

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Corporate Governance Country Assessment REPUBLIC OF LATVIA

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This Corporate Governance Assessment of Latvia has been completed as part of the joint World Bank-IMF program of Reports on the Observance of Standards and Codes (ROSC). It benchmarks the country's observance of corporate governance against the OECD Principles of Corporate Governance and is based on a template developed by the World Bank. The findings are supported by a review of legislation and extensive discussions with Government officials, financial supervisors, and numerous segments of the private sector. In particular, the assessment reflects extensive technical discussions with the Securities Market Commission, the Riga Stock Exchange, the Bank of Latvia, the State Insurance Inspectorate, a Member of Parliament, the Latvian Privatization Agency, the Latvian Central Depository, the Enterprise Register and professional services firms. Excellent co-operation was received by all agencies and in particular, by the Securities Market Commission. The assessment was conducted in February 2001 by Sue Rutledge of the Europe and Central Asia Regional Department of the World Bank under the supervision of the Corporate Governance Unit of the Private Sector Advisory Services Department of the World Bank. The ROSC assessment was cleared for publication by the Office of the Minister for Special Assignment for Cooperation with International Financial Agencies on November 20, 2002.

I. EXECUTIVE SUMMARY

This report provides an assessment of the corporate governance policy framework and enforcement and compliance practices in Latvia. Latvia has already invested considerable resources in upgrading its legislation to meet EU Directives, and the legislative and regulatory framework dealing with corporate governance issues is quite robust. Strengths and weaknesses are highlighted and policy recommendations made where appropriate.¹

The Riga Stock Exchange (RSE) trades securities on three tiers: the official list, the second list and the so-called free market. As of December 2001, total market capitalization was Latvian Lat (LVL) 438.6 million (USD 690 million) or approximately 9.7 percent of GDP. Latvia has a new integrated financial regulator, which oversees the securities market, banks and non-bank financial institutions.

The policy recommendations can be grouped under three broad categories: legislative reform, institutional strengthening and voluntary/private initiatives. The legislative and regulatory framework dealing with corporate governance practices has undergone substantial change. The most serious problem is compliance and enforcement. While the assessment highlights several areas where Latvia's corporate governance system could be strengthened, the priority should be given to the enforcement of existing laws.

This report promotes private sector initiatives and capacity building to follow up on the legislative progress on corporate governance reform. It recommends the development of a Latvian or regional voluntary code of best practice of corporate governance. The code should be prepared by a task force coordinated by the RSE and made up of public and private sector representatives. In addition, the report proposes the creation of a regional institute of directors, to provide training for supervisory board members, disseminate best practice and play a vital role in the dialogue between the public and private sector. Together, these measures give issuers the choice to implement best practice and investors a benchmark against which to measure corporate governance in Latvia.

II. CAPITAL MARKETS AND INSTITUTIONAL FRAMEWORK

At the end of 2000, there were about 3,000 joint stock companies, 60,000 companies with limited liability and another 50,000 other enterprises, largely small and medium-sized businesses. Only joint stock companies can issue tradable shares.

Trading on the Riga Stock Exchange (RSE) began in July 1995, and in 1997 the RSE introduced continuous trading. There is no public derivative market at the RSE. All securities are dematerialized. Total market capitalization in 2001 was LVL 438.6 million (USD 690 million²), or 9.7 percent of GDP.³ 63 issues trade on three organized tiers: five on the official list, 11 on the

¹ The Ministry of Special Assignment for Cooperation with International Financial Agencies and Financial and Capital Market Commission (FCMC) have exercised their right of reply in response to the findings of the corporate governance ROSC. The response submitted by the FCMC is appended in Annex D.

² All currency calculations are based on January 11, 2002 exchange rate of one USD = 0.64 LVL

³ Based on 2000 GDP figure of USD 7,138,431,000 (<http://devdata.worldbank.org/data>).

secondary list and 47 on the free market.⁴ Companies on the Official List must also make at least 25 percent of their shares freely tradable. The turnover ratio was 24 percent.⁵ Delistings occurred as companies went private after strategic investors gained control following of privatization. For example, Unibanka, whose securities were among the most heavily traded in 2000, was acquired by a Swedish bank and delisted. There is an over-the-counter (OTC) market, which in 2000 accounted for 20 percent of total market turnover, as many block trades between banks are conducted in this manner. In 1999 the RSE signed a memorandum of understanding with the Tallinn Stock Exchange (Estonia) and the National Stock Exchange of Lithuania to create a regional market using a common trading platform. In August 2002, the owner of the Helsinki Stock Exchange (HEX Group) acquired 92.98 percent of the Riga Stock Exchange shares, thus obtaining also a controlling interest in the Latvian Central Depository.

Trading statistics for 2000 show that about 52 percent of shares are held by Latvian residents and 48 percent by non-residents. While business groups exist, ownership restrictions on banks have impeded the development of financial-industrial groups.

As of December 2001, there were eight brokerage companies and 19 banks licensed to provide investment services. Five investment companies are licensed to operate investment funds, but currently only three funds are operational, investing in money market instruments. In addition, four third-pillar private pension funds have been set up. However, as of December 2001 they managed in total LVL six million (USD 9.4 million). The largest pension fund belongs to the national telecommunications company.

The Latvian Central Depository maintains a consolidated shareholder registry for all publicly traded share issues and those private share issues for which the company has requested the Depository to maintain a register. The Central Depository information is obtained from banks and other custodians, who maintain the shareholder registers.

Latvia's legal framework is based on civil law. The primary legislation for listed companies is the Commercial Code of April 2000. The Commercial Code consolidated several pieces of commercial legislation, including the Joint Stock Company Law (as amended in 1999) and the Law on Companies with Limited Liability. The Commercial Code brings Latvia's company law near compliance with EU Directives and strengthens shareholder rights, particularly for companies with limited liability.⁶ The Commercial Code will replace the Joint Stock Company Law on January 1, 2005 for existing companies, while new companies are already subject to the

⁴ In January 2002, more-stringent RSE listing requirements were approved by the FCMC and went into effect. The main changes were a new structure of listing tiers, combined with higher standards for existing issuers, including tougher information disclosure requirements. First, the Free List will be eliminated by January 1, 2004. In its place, two new transitional lists are introduced: the "Pre-List" and the "Surveillance List". The Pre-List is designed for companies not yet in full compliance with Official or Second List criteria, but which have expressed firm commitment to meet all requirements. Companies will be placed on the Surveillance List when they either fail to meet listing criteria, do not meet the RSE's deadline for submitting financial reports, or for causes that might "jeopardize market security." Companies can revert to their original lists once they comply with the new criteria. No securities are now on the Pre- or Surveillance Lists. This provision is dictated by the Transitional Provisions of the Law "On Securities," stipulating that control interest holders must make a buy-back offer to the other shareholders or reduce their ownership interest in the company.

⁵ Based on 2001 market capitalization of listed companies (LVL 438.58 million, USD 690 million) and 2001 turnover (LVL 103.3 million, USD 162.3 million).

⁶ Limited liability companies are privately held companies, which cannot be traded on the stock exchange.

Commercial Code. The Law on Concerns (2000) requires disclosure of indirect ownership structures. The Law on Securities and rules issued by the Financial and Capital Market Commission regulate takeovers, the disclosure of material events and registration of securities and authorization for public issues."

The Securities Market Commission was established in 1995. Under the 2000 Law on the Financial and Capital Market Commission, the Financial and Capital Market Commission (FCMC) was created as an integrated financial supervisory agency. The FCMC commenced its activities on July 1, 2001, thereby becoming the legal successor to the rights, obligations and liabilities of the Insurance Supervision Inspectorate, the Securities Market Commission, administration of the Deposits Guarantee Fund and of the Bank of Latvia in the field of credit institution supervision. The FCMC is an autonomous public institution. The purpose of its activities is to promote the protection of interests of investors, depositors and the insured and the development and stability of the financial and capital market.⁷ The Chairman and the deputy chairman of the FCMC are appointed by the Parliament and can only be dismissed by Parliament. The FCMC is empowered to review, investigate and sanction capital market participants. Sanctions can take the form of fines or license suspension/revocation. The FCMC's decisions can be appealed to the Administrative Court under the Administrative Code.

The RSE supervises the trading of shares, defines the terms and conditions under which securities are admitted for trading on the exchange, and supervises the activities of securities brokers. It has 16 members, most of whom are subsidiaries of commercial banks. The RSE is incorporated as a joint stock company.

Interest in corporate governance is growing in Latvia. The Foreign Investors Council prepared several recommendations for Government review. In October 1999, the OECD organized a corporate governance workshop for the Baltic countries of Lithuania, Latvia and Estonia. In addition, the Latvian press has publicized cases of corporate governance abuses, including Laima's takeover of Staburadze, another Latvian company, in 2000.⁸

III. REVIEW OF CORPORATE GOVERNANCE PRINCIPLES

This review assesses the compliance of Latvia to each OECD Principle and Sub-Principle of Corporate Governance (available at: <http://www.oecd.org/daf/corporate-affairs/governance> and set out in Appendix I). Description of practices and policy recommendations are offered each time a principle is less than fully observed. **Observed** means that all essential criteria are generally met without any significant deficiencies. **Largely observed** means that only minor shortcomings are observed, which do not raise any questions about the authorities' ability and

⁷ FCMC's website (<http://www.fktk.lv/en/>) has extensive information on the Latvian securities markets' legal and regulatory framework.

⁸In November 2000, the RSE halted trading of Staburadze shares after the company failed to provide information on Laima and its major shareholder, NTBDC L Ltd (which Staburadze had just acquired), regarding financing sources of the acquisition and impact of the deal on Staburadze's financial indicators. After submitting the information, Staburadze requested the information be sealed, but the RSE insisted this would hurt shareholder interests. It asked the SMC to intervene; later that month, the SMC fined Staburadze LVL 2,500 (USD 3,906) for supplying false information. Following mandated public disclosure by Staburadze in December 2000 regarding the deal's particulars, the RSE allowed share trading to recommence.

intent to achieve full observance in the short term. **Partially observed** means that while the legal and regulatory framework complies with the OECD Principle, practices and enforcement diverge. **Materially not observed** means that, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance. **Not observed** means that no substantive progress toward observance has been achieved.

The following assessment is based upon the OECD Principles of Corporate Governance. The OECD Principles are concerned primarily with corporations that are publicly traded on a stock exchange, though many of the issues addressed by the OECD Principles are also relevant to large non-traded corporations and state-owned companies.

Policy recommendations may be offered when a principle is less than fully observed.

Section I: The rights of shareholders

Principle IA: Largely observed

Description of practice: To be admitted for trading, shares must be freely transferable. Legal proof of ownership is acquired by book entry into a securities account either with a custodian or with the Latvian Central Depository (LCD). LCD is the sole depository for equities and fixed income instruments. Use of the LCD is required for all publicly traded share issues, although not for private (closed subscription) share issues, for which the issuing company may maintain the share register and not file the list of account-holders with the LCD. Shareholders holding publicly traded shares may freely transfer them on the Riga Stock Exchange. Share transfers do not require the company's prior approval.

The LCD maintains omnibus accounts for brokers and custodian banks. The Law on Securities requires the latter to maintain segregated accounts of their clients. Stock trades settle on a rolling settlement basis on T+3, according to DVP3 (simultaneous, irrevocable and final). Cash is settled through the Central Bank, which is online with the LCD.⁹

All enterprises must file the following information with the Enterprise Register: (1) the company's annual financial statements, (2) management and supervisory board members, (3) name of the auditor, and (4) copies of company by-laws and amendments. The information is published in the *Latvijas Vēstnesis*, Latvian Government's official gazette. Information is available directly from the Enterprise Register, and online by subscription to a private firm, Lursoft. The Central Depository can provide shareholding information, but information on beneficial ownership is sometimes difficult to obtain.

Supervisory board members are elected by the Annual General Meeting (AGM). Cumulative voting is required for the election of supervisory board members. Supervisory boards comprise at least five members. Shareholders with at least five percent of shares may nominate one

⁹ The Central Depository is the operator of the securities settlement system DENOS, which is composed of two sub-systems. The first is designed according to model 3 DvP for the settlement of stock-exchange transactions; the second is a model 1 DvP system, for OTC trades or trades concluded on RSE as reported trades.

supervisory board member. Under the Joint Stock Company Law, supervisory board members are elected at the AGM for a maximum term of three years, unless a shorter term company by-laws specify a shorter term. Non-residents and foreigners may serve on the management and supervisory boards.

The shareholders' general meeting approves payment of dividends based on a recommendation from the management board.

Policy recommendation: Shareholder confidence in the level of reported profits will depend on continued improvements in accounting and auditing practice.

Principle IB: Largely observed

Description of practice: Amendments to a company's by-laws and issuance of new capital must be approved by a 75 percent majority of the votes of shareholders participating in the AGM. Shareholders are entitled to pre-emptive rights with respect to any share issue. The AGM must approve a company's termination or its reorganization.

Under the Commercial Code, there is no quorum requirement for any AGM.

Policy recommendation: Review quorum requirements in relation to requirements in other transition countries, particularly for AGMs that approve changes to the company charter, issuance of new capital and the sale of assets representing more than half the company's total book value.

Principle IC: Largely observed

Description of practice: Companies must convene a general meeting at least once a year. Companies may convene extraordinary general meetings at the request of the holders of five percent of issued shares, and have the same powers as AGMs. Under the Commercial Code, notice of AGMs is at least 30 days (or two weeks in the case of extraordinary AGMs). Within three months of the meeting, shareholders may apply to the court if procedures for convening the meeting have not been followed.

Shareholders' rights to attend and vote at AGMs are not formally restricted. Shareholders may vote by proxy if the proxy has power of attorney. Electronic voting is not possible, but is envisaged under a draft Law on Electronic Documents. Share registration is blocked for ten days prior to the AGM to allow for production of an accurate shareholders' list, since there is no 'date of record' system that identifies the shareholder for voting purposes and allows trading of the shares in the days prior to the AGM. Voting is open, unless shareholders with at least ten percent of capital request a secret ballot.

The management board sets the agenda, and the date and time must be published 30 days prior to the meeting. Under the Commercial Code, holders of five percent of the voting capital (reduced from ten percent of the paid-in capital under the former Joint Stock Company Law) may require other items to be added to the agenda. Shareholders may also make decisions on issues not on the agenda, if all shareholders unanimously agree.

Policy recommendations:

1. Establish a date of record to determine shareholder eligibility to vote at the AGM.
2. Approve legislation allowing secure electronic voting.

Principle ID: *Materially not observed*

Description of practice: Shareholdings of more than ten percent must be disclosed. In practice, however, informal relationships among shareholders may not always be disclosed especially where parties wish to conceal their arrangements.

In some cases preferred shares may be issued up to 100 percent of the par value of the rest of the equity capital. While any changes in voting rights of a class of shares are subject to a majority vote of the shares of the class—and must therefore be disclosed—the possible use of non-voting shares to obtain a disproportionate degree of control compared to cash flow rights may discourage potential investors.

Policy recommendation: Reaching compliance will require greater enforcement of existing disclosure rules. Identities of ultimate controlling shareholders should be disclosed.

Principle IE: *Largely observed*

Description of practice: The Law on Securities protects minority shareholder rights in mergers. Merger proposals require a 75 percent majority of votes present at the AGM. The Law also requires that, where a shareholder has purchased 50 percent or more of the share capital of a company, he/she must offer to purchase all outstanding shares.¹⁰ The acquisition of ten percent or more of the issued shares must be disclosed within seven days to the company and the FCMC. Further disclosures are required at 25 percent, 50 percent and 75 percent. The Regulation on the Buy-Out of Shares prohibits management or supervisory board members from actively or passively hampering the offer after its launch. However there appears to be no common practice by company managers to attempt to thwart takeovers.

Limited liquidity on the stock exchange precludes an active market for corporate control.

Policy recommendations:

1. The FCMC should enforce existing law and apply existing sanctions as much as possible, to maximize market credibility.
2. Closely monitor the EU debate on takeover rules and tender offers and consider if additional prohibitions on the use of anti-takeover devices by company management would be helpful in strengthening the market for corporate control.
3. Ratify the draft Law on Financial Market Instruments, to further strengthen regulation in a number of areas.

¹⁰ Under the FCMC's Regulation on the Buy-Out of Shares, the offer price is set at the highest of several: (1) the weighted average stock exchange price over the prior 12 months, (2) the weighted average price the offeror has paid for the shares during last 24 months., (3) price determined from the balance sheet of the company, or (4) a "fair price."

Principle IF: *Materially not observed*

Description of practice: Shareholders do not generally evaluate the costs and benefits of exercising their voting rights, due to the underdevelopment of institutional investment.

Policy recommendations:

1. Pension funds and other institutional investors should be encouraged by regulation or Code of Best Practice to disclose their voting policy.
2. Raise awareness of successful international experiences of shareholder activism.

Section II: Equitable Treatment of Shareholders

Principle IIA: *Largely observed*

Description of practice: - While the Joint Stock Company Law allowed several different classes of voting shares, the Commercial Code has simplified share classes. Joint stock companies may issue three types of shares: common, preferred and employee. Common shares typically carry one vote per share, although the company by-laws may stipulate a higher number of votes. Preferred shares carry no voting rights unless the company is in default on dividend payments. Employee shares are non-transferable, non-voting shares. Changes in voting rights of a class of shares are subject to shareholder vote.

In accordance with the Commercial Code, a group of shareholders who jointly represent five percent or more of the company's paid-in capital (or whose participation in the company's capital is at least LVL 50,000) may bring action against the supervisory board on behalf of the company. These shareholders must submit the claim to the supervisory board; if the supervisory board fails to act within 30 days, the minority shareholders may bring the action themselves. If so, the minority group may appoint its own representatives, and the court must allow the representatives to act on behalf of the company if these shareholders establish for the court that there is due cause for the action.

When their rights are violated, shareholders can initiate legal action in their own name but cannot do so in the name of the company as a derivative action. Decisions by the AGM or the management or supervisory boards may be appealed to the court if the procedures for taking the decision contradict the law or the company's by-laws, or other causes including that the decisions were in contradiction to the company's purposes, the interests of society and morality. Appeals may be lodged within three months after the decision. However if the action is brought in bad faith, the plaintiffs are liable for the company's losses. Lawsuits are a difficult remedy, especially for minority shareholders. There is a perception in the business community that court procedures are improving, but there are still delays. In addition, there are concerns over the process's expense, the experience of the judges and the low cost and ease of initiation of appeals.

When one shareholder has accumulated more than 90 percent of shares, the remaining minority shareholders may request that shares be redeemed by the majority owner. If a minority shareholder rejects the price proposed by the majority shareholder, the price is determined by a court.

Some RSE-listed companies see little trading in their shares. The new Enforcement Note on Securities Lists will likely lead to many delistings, when the Free List disappears in 2004. There is

currently no provision in the law that facilitates the “squeeze-out” of minority shareholders through the mandatory purchase of minority shareholdings by controlling shareholders, although one is expected to be included in the new Law on Financial Market Instruments.

Policy recommendations:

1. The procedures for voting shares held by custodians or other nominees should be as clear and efficient as possible, to encourage all beneficial owners to vote. This issue may be best addressed by a Code of Best Practice.
2. Issuers who do not comply with disclosure, transparency and other basic corporate governance rules should be delisted.
3. New “squeeze-out” provisions should accompany the delistings. The rules should mandate the buy-out of minority shareholders when the majority shareholder owns more than a defined percentage of share capital. Shareholders should be entitled to fair compensation, subject to judicial review.

Principle IIB: Largely observed

Description of practice: The Civil Code and Law on Securities prohibit insider trading and market manipulation. Prohibitions apply to employees, brokers, the Central Depository and third persons who have information from inside sources. The FCMC is in the process of drafting amendments to the Criminal Code concerning insider dealing and market manipulation.

All traded companies must notify the FCMC promptly of any material information. Both the RSE and FCMC watch for indications of abnormal trading activities, and the FCMC is empowered to carry out investigations of potential insider dealing. The FCMC has the power to impose fines and administrative penalties up to LVL 20,000 (USD 31,447), which may be too low to discourage market manipulation.

Full compliance with this Principle will be attained when a significant number of prosecutions of cases of insider trading are completed.

Policy recommendation: Review the various sanctions (fines and civil liability) that may be imposed by the FCMC.

Principle IIC: Largely observed

Description of practice: Latvian legislation includes provisions requiring disclosure of conflicts of interest. The Joint Stock Company Law and the Commercial Code require that, in cases of conflicts of interest between the company and management board members (and their second degree family relations), the board member shall not have voting rights on the given issue. Board members failing to provide notice to the board are liable for losses the company incurs. However there is no mechanism to proactively ensure compliance with the disclosure requirement.

The Regulation On Registering Securities and Receiving Authorization for Public Issue of Securities or Putting Securities into Public Circulation requires the prospectus to include disclosure of shares held management board members and other senior company executives. Required disclosure of subsequent sales and purchases of shares by company management is also implied under the Regulation on Disclosure of Issuer’s Material Events, since the Regulation requires that issuers disclose events that can affect the market price of company shares.

However, disclosure of sales and purchases of company shares by management and supervisory board members is not specifically required.¹¹

Policy recommendations:

1. Amend legislation to require disclosure of sales and purchases of company shares by members of the company's management and supervisory boards.
2. Consider requiring that conflicts of interest also be disclosed to shareholders.

Section III: Role of Stakeholders in Corporate Governance

Principle IIIA: Largely observed

Description of practice: Labor and environmental laws were revised in the late 1990s and reflect current EU practices. The bankruptcy system works fairly well; most bankruptcy cases are handled within two years. There is little experience in secured lending, but the Law on Collateral appears adequate. Civil procedures have improved, but enforcement of security interest is seen as a protracted process. The Land Register is considered to work well.

Policy recommendation: See recommendations under Section V on supervisory boards.

Principle IIIB: Largely observed

Description of practice: When their rights are violated, stakeholders can initiate legal action in their own name. In a civil law suit filed by shareholders, the management board is the party to the action. The FCMC may also investigate violations related to companies issuing publicly tradable shares. FCMC decisions are regulated by the Law on Administrative Procedure.

Policy recommendations:

1. Review the enforcement requirements of the Law on Administrative Procedure.
2. Study costs/benefits of having class action suits under Latvia's civil law framework.

Principle IIIC: Largely observed

Description of practice: Companies may create employee share-purchase plans, if they so choose, although few companies put such plans in place.

Policy recommendation: Undertake a study on the costs and benefits of establishing share-purchase plans for employees and other mechanisms meant to encourage stakeholder participation.

Principle IIID: Partially observed

Description of practice: Stakeholders have the same access to information as the general public. This principle is scored at the same level as in Section IV below.

¹¹ The Law on Securities holds that anyone acquiring ten or more percent of a company's shares must inform the company and FCMC, and the company must publish this information. These norms limit trades by managers and help ensure disclosure on trade activity so as to reduce the risk of insider trading. Latvia is currently working on a new Law on Securities, under which they envisage addressing further solutions regarding disclosure of information about sales and purchases of shares by company management.

Policy recommendations: See recommendations under Section IV.

Section IV: Disclosure And Transparency

Principle IVA: *Partially observed*

Description of practice: All 110,000 enterprises in Latvia must file their financial statements with the Enterprise Register, which makes the information publicly available. The information is available directly from the Enterprise Register and online through subscription to a private firm. Listed companies must file audited annual financial statements (including the auditor's opinion and notes to the statement) with the FCMC and RSE. The Exchange places the information online. Quarterly unaudited financial statements are also filed with the FCMC. The new listing rules require the disclosure of changes to the company's charter and "...management board resolutions regarding major reorientation of company's activities, even if amendments to the company charter are not required." However, as in many countries, continued progress can be made in the quality and timeliness of financial and non-financial disclosure.

For listed companies, shareholders must disclose to the FCMC ownership of ten percent, 25 percent, 50 percent and 75 percent of a company's shares. The investor must disclose to the company the acquisition of each additional five percent of the shares (and failure to make such disclosure within the stated timeframe removes the rights of the investor to exercise the voting rights of the additional shares.) In addition, the Law of Concerns requires disclosure of indirect shareholdings up the ultimate beneficial shareholder. The Law stipulates that ownership of 50 percent-owned subsidiaries be included in the calculation of ownership holdings. Failure to comply with reporting obligations may result in fines, although the maximum fine that can be levied by the FCMC for any infraction is LVL 20,000 (USD 31,447).

Prior to AGMs, the Depository generates a full shareholder list and makes it available to all shareholders. The Depository also annually publishes the names of all shareholders with over 0.5 percent of total shareholdings. When publicly traded companies issue closed share subscriptions that are not independently verified, some non-disclosure of shareholder holdings is allowed. The Law on Concerns is not well-understood, and information regarding full beneficial ownership is difficult to obtain. Furthermore, on occasion, offshore companies are used to shield shareholders from obligations to disclose a company's full ownership and control structures.

For all companies, holdings of 25 percent, 50 percent, 75 percent and 90 percent must also be disclosed to the Enterprise Register.

The names of members of the supervisory board, the management board, the independent auditor and the auditing commission are publicly available for all enterprises. Listed companies must also disclose in their prospectus levels of remuneration for management board members. For all enterprises with supervisory boards, the AGM approves the supervisory board's aggregate remuneration. In practice, in most enterprises the AGM also approves the level of remuneration for individual supervisory board members.

The Regulation On Registering Securities and Receiving Authorization for Public Issue of Securities or Putting Securities into Public Circulation requires that the prospectus for new share issues include disclosure of the shares held by the members of the company's management board

and other senior company executives. Disclosure of subsequent sales and purchases of shares by company management is not specifically required.

In the prospectus, the company must disclose risk factors related to the issuer's activity, including economic, political, social, technical, technological, and environmental risks. There are no required mechanisms to ensure timely identification and management of the risks as well as disclosure of the risks to shareholders on an on-going basis.

Issuers must disclose events that may influence company share market price. Publicly traded companies not listed on the Exchange must publish notice of material events in the newspapers. Such information includes the names of directors and managers, their age, position, education, qualifications, previous positions and career summary, other professional activities they carried out if these directly competed with those of the company; remuneration and bonuses for each board member, the value of outstanding loans extended by the company to them and their relatives, and warranties of payment.

Disclosure of material risk factors is not regulated. Companies are not required to publish internal governance policies on issues like the roles and responsibilities of supervisory board members and how they obtain information and oversee the management board.

Listed companies must immediately disclose material events to the FCMC and the RSE. Disclosure of material issues regarding stakeholders is not specifically required..

Policy recommendations:

1. The FCMC and the RSE should vigorously apply the new Enforcement Note on Securities Lists.
2. Consider providing an incentive system to encourage companies listed on tiers with limited disclosure requirements to graduate to a tier with greater transparency.
3. See recommendation under Section V on disclosure under a Corporate Governance Code and creation of board committees for risk management and monitoring.

Principle IVB: *Partially observed*

Description of practice: – By law, all large companies must have an independent annual audit.¹² All companies on the RSE's Official List, as well as commercial banks and insurance companies, must prepare their financial statements in accordance with International Accounting Standards (IAS) and have the statements audited by an approved sworn (certified) auditor. Latvian sworn auditors use International Standards of Auditing (ISA). Companies on the Second Tier and Free List face less strenuous requirements, and may prepare their financial statements according to Latvian accounting legislation. In practice, according to the FCMC, the financial statements of virtually all listed companies are prepared according to IAS.

¹² Companies are "large" if they meet two out of the following three: (1) more than 25 employees, (2) annual turnover of LVL 200,000 (USD 314,465) and (3) assets of LVL 100,000 (USD 157,233).

Current accounting legislation closely follows the EU Directives on Accounting, but differs from IAS where the Directives and IAS conflict.¹³ The EU has announced its intention to adopt IAS for listed companies, and as they do so, it is expected that the Latvian Accounting Standards will follow suit. To date, four Latvian Accounting Standards following IAS have been adopted. However there remain weaknesses in insufficient local capacity in accounting and insufficient funding for the FASTC's work.

Policy recommendations:

1. Increase local capacity in accounting.
2. Prepare an Accounting and Auditing ROSC.

Principle IVC: Partially observed

Description of practice: Audit standards are set by the Association of Sworn Auditors, which is a self-regulatory organization. The recently amended Law on Sworn Auditors reflects International Standards on Auditing (ISA), including the Code of Ethics, and increases auditors' statutory maximum liability. However, it will be necessary to monitor implementation of ISA and its impact on auditing practices. The Auditors Association has a technical committee to review complaints. To date, one license has been revoked.

Policy recommendations: See IVB, above.

Principle IVD: Largely observed

Description of practice: The FCMC sets timeframes for material event disclosure. Company financial statement information, board composition, auditor and copies of the by-laws are published in the *Latvijas Vēstnesis*, the Government's official gazette. Public access is provided through the Enterprise Register or online by subscribing to a private firm, Lursoft. The Central Depository makes shareholding information available.

Section V: Responsibilities of the Supervisory Board

Principle VA: Partially observed

Description of practice: The Commercial Code provides for a two-tier board structure with a supervisory board, management board and, where applicable, an auditing commission instead of, or as a supplement to, the supervisory board. Joint stock companies have a supervisory board (also called a supervisory council) and management board. Section 378 of the Commercial Code prohibits executive management board members from also serving on the supervisory board or board of auditors.

Members of the management and supervisory boards are liable for malicious or negligent acts causing company losses. The Commercial Code requires management and supervisory board members to perform their duties with the diligence of an "honest and careful manager" and

¹³ Latvian Financial Accounting Standards are set by the Latvian Financial Accounting Standards Technical Committee (FASTC). FASTC, a not-for-profit state limited liability company, was established under the Standardization Law, which provides the legal framework for the establishment of standardization bodies. FASTC's standards are not legally binding. According to Article 15 of the Law on Accounting, the Cabinet of Ministers may decide which standards are legally binding, but in practice, it has never yet done so.

stipulates that members of both boards who act maliciously or negligently are liable for resulting losses to the company, its shareholders or its creditors. The Commercial Code holds that the supervisory board should monitor management and is accountable to the company and its stakeholders, including shareholders.

However the Code also allows the AGM to approve a waiver against the liability of a board member for any action within the prior three years—as long as no shareholders representing five percent or more of the equity capital object to this decision.

Policy recommendations:

1. Amend the Commercial Code, requiring supervisory boards to ensure the company's strategic guidance.
2. Develop a voluntary corporate governance code providing detailed recommendations on the roles, responsibilities, operation (including policies for remuneration of supervisory board members and meeting frequency), board structure supervisory board member qualifications. The code should recommend committee structure within supervisory boards, provide for specialized committees on areas like audit and finance, risk policies and management and remuneration of executive management. It should address criteria for determining independence of board members and procedures for ensuring disclosure of conflicts of interest—and for ensuring that independent directors are present on key board committees. The code could be prepared by a business advisory task force – comprised of public and private sector representatives - to the RSE or other organization and should be adapted to Latvian financial market conditions. The code should be voluntary, but listed companies should have to disclose the level of their compliance with the code.
3. Provide training for supervisory board members to acquaint them with their responsibilities under the law, for example through an institute of directors.

Principle VB: *Partially observed*

Description of practice: The principle of an honest and careful manager would hold that supervisory board members treat all shareholders fairly, but no laws or corporate governance guidelines encourage such actions.

Policy recommendations: See recommendations under Principle A.

Principle VC: *Observed*

Description of practice: Under the Commercial Code, members of the supervisory board must monitor that the business of the company is conducted in accordance with law, the by-laws and the decisions of the AGM. In addition, the principle of an honest and careful manager would encourage supervisory board members to consider stakeholder interests.

Principle VD: *Partially observed*

Description of practice: The supervisory board oversees the management board and the company's financial statements. The Commercial Code specifies general functions of

supervisory boards and allows the company statutes to add to the board's functions.¹⁴ Management board members cannot, without consent, hold or take up a business activity that is in direct competition with the business of the company. Shareholders representing at least one-fifth of the capital stock may request the appointment of an audit commission in addition to the supervisory board.

However, neither legislation nor common industry practices specifically require that supervisory boards (a) review corporate strategy, risk policy or performance objectives or chart progress in implementing the strategy, policies and objectives; (b) ensure the integrity of accounting and financial reporting systems; (c) monitor governance practices, although such actions are implied under the functions and responsibilities of supervisory boards; or (d) oversee the company's official disclosure and communication.

Policy recommendations: See recommendations under Principle VA, and Principle IIC.

Principle VE: Largely observed

Description of practice: All supervisory board members are non-executives and are assigned financial reporting and remuneration tasks. Their work is hindered by a lack of effective internal management information systems to provide reliable financial reports. The concept of "independent" board members - free from conflicts of interest - is not well-developed.

Under the Commercial Code, the supervisory board must meet at least quarterly. There are no individual performance measurements for directors, and meeting attendance is not publicized. However, the individual supervisory board member votes are recorded.

Policy recommendations:

1. See recommendations under Principle A, especially that which recommends creation of specialized committees on audit and remuneration issues.
2. The Corporate Governance Code should recommend that director meeting attendance be revealed at the general meeting.

Principle VF: Largely observed

Description of practice: The Commercial Code establishes that the supervisory board may, at any time, request that the management board of directors report on the company's status and to become acquainted with all of the activities of the management board. The supervisory board also may examine the company's registers and documents, as well as the cashier's office and all of the property of the company. In addition, the supervisory board may hire experts to perform examinations or clarify specific issues.

¹⁴ The supervisory board's functions are to: (1) elect and recall management board members and to continually control their activities; (2) monitor that company business is conducted in accordance with law, the by-laws and AGM decisions; (3) examine the company's annual accounts and the proposal of the management board for the use of the profits and to submit them, together with its own report, to the AGM; (4) represent the company in court in all actions brought by the company against management board members, as well as in actions brought by the management board against the company; (5) approve transactions between the company and board members or the auditor; and (6) examine all issues under the jurisdiction of the AGM or which, at the request of members of the management or supervisory board, have been proposed for discussions at the meeting, and to provide its opinion on such issues.

Policy recommendations: See recommendations under Principle VA.

IV. SUMMARY OF POLICY RECOMMENDATIONS

This section sets out policy recommendations to improve compliance of listed companies with the OECD Principles of Corporate Governance. The next step is the development of a detailed action plan. The action plan should be formulated in close cooperation with the Latvian authorities and in consultation with the private sector and other stakeholders. The detailed policy recommendations made in the principle by principle review for the less than fully observed Principles can be grouped under the following broad categories: legislative reform, institutional strengthening and voluntary/private initiatives.

A. Legislative Reform: Latvia has already invested considerable resources in upgrading its legislation, and the current strong legislative and regulatory framework dealing with corporate governance issues already complies with relevant EU Directives. However, several additional detailed legislative issues are proposed in the policy recommendations of the principle-by-principle review section above. *Priority: medium*

B. Institutional Strengthening: The assessment highlights a number of areas where Latvia's corporate governance system needs strengthening, but priority should be given to enforcing existing law. To this end, the judiciary should be strengthened. *Priority: high*

C. Voluntary/Private Initiatives: Develop a voluntary corporate governance code detailing recommendations on the roles, responsibilities, operation (including policies for remuneration of supervisory board members and meeting frequency), structure and qualifications for supervisory board members. The code should recommend committee structure within supervisory boards, providing for specialized committees on areas like audit and finance, risk policies and remuneration of executive management. It should discuss criteria for determining board member independence and procedures for ensuring full disclosure of conflicts of interest—and for ensuring that independent directors are present on key board committees. The code could be prepared by a business advisory task force to the RSE or other organization, in partnership between the public and private sectors, and should be adapted to Latvian financial market conditions. *Priority: high*

While the code should be voluntary, listed companies should be required to disclose the level of their compliance with the code. Consideration should be given to modify the listing requirements of the official list of the RSE, so that companies listed on this compartment abide by the above-recommended voluntary code of best practice. Companies not wishing to subject themselves to such strict disclosure standards would be listed on the second list. This approach provides choice for issuers and investors. In an increasingly global economy, competition for capital is intense, and good corporate governance can make a difference in how Latvian companies are viewed. *Priority: high*

At the same time, it is recommended that training in the code be provided for supervisory board members, for example through an institute of directors. *Priority: high*

ANNEX A: OECD PRINCIPLES OF CORPORATE GOVERNANCE

Section I: The Rights of Shareholders

Principle IA. The corporate governance framework should protect shareholders' rights. Basic shareholder rights include the right to: 1. secure methods of ownership registration; 2. convey or transfer shares; 3. obtain relevant information on the corporation on a timely and regular basis; 4. participate and vote in general shareholder meetings; 5. elect members of the board; and 6. share in the profits of the corporation.

Principle IB. Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes, such as: 1. amendments to the governing documents of the company; 2. the authorization of additional shares; and 3. extraordinary transactions that in effect result in the sale of the company.

Principle IC. Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general them. 1. Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting. 2. Opportunity should be provided for shareholders to ask questions of the board and to place items on the agenda at general meetings, subject to reasonable limitations. 3. Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

Principle ID. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

Principle IE. Markets for corporate control should be allowed to function in an efficient and transparent manner.

Principle IF. Shareholders, including institutional investors, should consider the costs and benefits of exercising their voting rights.

Section II: The Equitable Treatment of Shareholders

Principle IIA. The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. All shareholders of the same class should be treated equally: 1. Within any class, all shareholders should have the same voting rights. All investors should be able to obtain information about the voting rights attached to all classes of shares before they purchase. Any changes in voting rights should be subject to shareholder vote. 2. Votes should be cast by custodians or nominees in a manner agreed upon with the share's beneficial owner.

Principle IIB. Insider trading and abusive self-dealing should be prohibited.

Principle IIC. Members of the board and managers should be required to disclose any material interests in transactions or matters affecting the corporation.

Section III: Role of Stakeholders in Corporate Governance

Principle IIIA. The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.

Principle IIIB. Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.

Principle IIIC. The corporate governance framework should permit performance-enhancement mechanisms for stakeholder participation.

Principle IIID. Where stakeholders participate in the corporate governance process, they should have access to relevant information.

Section IV: Disclosure and Transparency

Principle IVA. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and the governance of the company. Disclosure should include, but not be limited to, material information on: 1. The financial and operating results of the company. 2. Company objectives. 3. Major share ownership and voting rights. 4. Members of the board and key executives, and their remuneration. 5. Material foreseeable risk factors. 6. Material issues regarding employees and other stakeholders. 7. Governance structures and policies.

Principle IVB. Information should be prepared, audited, and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure, and audit.

Principle IVC. An annual audit should be conducted by an independent auditor in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.

Principle IVD. Channels for disseminating information should provide for fair, timely and cost-effective access to relevant information by users.

Section V: Responsibilities of the Board

Principle VA. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. Board members should act on a fully informed basis, in

good faith, with due diligence and care, and in the best interest of the company and the shareholders.

Principle VB. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.

Principle VC. The board should ensure compliance with applicable law and take into account the interests of stakeholders.

Principle VD. The board should fulfill certain key functions, including: 1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance and overseeing major capital expenditures, acquisitions and divestitures. 2. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning. 3. Reviewing key executive and board remunerations, and ensuring a formal and transparent board nomination process. 4. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions. 5. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law. 6. Monitoring the effectiveness of the governance practices under which it operates and making changes as needed. 7. Overseeing the process of disclosure and communications.

Principle VE. The board should be able to exercise objective judgment on corporate affairs independent, in particular, from management: 1. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are financial reporting, nomination and executive and board remuneration. 2. Board members should devote sufficient time to their responsibilities.

Principle VF. In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

This section sets out policy recommendations to improve the compliance of listed companies with the OECD Principles of Corporate Governance. The next step is the development of a detailed action plan. The action plan should be formulated in close cooperation with the Latvian authorities and in consultation with the private sector, and other stakeholders. The detailed policy recommendations made in the principle by principle review for the less than fully observed Principles can be grouped under the following broad categories: legislative reform, institutional strengthening and voluntary/private initiatives.

ANNEX B: OECD PRINCIPLES MATRIX

Section I: The Rights of Shareholders

Principle IA. Basic shareholders rights:

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Principle IB. The right to participate in decisions on fundamental corporate changes:

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Principle IC. The right to be adequately informed about, participate and vote in general shareholder meetings (AGM):

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Principle ID. Disclosure of capital structures and arrangements enabling control disproportionate to equity ownership:

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input checked="" type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Principle IE. Efficient and transparent functioning of market for corporate control:

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Principle IF. Requirement to weigh costs/benefits of exercising voting rights

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input checked="" type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Section II: Equitable Treatment of Shareholders

Principle IIA. Equal treatment of shareholders within same class

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Principle IIB. Prohibition of insider-trading and self-dealing

(a) Observed	<input type="checkbox"/>	(b) Largely observed	<input checked="" type="checkbox"/>	(c) Partially observed	<input type="checkbox"/>
(d) Materially not observed	<input type="checkbox"/>	(e) Not observed	<input type="checkbox"/>		

Principle IIC. Disclosure by directors and managers of material interests in transactions or matters affecting the company

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Section III: Role of Stakeholders in Corporate Governance

Principle IIIA. Respect of legal stakeholder rights

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle IIIB. Redress for violation of rights

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle IIIC. Performance-enhancing mechanisms for stakeholder participation

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle IIID. Access to relevant information

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Section IV: Disclosure and Transparency

Principle IVA. Disclosure of material information

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle IVB. Preparation of information, audit, and disclosure in accordance with high standards of accounting, disclosure, and audit

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle IVC. Annual audit by independent auditor

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle IVD. Channels for disseminating information allow for fair, timely, and cost-efficient access to information by users

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Section V: Responsibilities of the (Supervisory) Board

Principle VA. Act on an informed basis, in good faith, with due diligence and care, in the best interest of the company and shareholders

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle VB. Fair treatment of each class of shareholders

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle VC. Compliance with law and taking into account stakeholders' interests

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle VD. Fulfillment of key functions, including corporate strategy, selection and monitoring of management, remuneration, board nomination, monitoring of conflict of interest including misuse of corporate assets and abuse in related party transactions, integrity of accounting, audit, governance practices and overseeing disclosure and communication.

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle VE. Objective judgment on corporate affairs

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

Principle VF. Access to accurate, relevant, and timely information

(a) Observed (b) Largely observed (c) Partially observed
(d) Materially not observed (e) Not observed

*This table attempts to summarize the comments in this report, benchmarked against the main items set out in the **OECD Principles of Corporate Governance**.*

Observed means that all essential criteria are generally met without any significant deficiencies **Largely observed** means that only minor shortcomings are observed, which do not raise any questions about the

authorities' ability and intent to achieve full observance within a prescribed period of time **Partially observed** means that, while the legal and regulatory framework complies with the OECD Principles, practices and enforcement diverge. **Materially not observed** means that, despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance **Not observed** means that no substantive progress toward observance has been achieved (derived from IMF criteria for ROSCs)

Any comments are welcome

ANNEX C – ACRONYMS, CONTACT DETAILS AND STATISTICS FOR THE RIGA STOCK EXCHANGE

ACRONYMS

SMC: Securities Market Commission of Latvia

RSE: Riga Stock Exchange

FCMC: Financial and Capital Market Commission

CONTACT DETAILS

Riga Stock Exchange
Doma laukums 6
Riga, LV – 1885 LATVIA

Inese Purgaile
International Relations Manager
Email: inese@rfb.lv

Telephone: (+371) 7212431
Facsimile: (+371) 7229411
RSE Email: rfb@rfb.lv
Website: <http://www.rfb.lv>

STATISTICS

All statistics are taken from the RSE – Annual Statistical Survey (2001)
<http://www.rfb.lv/statistics/pdfs/2001/2001.pdf>

Industry of Issuers

Issuers industry

Company	Industry
Lode	Manufacture of bricks, tiles and construction products in baked clay
Misas kūdra	Extraction and agglomeration of peat
Narūta	Manufacture of cocoa, chocolate and sugar confectionery
Rīgas farmaceutiskā fabrika	Manufacture of pharmaceutical preparations
Liepājas eļļas ekstrakcijas rūpnīca	Manufacture of crude oils and fats
Mangalu kuģu remonta rūpnīca	Building and repairing of ships
Staburadze	Manufacture of rusks and biscuits; manufacture of preserved pastry goods and cakes
Tukuma gaļas pārstrādes sabiedrība	Production of meat and poultry meat products
Baloži	Extraction and agglomeration of peat
Būvmehaniķija	Demolition and wrecking of buildings; earth moving
Grobiņa	Other farming of animals
Jelgavas būvmateriālu kombināts	Manufacture of fibre cement
Kurzemes atslēga 1	Manufacture of locks and hinges
Latvijas tilti	General construction of buildings and civil engineering works
Metālserviss	Manufacture of other fabricated metal products n.e.c.
Ogre	Manufacture of knitted and crocheted pullovers, cardigans and similar articles
Olaines kūdra	Extraction and agglomeration of peat
Poligrāfists	Printing of newspapers
Rīgas autoelektroaparātu rūpnīca	Manufacturing of electric systems for engines and automobiles
Rīgas raugs	Manufacture of food products
Rīgas juvelierizstrādājumu rūpnīca	Manufacture of jewellery and related articles n.e.c.
Rīgas kinostudija	Shooting and distribution of video and motion pictures
Rīgas ostas elevators	Loading and unloading of cargos, storage
Rota	Real estate lease
Radiotehnika - RRR	Production of radio equipment
Paraugtipogrāfija	Printing n.e.c.
Saldus mežrūpniecība	Wholesale of solid, liquid and gaseous fuels and related products
Siguldas citslietu un mākslīgās apsēklošanas	Farming of cattle, dairy farming
Salacgrīva 95	Processing and preserving of fish and fish product
Saldus naftas bāze	Wholesale of solid, liquid and gaseous fuels and related products
Solo - Rīga	Production and sales of musical instruments
Strenču mežrūpniecības saimniecība	Forestry and logging
Talsu mežrūpniecība	Forestry and logging
Tukuma mežrūpniecības saimniecība	Forestry and logging
Torņu un autoceltni firma "UBAK"	Renting of construction or demolition equipment with operator
Universālveikals Centrs	Other retail sale in non - specialized stores
Viesnīca Latvija	Hotel services
Veldze	Manufacture of distilled potable alcoholic beverages
Ventspils zivju konservu kombināts	Processing and preserving of fish and fish product
Latvijas zoovetapgāde	Dispensing chemists
Kalceks	Manufacture of pharmaceutical preparations
Liepājas autobusu parks	Other overland transportation
Lokomotīve	Production of engines, tram cars and rolling stock
Rīgas elektromašīnbūves rūpnīca	Manufacture of electrical equipment for railroad carriages
Rīgas sporta pils	Organization of sports events
Rīgas starptautiskā autoosta	Passenger transportation by land
VEF	Production of electrical appliances

Equity Market – Capitalization

EQUITY MARKET Prices and capitalisation

Company	High	Low	52 week high	52 week low	Last vol. weighted at the end of prev. period	Last vol. weighted at the end of period	Price change	Capitalisation (LVL.)	Relative to the total
OFFICIAL LIST									
Balta	4.50	1.25	4.50	1.25	3.61	4.50	24.65%	20 934 301.50	4.77%
GAZE IZ SOLE	6.13	6.13	6.13	6.13	-	6.13	-	0.00	-
GAZE IZ SOLE	12.51	12.51	12.51	12.51	-	12.51	-	0.00	-
Latvijas Gāze	11.12	3.54	11.12	3.54	3.60	6.68	85.56%	266 532 000.00	60.77%
Rīgas KB	0.20	0.12	0.20	0.12	0.20	0.20	-	2 334 421.40	0.53%
Rīgas TF	0.08	0.05	0.08	0.05	0.07	0.05	-28.57%	913 595.00	0.21%
Unibanka	2.10	2.05	2.10	1.33	2.05	2.05	-	0.00	-
Ventspils nafta	0.80	0.55	0.80	0.55	0.72	0.68	-5.56%	71 048 072.92	16.20%
SECOND LIST									
Daugavpils PKR	0.12	0.08	0.12	0.08	0.12	0.08	-33.33%	592 000.00	0.13%
Grīndēls	0.51	0.39	0.51	0.39	0.48	0.51	6.25%	3 944 850.00	0.90%
Sūta	0.32	0.02	0.28	0.02	0.32	0.03	-90.63%	1 117 109.76	0.25%
Jūras medicīna	0.24	0.15	0.24	0.15	0.22	0.18	-18.18%	144 000.00	0.03%
Kāja	0.21	0.12	0.21	0.12	0.20	0.14	-30.00%	677 600.00	0.15%
Kvadraprint	0.10	0.01	0.10	0.01	0.09	0.09	-	605 949.48	0.14%
Latvijas balzams	0.41	0.33	0.41	0.33	0.36	0.37	2.78%	2 773 853.00	0.63%
Liepājas ML	0.26	0.10	0.26	0.10	0.24	0.12	-50.00%	1 655 715.08	0.35%
Olainfarm	0.16	0.07	0.16	0.07	0.16	0.07	-56.25%	531 376.23	0.12%
Pirmā banka	2.30	1.15	2.30	1.15	1.15	2.00	73.91%	40 321 732.00	9.15%
Valmieras SŠR	0.59	0.40	0.59	0.40	0.40	0.55	37.50%	13 146 762.75	3.00%
FREE LIST									
Baloži	0.63	0.03	0.63	0.03	0.42	0.04	-90.48%	11 396.00	-
Baltic Marine Fishing	0.01	0.01	0.01	0.01	-	0.01	-	0.00	-
Būvmehānizācija	0.11	0.11	-	-	0.11	0.11	-	6 174.74	-
Firma UBAK	0.10	0.07	0.09	0.07	0.10	0.07	-30.00%	60 480.00	0.01%
Grobīnās ZV	0.07	0.01	0.07	0.01	0.01	0.02	100.00%	10 000.00	-
Jelgavas BK	0.02	0.01	0.02	0.01	0.02	0.02	-	32 009.82	0.01%
Kalceks	0.30	0.30	0.30	0.30	-	0.30	-	162 000.00	0.04%
Kinostudija	0.08	0.07	0.08	0.08	0.07	0.08	14.29%	27 952.72	0.01%
Kokneses MRS	0.15	0.15	-	-	0.15	0.15	-	0.00	-
Kurzemes A1	1.25	0.01	1.07	0.01	1.25	0.02	-98.40%	18 362.88	-
Latvijas tīti	0.57	0.34	0.57	0.34	0.35	0.40	14.29%	268 400.00	0.06%
Liep. autoparkis	0.07	0.06	0.07	0.06	-	0.06	-	37 646.46	0.01%
Liepājas EER	0.03	0.01	0.03	0.01	0.01	0.02	100.00%	19 788.52	-
Lode	0.53	0.20	0.53	0.20	0.50	0.36	-28.00%	801 049.68	0.18%
Lokomotīve	0.06	0.01	0.06	0.01	-	0.01	-	82 342.19	0.02%
Mangāju KRR	0.15	0.06	0.15	0.06	0.13	0.15	15.38%	256 800.00	0.06%
Metālserviss	0.06	0.04	0.05	0.04	0.06	0.04	-33.33%	34 293.16	0.01%
Mīsas KF	0.02	0.02	-	-	0.02	0.02	-	5 137.80	-
Narūta	0.18	0.03	0.18	0.03	0.05	0.10	100.00%	30 000.00	0.01%
Ņore	0.07	0.02	0.07	0.02	0.07	0.03	-57.14%	428 975.22	0.10%
Olaines kūdra	0.04	0.01	0.03	0.01	0.04	0.02	-50.00%	36 000.00	0.01%
Ostas elevatori	0.05	0.03	0.05	0.03	0.03	0.05	66.67%	78 508.40	0.02%
Parautiņpogrāfi	0.30	0.11	0.26	0.11	0.30	0.12	-60.00%	45 360.00	0.01%
Poligrāfists	0.08	0.01	0.07	0.01	0.08	0.01	-87.50%	8 847.77	-
RER	0.05	0.01	0.05	0.01	0.04	0.05	25.00%	289 950.25	0.07%
Rēzeknes PKK	0.04	0.01	0.07	0.01	0.04	0.02	-50.00%	0.00	-
Rīgas JUV	0.02	0.01	0.02	0.01	0.02	0.01	-50.00%	47 429.80	0.01%
Rīgas AR	0.06	0.01	0.06	0.01	0.01	0.02	100.00%	108 845.58	0.02%
Rīgas FF	0.39	0.09	0.39	0.09	0.19	0.17	-10.53%	112 710.00	0.03%
Rīgas raugas	0.60	0.30	0.60	0.30	0.40	0.57	42.50%	440 610.00	0.10%
Rīgas sporta pils	0.14	0.04	0.14	0.04	0.06	0.09	50.00%	81 948.87	0.02%
Rīgas st. autoosta	2.25	2.25	2.25	2.25	-	2.25	-	675 000.00	0.15%
Rota	0.29	0.22	0.25	0.22	0.29	0.22	-24.14%	227 493.64	0.05%
RRR	0.03	0.02	0.03	0.02	-	0.03	-	63 004.56	0.01%
RSAU IZSOLE (LPA)	2.25	2.25	2.25	2.25	-	2.25	-	0.00	-
Salaogrīva 95	0.18	0.07	0.18	0.07	0.18	0.18	-	216 000.00	0.05%
Saldus MR	0.23	0.23	-	-	0.23	0.23	-	61 520.63	0.01%
Saldus NB	0.07	0.03	0.07	0.04	0.03	0.06	100.00%	48 000.00	0.01%
Siguldas CMAS	0.18	0.18	-	-	0.18	0.18	-	76 039.20	0.02%
Solo-Rīga	0.07	0.04	0.07	0.04	0.04	0.04	-	25 652.44	0.01%
Staburādze	0.80	0.19	0.80	0.19	0.80	0.24	-70.00%	728 327.28	0.17%
Strēlnu MRS	0.93	0.58	0.90	0.58	0.93	0.58	-37.63%	536 152.00	0.12%
Stružānu KF	0.08	0.01	0.08	0.01	0.03	0.02	-33.33%	0.00	-
Talsu MR	0.05	0.01	0.05	0.02	0.01	0.04	300.00%	19 627.96	-
Tukuma GPS	0.91	0.57	0.78	0.57	0.91	0.57	-37.36%	636 053.88	0.15%
Tukuma MRS	0.06	0.06	-	-	0.06	0.06	-	22 473.06	0.01%
VEF	-	-	-	-	-	-	-	1 486 648.00	0.34%
Veikals Centrs	0.26	0.18	0.26	0.20	0.18	0.23	27.78%	1 000 500.00	0.23%
Veldze	0.48	0.02	0.48	0.02	0.03	0.12	300.00%	124 368.00	0.03%
Ventspils ZKK	0.18	0.02	0.18	0.02	0.02	0.03	50.00%	33 000.00	0.01%
Viesnīca Latvija	0.88	0.28	0.88	0.28	0.67	0.35	-47.76%	1 729 000.00	0.39%
Zoo vetapģāde	0.10	0.04	0.10	0.04	0.05	0.10	100.00%	45 124.40	0.01%
TOTAL:								436 579 784.03	100.00%

Equity Market – Turnover

EQUITY MARKET Turnover without auctions

Company	Central market		Blocktrades		No. of shares total	Turnover total (LVL)	Turnover relative to the total	No. of trading days	Turnover velocity
	No. of shares	(LVL)	No. of shares	(LVL)					
OFFICIAL LIST									
Balta	1 279 016	5 721 909.00	5 037 260	18 813 150.66	6 316 276	24 535 059.68	28.54%	74	135.77%
GAZE IZSOLE	0	0.00	0	0.00	1 197 000	7 337 610.00	8.54%	1	100.00%
GAZE IZSOLE	0	0.00	0	0.00	798 000	9 982 980.00	11.61%	1	100.00%
Latvijas Gāze	523 775	3 346 740.79	7 839 386	48 133 744.47	8 363 161	51 480 485.28	59.89%	250	20.96%
Rīgas KB	4 17 814	77 118.30	656 113	111 990.94	1 073 927	189 109.24	0.22%	130	9.20%
Rīgas TF	606 335	38 044.92	845 327	40 472.74	1 452 262	78 517.68	0.09%	98	7.95%
Unibanka	38 500	79 111.78	60 487	124 158.73	99 037	203 270.51	0.24%	36	0.27%
Ventspils nafta	7 16 412	479 104.75	6 088 671	3 870 999.05	6 805 083	4 390 103.80	5.06%	246	6.51%
SECOND LIST									
Daugavpils PKR	288 494	27 294.60	957 585	93 649.40	1 246 069	110 944.00	0.13%	130	16.84%
Grindeks	153 904	70 331.59	288 037	132 733.28	441 941	203 064.87	0.24%	158	5.71%
Gutta	37 211	1 513.28	2 020 271	210 348.98	2 057 482	2 111 962.26	0.25%	23	5.53%
Jūras medicīna	14 148	2 486.71	27 001	4 047.91	41 149	6 594.62	0.01%	24	5.14%
Kaļa	121 143	17 963.81	427 054	55 365.95	548 197	83 329.76	0.10%	80	11.33%
Kvadraprint	404	20.25	1 213 464	129 106.27	1 213 868	129 126.52	0.15%	4	18.03%
Latvijas balzams	268 730	99 289.68	1 568 430	573 447.14	1 837 160	672 736.82	0.78%	203	24.51%
Liepājas ML	110 564	18 331.30	27 276	5 177.74	137 840	23 509.04	0.03%	97	0.99%
Olainfarm	489 957	49 903.63	1 166 390	118 222.72	1 656 347	168 128.35	0.20%	128	21.82%
Pirmā banka	5 070	9 920.40	342	389.30	5 412	10 313.70	0.01%	11	0.03%
Valmieras SŠR	351 701	187 816.38	3 399 084	1 739 725.34	3 750 795	1 907 541.72	2.22%	173	15.63%
FREE LIST									
Baloži	146	20.01	0	0.00	146	20.01	-	3	0.05%
Baltic Marine Fishing	4	0.04	15 047	225.97	15 051	225.97	-	4	0.16%
Būvmehānizācija	0	0.00	0	0.00	0	0.00	-	0	-
Firma UBAK	201	14.07	281 726	21 075.77	281 927	21 089.84	0.02%	1	32.63%
Grobīpas ZV	301	4.29	301	4.52	602	8.81	-	3	0.12%
Jelgavas BK	4 532	82.69	3 010	60.20	7 602	142.89	-	5	0.47%
Kalceks	150	45.00	0	0.00	150	45.00	-	1	0.03%
Kinostudija	390	28.00	44 363	3 543.50	44 713	3 571.50	-	1	12.80%
Kolnēses MRS	0	0.00	26 787	4 018.05	26 787	4 018.05	-	0	6.03%
Kurzemes A1	15 164	491.22	448 901	15 687.81	463 965	16 179.03	0.02%	8	50.53%
Latvijas tilti	1 414	643.26	58 642	25 998.65	60 056	26 641.91	0.03%	13	8.95%
Liep. autoparks	7 705	463.00	2 353	141.18	10 058	604.18	-	6	1.60%
Liepājas EER	4 086	83.75	2 351	37.53	6 417	121.28	-	7	0.65%
Lode	28 467	13 545.13	31 801	13 118.77	60 268	26 661.90	0.03%	38	2.71%
Lolo motive	2 865	34.00	70 000	2 100.00	72 865	2 134.00	-	8	0.89%
Mangalu KRR	7 753	1 078.57	433 033	47 555.37	440 786	48 631.94	0.06%	14	25.75%
Metālserviss	0	0.00	1 647	65.88	1 647	65.88	-	0	0.19%
Mīlās KF	0	0.00	114 154	3 626.39	114 154	3 626.39	-	0	44.44%
Narūta	3 525	236.40	83 930	9 197.92	87 455	9 434.32	0.01%	7	29.15%
Ogre	55 475	2 305.50	5 814 568	234 611.10	5 870 033	236 916.60	0.28%	26	41.05%
Olaines kūrdis	4 844	48.65	3 265	104.42	8 109	153.07	-	9	0.45%
Ostas elevatori	138	4.14	52 958	1 585.74	52 996	1 589.88	-	1	3.38%
Parautiņpoogrāfi	776	89.36	342 446	37 675.25	343 222	37 764.61	0.04%	4	90.80%
Poliogrāfi	198	2.82	0	0.00	198	2.82	-	3	0.02%
RER	543 272	27 163.60	1 017 972	49 917.11	1 561 244	77 080.71	0.09%	3	26.92%
Rāceknes PKK	12 755	244.10	44 710	1 250.80	57 465	1 494.90	-	12	1.64%
Rīgas JUV	122 981	2 027.01	2 794 842	55 870.69	2 917 823	57 897.70	0.07%	41	61.52%
Rīgas AR	424 798	4 385.44	1 622 200	69 971.67	2 046 999	74 357.11	0.09%	8	37.61%
Rīgas FF	2 414	378.43	1 656	116.80	4 070	495.23	-	15	0.61%
Rīgas raugs	3 846	1 835.94	29 288	16 250.80	33 134	18 086.74	0.02%	22	4.29%
Rīgas sporta pils	240 144	24 575.77	189 365	21 341.88	429 499	45 917.65	0.05%	6	47.17%
Rīgas st. autoosta	8 237	18 533.25	82	82.00	8 319	18 615.25	0.02%	1	2.77%
Rota	0	0.00	3 500	737.50	3 500	737.50	-	0	0.34%
RRR	200	5.00	200	200.00	400	205.00	-	2	0.02%
RSAU IZSOLE (LPA)	0	0.00	0	0.00	5	11.25	-	1	0.06%
Salaogrīva 95	3 053	493.86	2 171	211.44	5 224	705.30	-	4	0.44%
Saldus MR	0	0.00	799	183.77	799	183.77	-	0	0.30%
Saldus NB	541	32.46	13 593	815.58	14 134	848.04	-	1	1.77%
Saldus CMAS	0	0.00	37 987	5 765.31	37 987	5 765.31	0.01%	0	8.99%
Solo Rīga	8 898	387.38	53 300	2 132.00	62 198	2 519.38	-	93	9.70%
Staburadze	52 987	32 382.96	1 765 230	500 318.45	1 818 217	532 701.41	0.62%	107	59.98%
Strēņu MRS	390	203.00	5 234	4 203.84	5 694	4 406.84	0.01%	1	0.60%
Stružņu KF	74 18	267.53	98 302	1 974.56	105 720	2 242.09	-	10	23.15%
Talsu MR	2 290	95.01	29 917	483.76	32 167	554.77	-	5	6.49%
Tukuma GPS	0	0.00	0	0.00	0	0.00	-	0	-
Tukuma MRS	0	0.00	0	0.00	0	0.00	-	0	-
VEF	0	0.00	252 387	252 387.00	252 387	252 387.00	0.29%	0	16.99%
Veikals Centrs	3 698	787.30	55 675	13 495.27	59 373	14 282.57	0.02%	15	1.36%
Veldze	2 545	123.64	51 973	22 550.38	54 518	22 674.02	0.03%	13	5.26%
Ventspils ZKK	693	29.45	11 024	281.00	11 717	310.45	-	3	1.07%
Viesnīca Latvija	1 033	394.22	25 770	19 006.85	26 803	19 400.87	0.02%	6	0.54%
Coovetapgade	3 826	169.57	6 623	275.85	9 455	445.42	-	4	2.10%
TOTAL:	7 007 342	10 340 623.97	47 566 687	75 616 987.31	56 568 014	103 278 212.63	120.16%		

**ANNEX D:
RESPONSE OF LATVIAN
AUTHORITIES**



Riga, November __, 2002
Our ref.: 04.02.06.04.01./

Mr. Olivier P. Fremond
Program Manager
Corporate Governance Unit
Private Sector Advisory Services
The World Bank
1818 H Street, N. W., Washington, D. C.
UNITED STATES OF AMERICA

C.C.: Mr. Andris Kužnieks
Director
Structural Instruments Department
Ministry of Finance
REPUBLIC OF LATVIA

On the Publication of the ROSC Corporate Governance Assessment for Latvia

Dear Mr. Fremond,

Following up your letter of October 15, 2002 sent to Mr. Roberts Zīle, please find below our opinion that we would like to see attached to the publication of the ROSC Corporate Governance Assessment for Latvia. Our opinion also includes the latest developments in the field.

Opinion of the Financial and Capital Market Commission

1. The third paragraph of the Executive Summary contains a statement that "the most serious problem is compliance and enforcement". This statement, being so general, may be perceived as misleading, because critical remarks were aimed primarily at the enforcement by courts, while recognizing enforcement by the Financial and Capital Market Commission as adequate.

2. Principle IC. The second paragraph of the Description of Practice regarding the Principle IC is not correct. The existing system allows shareholders intending to participate in a general meeting of shareholders to block their shares, while trading in the remaining shares may continue. Moreover, as the Law on Electronic Documents was adopted on October 31, 2002, the legislation allowing electronic voting is already in place.

3. Principle IB. The specific situation in Latvia (where the majority of shareholders are passive because most of them are natural persons who have acquired shares using privatisation certificates) has shown that setting a quorum for a second general meeting of shareholders would seriously impair corporate governance of listed companies and provide additional incentives for companies **not to go public.** Therefore, the Commercial Law does not provide for a quorum for a second general meeting

of shareholders. Such a decision has been taken after consultations with all interested parties. Also, the Foreign Investors Council, which is the most active lobbyist for minority shareholder rights in Latvia, has been in favour of the absence of any quorum requirements in the Commercial Law. During the second general meeting of shareholders, only previously announced issues can be discussed, therefore any shareholder can take an informed decision whether or not to participate in the meeting.

4. Principle ID. The description of practice regarding the Principle ID contains a reference to preference shares that may be issued up to 100 percent of the par value of the equity capital and the allegation that "the possible use of non-voting shares to obtain a disproportionate degree of control compared to cash flow rights may discourage potential investors". We would like to make a general comment that according to the Commercial Law it is not possible to acquire effective control without acquiring voting rights. Therefore it is hard to see the cause for concern. Furthermore, we would like to add that the Law on Securities provides for reporting in case of acquisition of voting rights representing 1/10; 1/4; 1/2 and 3/4 of votes at the general meeting of shareholders. Thus a person who has acquired the prescribed amount of voting rights must disclose this information, irrespective of the company's capital structure. The Law on Securities provides an effective sanctions mechanism in case of non-disclosure because the owner of non-disclosed voting rights may not exercise these rights at the general meeting of shareholders. The draft Law on Financial Instruments Market provides also for the so called "0 declaration" of major holdings, irrespective of whether they are acquired directly or indirectly.

5. Principle VB. The description of practice contains an allegation that no laws or corporate governance guidelines encourage fair treatment of all shareholders. Please be advised that the draft Law on Financial Instruments Market contains provisions requiring equal treatment of all owners of the same type and class of securities.

Looking forward to our successful cooperation in the future.

Yours sincerely,

Uldis Cērps
Chairman
Financial and Capital Market Commission
Republic of Latvia

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