in data being available. Data is collected from company, not the holder of the voting rights; blocks are not reported, reporting is done “on demand from the SMC”, not on regular basis.

2.6 Inside supervision

2.6.1 Boards

What are the legally available board structures (one or two-tier board)?
Both one tier (if the total number of shareholders is below 50) and two tiers possible (the two/one tier board structure is applicable to joint-stock companies only)
Are there different categories of directors and/or of managers? What are their titles (in the original language)?
Executive directors/nonexecutive directors are member of the Board of Directors. There is also another subset of directors that may or may not exist – these directors (direktori rīkotāji) are more immediately concerned with management aspects than executive directors. Direktori or direktori rīkotāji
What are their functions (tightly controlled agents of the directors, fairly independent day to day running of the company, supervision of management on behalf of the shareholders)?
Supervisory Board: to control the operations of the Board, to review the budget, to review the Annual Report, to represent the company in court, overview the questions which are in the competence of GSM and give their view on them. The questions for which the management board needs approval from the supervisory board may be set in the statutes. Management board: to manage the company within the set budget
What are their powers (directors hire and fire the senior management, managers hire and fire middle managers)?

The Supervisory board has the right to demand the information on financial status and operations from the Management Board at any point in time
Does the chairman of the board of directors have veto power or a “golden vote”?
No. The vote is the simple majority vote and in case there is equal division of votes, the vote of the chairman of the board is decisive.
By whom are directors/managers nominated, appointed (and for how long), re-appointed, promoted, removed, remunerated? How are these decisions taken (majority voting, unanimity)? Does anybody have veto power?
Members of the Supervisory and Management board are nominated, appointed, removed and remunerated by the general shareholder meeting. The order upon which the members of the Supervisory or Management board resign is set in the statutes of the company. The executive directors (if there are any) are nominated, and elected either by GSM or by Management Board (if GSM decides so). The Supervisory Board candidates that have received the highest number of votes at the GSM, are elected but so their number does not exceed that stated in the statutes. Simple majority voting for Management Board and directors. Nobody has veto power.
Are the nomination and appointment rules set out in company law, the company statute, imposed by the stock exchange?
In the law “on Joint-Stock Companies” and variations according to company statutes.
Is it possible to obtain a list with the names of the persons who sit on the board and in the various committees for each company?
The list and all the changes are reported to the Enterprise Register.
Is it possible to find out how much the individual directors and managers earn (pay, bonuses, stock options)?
Not individually.
Do directors have to declare how many shares in their own company they possess and when they buy and sell?
Both executive and non-executive directors have to report the stake. Acquisition and disposal according to the law “On securities” art 64,65,65.1 (The large holdings directive)
Is it possible for a shareholder/a member of the public to obtain a copy of the managers employment contract/the directors employment contracts?
No.

2.6.2 Manager independence

For which business decision must the managers seek approval by the shareholder meeting and/or the board and/or worker representatives?
The Supervisory Board (shareholder meeting if no SB) approval is needed for buying a stake in other companies, disposal and acquisition; acquisition or sale of real estate or using it as a mortgage, establishment or closure of branches and rep offices, increasing the amount of capital investment to the amount exceeding what is set by the shareholders meeting; extending credit lines unrelated to the main business of the company, branching out into other business areas and terminating the existing ones, extending credit to the employees, taking on debt above the limit set by the shareholders meeting, determining the general principles of activity. It is possible to set out additional restrictions in the statutes of the company.
In particular, do these decision include financing decisions (IPOs, new equity issues, bond issues, bank loans, use of derivative products)?
If the amount of financing exceeds the limits set out by the shareholders meeting. See the question above.
Is approval granted by majority voting?
Yes - majority voting by the Supervisory Board or the shareholder meeting.
Is the catalogue of decisions that the managers cannot take independently set out in the company statute, laid down by company law, stock exchange or other regulation?
Set out in the law “On JSCs” and additionally in the statutes.

Are managers allowed to buy shares in the company in the name of the company?
Not allowed except to reduce the capital of the company, as a result from acquiring control of a shareholder – the shares must be deleted from the register or sold off within 1 year.
Is the management allowed to vote these shares?
No.
Is the management allowed to vote shares in the company that belong to third parties that have signed over the voting rights to them?

2.6.3 Shareholder meeting

Who has the right to attend the General Shareholders Meeting (GSM)?
Shareholders or their representatives (with proxy voting rights), representatives of groups of shareholders in companies with many shareholders; Supervisory and Management board members, auditors, also sworn auditors – without the voting rights.
Is it possible to delegate (or transfer) voting rights to third parties? If so, how?
Yes, though proxy voting or according to the SMC regulations if the company statutes allow this procedure.
What percentage of the equity capital has to be present at the meeting to take binding decisions?
At least half of paid –up capital. Major financing decisions (share emissions, mergers, changes of statutes) are binding with at least $\frac{1}{2}$ of all paid-up capital. At least $\frac{1}{2}$ of paid up capital for decisions on organisational questions, new share issues and buy-back and changes in statutes. No requirement for a repeated GSM (if the first one could not take binding decisions due to insufficient capital being present).
What majority is required to change the company statute (Articles of Association)?
$\frac{1}{2}$ of paid –up capital at the first GSM, none – at repeated GSM.
Can this required majority be increased or decreased in the company statute?
Cannot be changed.
Is it possible to obtain a copy of the attendance list of the shareholder meeting as a shareholder/as a member of the public?
Yes, as a shareholders at least 3 days before the meeting free of charge and a for-fee service by the Depository for the general public.
Is it possible to obtain the minutes of the annual meeting with the results of the votes for each item on the agenda?
Yes, the shareholders have a right to ask the management board for the full minutes of the meeting or an excerpt from it.
What other information do the minutes contain?
The list of the attendees or their proxies, the agenda, most important statements in the discussion, protests, decisions and voting results.
Can the shareholder ask the management to disclose whether the company holds stakes in other companies?
All stakes above 5% are disclosed in the annual report.
Can a shareholder ask the management to disclose whether the company is participated by other companies – if the management is aware of such holdings?

How many shares (voting rights) does the shareholder need to own to make such a request? (see above)

Is there a mandatory one-share one-vote rule?

The new Commercial Code will change several points. Firstly, the formation of the Supervisory Board will be obligatory for all public companies – the two-tier system for all joint-stock companies. Secondly, there are no requirements on percentage of the equity capital that has to be present at the meeting to take binding decisions – binding decisions can be taken irrespective of what percentage of capital is present at the GSM. The shareholders are allowed to review the meetings of GSM with all attachments and have a copy or citation free of charge.

2.7 Outside supervision

2.7.1 Stock markets

What are the main stock markets and who is in charge of supervising them?
Riga Stock Exchange. It is supervised by the Supervisory Board elected by the shareholder meeting.
Who owns the main stock markets ?
RSE is a non-profit JSC owned by 27 shareholders (banks, brokerages and the Real Estate Fund).

2.7.2 Public offerings

What are the listing requirements on the main, second and third tier markets?
Official List: Paid up capital of at least 5'000'000 LVL and Securities issues at RSE of the value not less than 3'000'000 LVL and not less than 25% of all issued securities must be in public circulation. The company must be in operation for at least 3 years, be profitable in the last accounting year and have not fewer than 300 shareholders registered at the depository. Unless the share issue is the result of privatisation by the Latvian Privatisation Agency, the company has to have a history of public quotation of shares on RSE, Baltic SE, or International Federation of Stock Exchanges member Exchange for at least 6 months. Current List: Paid up capital of at least 500'000 LVL. The company must be in operation for at least 1 accounting period and have not fewer than 100 shareholders registered at the depository Free list: No requirements. The company has to submit an application of RSE may list a company according to Latvian Privatisation Agency's recommendations.
What are the insider trading rules associated with a public offering?
None
What are the information diffusion policies before a public offering?
After approval by the Securities Commission the issuer is must publish an information prospectus available to all interested natural and legal persons.

2.7.3 Insider trading

What are the insider trading rules that apply for the different markets?

Who is in charge of enforcing them?

What are the possible penalties?

Have there been cases where the insider trading law was applied?

2.7.4 Takeover rules

Are there any takeover rules?
No
What are the main ingredients of these rules? (expand this section)

2.7.5 Auditors

Which documents that the companies publish are previously checked by auditors?
Annual report, semi-annual for all listed companies and quarterly for official list companies.
What legal responsibilities, for example liability, do the auditors assume?
Liability is limited, and usually to the amount of the fee.
Have there been any well known cases where auditors have been brought to court by shareholders or directors?
There were no precedents.

3 Quantitative analysis

3.1 Basic population statistics

The population statistics by legal form are available only through the Enterprise Register. The Statistical Office does not consolidate statistics on the legal form basis. The public interface of Enterprise Register is available on-line (www.lursoft.lv). The information is fee – based. Some indicators are available free of charge. The number of active and registered companies by legal form at the most recent date is one of such indicators. Lursoft does not keep the backlog of the statistics, hence the information available is the most recent one.

The division by activities and legal forms is not possible. Firstly, it is not meaningful, since the companies are not limited in the number of activities they indicate at the moment of registering. Moreover, NACE classification is used only from April 1999 to indicate their activities. In the period 1991 – 1999 only 25% of all registered companies used NACE classification to indicate their activity type.

3.1.1 Active and registered companies by legal form at March 1, 2000 (Enterprise Register)

Legal Type	Registered	Active
Limited Liability Companies	80,953	56,433
Individual Companies	27,435	24,449
Cooperative	3,271	2,502
Joint-Stock Companies	1,688	1,494
State-Owned Companies	1,190	355
Partnerships	155	130

3.1.2 Enterprises Registered on 1 December 1999 (Statistical Office)

	Number of Registered Companies	Active Co's	Have ceased activity for an indefinite period of time	Have terminated activity
Total	109,012	53,262	17,243	38,507
Central Government Enterprises	1,237	161	16	1,060
Local Government Enterprises	1,344	638	20	686
Limited Liability Companies	71,899	35,056	9,438	27,405
Joint - Stock Companies	2,323	1,470	198	655
Partnerships	771	240	63	468
Sole Proprietor Enterprises	27,318	13,736	6,971	6,611
Other	4,120	1,961	537	1,622

3.2 The sample used for the analysis

The table below divides to companies in the sample by the sector of activity. Since no categorisation of companies by NACE classification is available, the companies are aggregated by NACE type classification with major sub-classes (food and beverage, wood processing) indicated separately.

3.2.1 Number of companies by sector of activity in the final data set

Sector	No. of companies included
Agriculture, livestock, hunting, forestry and fishing	7
Food and Beverage	11
Wood Processing	4
Energy and Water	3
Chemicals	4
Metal Transforming Industries	6
Other Manufacturing Industries	6
Construction	5
Financial Services	2
Other Services	9
Total	58

3.2.2 Number of companies by size (total assets 1999, local currency)

Percentile	Size Class	Number of companies	Between (thousands LVL)		
Less than 10%	1 (Smallest)	5	0	-	447
Between 10 and 25	2	9	447	-	770
Between 25 and 50	3	14	770	-	1818
Between 50 and 75	4	14	1818	-	7442
Between 75 and 90	5	9	7442	-	23394
Above 90%	6 (Largest)	6	23394	-	266750

All the following statistics refer to the direct stakes reported as of most recent GSM in 2000. The data was crosschecked with Depository data on securities issues to see if there were several securities issues with different characteristics (differences in voting rights attached included) to conclude that the share issues were identical for all companies implying the 1 share 1 vote correspondence.

3.3 Boards structures: a quantitative analysis

The data on boards composition is available from the Enterprise Register through Lursoft database. This information is fee based. For this study the information on the board structure of companies listed on the Official and Second lists at the Stock Exchange was collected. The information was crosschecked with that available from RSE. It generally corresponds apart from few cases – the Enterprise Register information was preferred as this is the primary source. Due to the small resulting number of companies only the size distribution and the total averages are presented.

Neither the Enterprise Register nor RSE distinguish between external and internal board members.

3.3.1 Average Supervisory and Management Board Size by company size

Size Class	Average Number	Number of Companies	Average Number	Number of Companies
1 (smallest)	Supervisory Board		Management Board	
2	3.00	1	4.00	1
3	5.00	1	3.00	1
4	4.25	4	3.5	4
5	5.71	7	5.14	7
6 (largest)	6.50	6	5.00	6
Total	6.08	19	5.08	19

3.4 Ownership and control of companies

The sample for analysis was initially limited to all the public Joint Stock Companies. Their number is XXX. The ownership information on all companies was obtained from the Central Depository, from the lists of shareholders on the latest (2000) general shareholders meeting. The only other source of ownership information is Riga Stock Exchange, which provides this information (consistent with that from the Depository) on their website only. The data on ownership was obtained for 76 public companies. Crossing this data for the companies for which the data on size (total assets as of December 31, 1999) gave a sample of 58 companies. This list comprises all the companies that are traded on Official, Second and Free lists at Riga Stock Exchange.

Also, it was impossible to distinguish between the types of the owners beyond the four categories: domestic legal, domestic physical, foreign legal, and foreign physical. A more detailed classification was impossible – apart from identifying banks among the owners. However, this left many cases unidentified, hence no sample-wide conclusions can be drawn.

It must also be noted that among companies, which are identified as foreign legal entities, a number is offshore which in fact belong the domestic legal or physical persons. Since only limited conclusions can be drawn on the basis of media coverage most of the cases are left unidentified.

3.4.1 Average percentage of direct shares owned by the largest investor for investor type and size

Size Class	Domestic Legal	Average percentage	Domestic Physical	Average percentage	Foreign Legal	Average percentage
1 (smallest)	3	73.87	1	51.091	1	54.1
2	7	51.56	2	38.85		
3	8	48.18	4	50.48	2	42.03
4	8	50.78	4	51.44	2	49.17
5	5	48.46	1	12.00	3	43.05
6 (largest)	2	47.30			4	67.58

3.4.2 Ownership structure. Average percentage of direct shares owned by the 1st, 2nd, 3rd and 4-10th largest investor by company size.

Size class	Owner 1		Owner 2		Owner 3		Owners 4-10	
	Per cent owned	No. of companies	Per cent owned	No. of companies	Per cent owned	No. of companies	Per cent owned	No. of companies
1 (smallest)	65.36	5	4.23	5	2.28	4	0.83	4
2	48.73	9	11.09	9	7.73	8	2.08	7
3	50.70	14	7.31	13	4.67	11	3.31	9
4	50.73	14	14.20	13	7.20	10	2.17	9
5	42.60	9	14.47	8	11.10	7	4.22	5
6 (largest)	60.82	6	20.25	5	8.50	3	7.25	2
Total	53.16	58	11.92	53	6.91	43	3.31	36

3.4.3 Ownership structure. Average percentage of direct shares owned by the 1st, 2nd, 3rd and 4-10th largest investor by sector of activity

Sector of activity	Owner 1		Owner 2		Owner 3		Owner 4 -10	
	Average percentage shares owned	Number of Companies	Average percentage shares owned	Number of Companies	Average percentage shares owned	Number of Companies	Average percentage shares owned	Number of Companies
Agriculture, hunting, forestry and fishing	52.23	7	12.74	7	7.33	7	3.87	7
Food and Beverage	48.16	11	8.41	11	5.48	6	5.36	5
Wood Processing	56.08	4	6.70	4	3.48	4	1.93	4
Energy and Water	28.13	3	25.67	3	9.80	2	14.80	2
Chemicals	44.11	4	16.27	4	15.45	4	9.58	3
Metal Transforming Industries	53.45	6	13.01	5	9.73	4	4.70	2
Other Manufacturing Industries	51.85	6	10.41	5	6.35	5	3.88	5
Construction	65.99	5	4.90	4	3.15	4	2.80	3
Financial Services	65.95	2	14.25	2	3.70	2	5.20	1
Other Services	48.23	9	13.46	8	5.46	5	6.30	4
Total	52.49	58	12.58	53	6.99	43	5.84	36

3.4.4 Ownership structure. Average percentage of direct shares owned by the 1st, 2nd, 3rd and 4-10th largest investor by company size and investor type

	Legal Domestic				Physical Domestic				Legal Foreign			
	1	2	3	4 - 10	1	2	3	4 - 10	1	2	3	4 - 10
Agriculture, livestock, hunting, forestry and fishing	58.20	5.00	5.13	-	44.27	11.43	8.98	1.56	-	22.45	-	4.94
Food and Beverage	52.88	6.67	3.97	4.20	37.88	8.05	5.00	2.77	47.41	23.10	11.00	3.20
Wood Processing	54.70	5.00	3.67	-	60.80	6.90	2.90	1.10	54.10	8.00	-	-
Energy and Water	42.20	26.00	-	-	-	-	2.50	2.40	25.60	25.00	17.10	14.80
Chemicals	39.63	20.36	20.30	4.75	-	12.80	11.90	6.10	57.54	11.54	9.32	2.30
Metal Transforming Industries	48.53	12.13	9.70	-	47.90	11.30	9.75	2.35	78.70	-	-	-
Other Manufacturing Industries	56.42	12.75	3.40	3.47	-	10.25	8.31	0.93	28.96	6.08	-	-
Construction	72.05	4.00	2.90	-	56.90	5.20	0.70	1.68	-	-	8.30	-
Financial Services	-	18.70	4.00	1.40	-	-	3.40	-	65.95	9.80	-	3.80
Other Services	49.44	14.39	6.63	6.90	39.13	9.60	3.71	3.05	69.50	11.75	-	-
Total	52.67	12.50	6.63	4.14	47.81	9.44	5.71	2.44	54.81	14.71	11.43	5.81

3.4.5 Ownership structure. Average percentage of direct shares owned by the 1st, 2nd, 3rd and 4-10th largest investor by company size and investor type

	Domestic Legal				Domestic Physical				Foreign Legal			
	1	2	3	4 - 10	1	2	3	4 - 10	1	2	3	4 - 10
1 (smallest)	73.87	8.66	2.73	0.70	51.09	3.13	0.90	0.85	54.1			
2	51.56	8.29	6.97	6.90	38.85	12.13	8.18	1.68		18.10		
3	48.18	6.90	5.05	5.96	50.48	7.96	4.12	2.94	42.03		8.30	
4	50.78	12.96	5.44	2.57	12.00	16.55	15.4	1.55	43.05	17.40	3.05	
5	48.46	15.91	12.40	3.91		11.4	7.80	5.40		13.57	10.16	3.05
6 (largest)	47.30	27.35	5.00	10.00			3.40	1.00	67.58	15.52	17.10	9.00

3.4.6 Direct shares owned by the 1st-5th largest owner, by investor type

	Owner 1	Owner 2	Owner 3	Owner 4	Owner 5
Domestic Legal	53.76	11.60	7.13	4.53	2.37
Domestic Physical	45.70	9.08	6.31	2.50	1.69
Foreign Legal	51.38	15.57	11.43	6.34	2.30

3.4.7 Official list companies - investor type and direct shares owner by 1st, 2nd, 3rd, 4th and 5th investor for each company

		Owner 1		Owner 2		Owner 3		Owner 4		Owner 5	
		Investor type	% of shares	Investor type	% of shares	Investor type	% of shares	Investor type	% of shares	Investor type	% of shares
Balta apdrošinasanas	Insurance	Foreign legal	35.40	Domestic legal	18.70	Domestic legal	4.00	Foreign legal	3.80	Domestic legal	1.40
Latvijas Gaze	Natural Gas Distribution	Foreign legal	25.6	Foreign legal	25.00	Foreign legal	17.10	Foreign legal	14.80	Domestic legal	10.00
Rīgas kugu buvetava	Shipyards	Domestic legal	50.18								
Rīgas Transporta flote	Shipping	Foreign legal	69.50	Foreign legal	11.75						
Staburadze	Candy Factory	Foreign legal	40.90	Domestic legal	13.50	Domestic legal	4.70	Domestic legal	4.20	Domestic physical	1.80
Ventspils nafta	Oil Terminal	Domestic legal	43.60	Domestic legal	47.00						

3.4.8 Second List companies - investor type and direct shares owner by 1st, 2nd, 3rd, 4th and 5th investor for each company

		Owner 1		Owner 2		Owner 3		Owner 4		Owner 5	
		Investor type	% of shares	Investor type	% of shares	Investor type	% of shares	Investor type	% of shares	Investor type	% of shares
Daugavpils pievadkezu rūpnīca	Drive Chain Factory	Domestic legal	49.80	Domestic legal	4.20						
Grindeks	Pharmaceutical Factory	Domestic legal	40.60	Domestic legal	23.10	Domestic legal	34.00	Domestic legal	5.00	Domestic physical	2.30
Gutta	Juice Production	Foreign legal	36.20	Foreign legal	23.10	Foreign legal	11.00				
Kaija	Fish Cannery	Domestic physical	63.75	Domestic legal	10.50						
Kvadrāprint	Printing Office	Domestic legal	62.00								
Latvijas Balzams	Alcohol Beverage Production	Domestic legal	51.00	Domestic legal	7.70	Domestic legal	5.00	Foreign legal	3.20	Domestic physical	1.00
Latvijas Juras medicīnas centrs	Hospital	Domestic physical	36.50	Domestic physical	9.60	Domestic legal	5.00	Domestic physical	3.80	Domestic physical	3.30
Liepājas metalurģis	Steel Works	Foreign legal	78.70								
Lode	Brick Factory	Domestic physical	65.10	Domestic legal	4.00	Domestic legal	2.90	Domestic physical	0.80	Domestic physical	0.70
Mīsas kūdra	Peat Factory	Domestic legal	52.80	Domestic physical	8.50	Domestic legal	1.00	Domestic physical	0.80		
Olaines ķīmiskā-farmaceutiskā rūpnīca	Pharmaceutical Factory	Domestic legal	41.69	Domestic legal	17.62	Foreign legal	9.32				
Pirma Latvijas Komerčbanka	Bank	Foreign legal	96.50	Foreign legal	9.80	Domestic physical	3.40				
Valmieras stikla skiedra	Fiberglass	Foreign legal	57.54	Foreign legal	11.54	Domestic legal	6.59	Domestic legal	4.25	Foreign legal	2.30

4 Final remarks

Although Latvian legislation has transposed the Large Holdings Directive, the resulting data is not publicly available in cumulative form, nor it is possible to determine how complete it is. The first problem should be solved with Securities Markets Commission developing a database of information on blockholdings and changes in them. The second problem is more difficult to resolve as many aspects influence it – the cost and difficulty of acquiring information for SMC, the presence of offshore companies as shareholders of many companies, and general negative attitude to disclosure. The clear problem of law enforcement is evident.

The Securities Markets Commission, Central Bank Supervision Department and Insurance Inspectorate will be merged this year into a single Supervisory Commission. It will be headed by the former president of the Riga Stock Exchange Uldis Cerps. Supervisory function of the Central Bank has performed rather well post-crisis and perhaps these institutions will revise their operations in the process of merger.

The main data source remains to be Lursoft, which contains all the information from the Register and also information on Shareholders which it receives from LCD. All of the data available is the most current data as Lursoft (nor Depository) do not keep the backlog on shareholdings and other information for the previous years. The costs of obtaining the information is significant. Lursoft does make exemptions for academic purposes, but they are limited.