



SORAINEN

Tallinn office

Pämu mnt. 15
10141 Tallinn, Estonia
tel +372 640 0900
fax +372 640 0901
e-mail sorainen@sorainen.ee

Riga office

Kr. Valdemāra iela 21
LV-1010 Riga, Latvia
tel +371 6 736 5000
fax +371 6 736 5001
e-mail sorainen@sorainen.lv

Vilnius office

Jogailos g. 4
LT-01116 Vilnius, Lithuania
tel +370 5 268 5040
fax +370 5 268 5041
e-mail sorainen@sorainen.lt

Our newsletter's 10th anniversary!

Dear reader,

You are reading the edition that marks the 10th anniversary of Sorainen's Baltic Legal Update. It was in November 1997 when the first editions of Estonian and Latvian Legal Updates, annual bulletins reflecting key changes in the local legal environments, were published. Since the beginning of 1999 when our Vilnius office was launched completing our pan-Baltic approach, Sorainen has published Baltic Legal Update (BLU) as it is today, the newsletter outlining the most important legislative changes in the Baltics.

BLU has developed hand in hand with the growth of our firm. In recent years we have started to publish specialised legal updates, such as the Insurance BLU, IP BLU, IT and Telecom BLU, and M&A and Private Equity BLU. New special editions are coming soon. Furthermore, five of our legal updates are available in six languages. For more information please visit our webpage www.sorainen.com.

We are much obliged to our current and previous employees who have contributed to the newsletter and welcome any suggestions to improve the future issues. Please send your comments to our offices at the e-mails indicated in the contact details.

Yours truly,

The Sorainen BLU Team

LEGAL
UPDATE 10

EU NEWS

Companies can claim compensation for loss from the European Commission

The European Court of First Instance decided on 11.07.2007 that the European Commission must pay compensation to Schneider Electric, the French producer of electrical equipment, for having unlawfully forbidden Schneider to acquire Legrand, another producer of electrical equipment. The Court of First Instance has on several occasions reversed decisions of the European Commission prohibiting concentration, but this is the first time it imposed an obligation on the Commission to pay compensation for an unlawful decision in the area of competition law. The Court of First Instance did not reproach the Commission for a mistake in facts or economic analysis, but for the circumstance that Schneider was not granted the right to defend itself.

The court decided that the Commission must, first, repay expenses incurred by Schneider in respect of prolonged merger control procedure. Second,

as Schneider had already acquired Legrand, but due to the Commission's prohibitory decision had to sell it on unfavourable conditions, the Commission must also compensate two-thirds of the amount by which Legrand's price had been reduced. The exact amount of loss depends on expert assessment to be performed in the near future. Although Schneider claimed EUR 1.7 billion compensation from the Commission, the actual amount will probably be considerably lower.

The court's decision opens the door for other companies whose prohibition of concentration has been reversed by the court, to claim compensation for losses from the Commission. This judgment is a clear message to the Commission that exceeding the limits of its competence is followed by a penalty.

- Additional information:
Kristi Lehtis
e-mail: kristi.lehtis@sorainen.ee

EU

Companies can claim compensation for loss from the European Commission

Estonia

Implementation of MiFID (Markets in Financial Instruments Directive)

Latvia

Changes in privatization completion provisions

Lithuania

Tightened trade in alcohol and restriction on alcohol advertising on radio and TV

Sorainen

Sorainen is No. 1 regional M&A law firm in CEE

Sorainen becomes a Certified Adviser for "First North" in the Baltics

ESTONIA

BANKING AND FINANCE

Amendments to the Estonian Securities Market Act

Associate Stefano Grace has written an article entitled "Amendments to the Estonian Securities Market Act: New Opportunities for Raising Capital and Additional Obligations for Market Participants", explaining the new requirements for investment service providers arising from the implementation of MiFID in Estonia and the recent establishment of First North Baltic. The article is available on page 6.

- **Additional information:**
Stefano Grace
e-mail: stefano.grace@sorainen.ee

TAX

Income tax rate reduced in Estonia

Amendments to the Income Tax Act entering into force on 01.01.2008 will bring down the income tax rate, increase the basic exemption for resident natural persons, and provide additional basic exemption for those maintaining a child and for owners of forested registered immovables, registered as sole proprietors.

The income tax rate is currently 22% both for natural and legal persons. Under the amendments, the income tax rate continues to reduce from 2008 to 2011 by 1% annually. Thus, the income tax rate would be 18% from year 2011. The tax rate is reduced both for natural and legal persons.

The basic exemption for resident natural persons is 24,000 kroons in 2007. Under the amended act, the basic exemption will increase from 2008 to 2011 by 3,000 kroons annually and will reach 36,000 kroons from 2011.

The current regulation establishes a tax incentive for a person maintaining two or more underage children. From 2008 the additional basic exemption for a person maintaining a child will be extended to cover each child until the age of 17 (inclusive).

The current act enables an additional deduction up to 45,000 kroons in a taxable period from income from sale of own-produced unprocessed agricultural products.

Income tax incentives introduced by the amendments to the Income Tax Act leave more money in taxpayers' hands. The relative importance of direct taxes in GDP is considerably lower in Estonia than the EU average due to the increase of basic exemption and the reduction of income tax rate. The tax burden level in Estonia stays as one of the lowest among EU member states.

- **Additional information:**
Konstantin Kotivnenko
e-mail: konstantin.kotivnenko@sorainen.ee

LATVIA

REAL ESTATE AND CONSTRUCTION

Changes in privatization completion provisions

On 01.08.2007 amendments to the Law on Completion of Privatization of State and Municipal Objects and Use of Privatization Vouchers came into force. The amendments stipulate changes in the rules on completion of land reform and changes to the procedure and rules on completion of privatization.

The amendments specify the periods for a competent privatization institution to adopt decisions regarding transfer of a property or a land plot for privatization or refusal to transfer a property object or a land plot for privatization. These terms depend on the registration time of privatization proposals in the privatization register.

If a decision on transferring a land plot for privatization is adopted after 31.08.2007, the value of the land plot for privatization purposes is determined as at 31.08.2007.

In addition, the amendments change the procedure for privatizing vacant land plots. The most material changes are as follows:

- 1) Prolongation of the deadline for constructing buildings on a land plot (leased to a lessee as a vacant land plot) and for registering the ownership rights of those buildings in order to enable privatization of the land plot according to the privatization procedure for built-up land plots. A land plot may be privatized under the privatization procedure for built-up land plots, if (in addition to fulfilling other preconditions of the law) the lessee by 31.12.2008 (before the amendments – 01.09.2007) constructs a building on a leased land plot and registers ownership rights to the building with the Land Book.
- 2) If the lessee of a land plot has not registered title to a building with the Land Book by 31.12.2008, the respective land plot may be purchased only under the general procedure for alienation of State and municipal property, which does not enable purchase of land at a value determined for privatization purposes.

- **Additional information:**
Lelde Lavina
e-mail: lelde.lavina@sorainen.lv

COMPETITION AND REGULATORY

Companies to be fined up to 5 % of net turnover for abuse of significant impact

The Latvian Parliament has passed Draft Amendments to Latvian Competition Law ("the Amendments") at the first reading. Most notably, the Amendments seek to introduce a novel concept of an undertaking's market position defined as a "significant impact", abuse of which may result in a fine of up to 5% of the respective undertaking's net turnover per year.

The prohibition of abuse of significant impact would apply exclusively to undertakings operating on the retail market, having a market share of at

least 25%, but not having a dominant position. The Amendments provide for a list of possible abuses of significant impact, all of which relate to imposing "unfair or ungrounded" contractual terms on suppliers.

This part of the Amendments is at least questionable. Mainly, it is not clear why certain retailers, though not holding a dominant position, should be subject to stricter competition rules than other market participants. Under EC competition law, only dominant undertakings are considered to have a special responsibility towards the competitive process and their competitors. So far, this had also been the position under Latvian competition law. The authors of the Amendments have not put forward any justification for introducing another kind of special responsibility, except for the argument that large retail chains impose unfair contractual terms on their suppliers. However, the purpose of competition law is to protect competition itself, not to protect competitors.

Lacking a good reason to interfere with the market, the Amendments might contradict not only the purpose of competition law, but also the freedom of establishment guaranteed under the EC Treaty. It remains to be seen whether the Amendments are passed.

- **Additional information:**
Deborā Pavila
e-mail: debora.pavila@sorainen.lv

TAX

New amendments proposed to Law on Individual Income Tax

On 18.09.2007 the Cabinet approved amendments to the Law on Individual Income Tax. Currently, the amendments are pending consideration and possible adoption by the Latvian Parliament. The proposed changes provide that from 01.01.2008, persons who do not perform a professional activity, have no employees, and whose income from commercial activity does not exceed LVL 10,000 per year, would be entitled to pay a fixed individual income tax rate. The amount of fixed tax rate would be subject to income received and would vary from LVL 25 to LVL 500, i.e., 5-10% of income received during a year.

Those choosing the fixed tax rate would be obligated to record all income received from commercial activity during a year and pay the tax by 15 April of the next year. But if income from commercial activity exceeded LVL 10,000 and the person opted to pay the fixed tax rate in the previous taxation year, they would lose their right to pay tax at the fixed rate for five years in a row. Choosing fixed tax rate would disable all deductions, non-taxable income, and reliefs.

Other proposed amendments to the law on individual income tax

The government also plans to limit individuals' rights to write off expenses related to use of personal vehicles. Thus, according to the proposed amendments, only 70% of the expenses (such as fuel cost) related to the use of a personal vehicle

in commercial activity will be written off as expenses. Currently, such expenses can be written off in proportion to kilometres travelled by car, i.e. without limitation. A 50% rate is applicable only in cases where routes for driving are not planned in detail.

- **Additional information:**
Janis Taukacs
e-mail: janis.taukacs@sorainen.lv

COMMERCIAL CONTRACTS

New Order in Patent Registration

A new legislative act – the Patent and Patent Application Regulations - is in the process of being passed by the Latvian Cabinet of Ministers.

Until now, Latvian patent legislation provided no clear requirements regarding the form and content of patent applications. Applications were filed in free form and thereby did not comply with international requirements. This created problems not only in the context of Latvia's international obligations in the field of patent law, but also in cases where applicants also wanted to file their applications in other countries.

The new regulations would state clear and strict rules to be observed when drafting patent applications. These rules would concern, e.g., the description of an invention, claims, and drawings. The regulations would also stipulate technical requirements as to distribution of text and drawings in applications.

Importantly, under the draft regulations the description of an invention must be clear and complete from the point of view of a person skilled in the art. For the purposes of the draft regulations, a person skilled in the art is a person having the required knowledge in the relevant field of engineering; it is assumed that this person has access to relevant technical means of general application, and has the possibility to perform experimental works in order to put the invention into practice. If application of the invention concerns several fields of engineering, a person skilled in the art is considered a hypothetical person or group of persons having overall knowledge in all the relevant fields. This provision would contribute not only to patent registration but also to patent litigation by making it easier to evaluate and find a patent infringement by means of comparing patent claims.

Further, the regulations would govern the procedure for filing amendments to patent applications, filing divisional applications, providing authorizations, transfer of registered patents and patent applications, and filing of translations of European patent claims.

The new Latvian Patent and Patent Application Regulations are likely to take effect at the beginning of 2008.

- **Additional information:**
Inese Rendeniece
e-mail: inese.rendeniece@sorainen.lv

New regulations on distribution and quality control of medicinal products

On 01.08.2007 new Cabinet Regulations No 416 on the distribution and quality control of medicinal products entered into force.

The new Regulations provide for detailed rules as to the distribution and quality control of medicinal products, including homeopathic and plant origin medicinal products. The Regulations do not concern veterinary medicinal products. Furthermore, the Regulations do not apply to importing medicinal products from non-member states of the European Union and European Economic Area and exporting those products to third countries.

The Regulations set out requirements for medicinal products wholesale and parallel importing and distribution, set the principles and standards of good distribution practice for medicinal products, as well as special requirements as to distribution of medicinal products in pharmacies. Moreover, the Regulations provide rules in respect of distribution of non-registered medicinal products and distribution via the Internet. Finally, the Regulations regulate the distribution of stocks in case amendments in registered documents take place, as well as giving instructions for extraordinary situations and setting the procedure for withdrawal of medicinal products. The Regulations contain transition provisions, while several attachments to the Regulations provide for pre-printed application forms.

New regulations on importing and exporting medicinal products

On 01.08.2007 new Cabinet Regulations No 436 on importing and exporting medicinal products entered into force.

The new Regulations determine the order for importing medicinal products (except veterinary medicinal products) into the customs territory of the European Union and exporting them out of that territory, as well as customs control points through which imports and exports of medicinal products and substances listed on list II and III of narcotic and psychotropic substances and precursors are allowed.

The Regulations refer to imports of those medicinal products registered with the Latvian Medicinal Products Register or within the European centralized procedure, or registered in third countries. They also refer to imports of medicinal products by budget authorities and by public benefit organizations, as well as to imports of medicinal product samples, medicinal products exports, including imports and exports of medicinal products under research.

The Regulations do not apply to imports of medicinal products from European Economic Area member states and exports of medicinal products to those states. The Regulations also contain transition provisions to be complied with not later than 1.01.2008 and several attachments to the Regulations provide for pre-printed application forms.

- **Additional information:**
Agris Repss
e-mail: agris.repss@sorainen.lv

LITHUANIA

COMMERCIAL CONTRACTS

Tightened trade in alcohol and restriction on alcohol promotion on radio and TV

A new version of the Law on Alcohol Control, which came into effect on 01.08.2007, provides for new contents of definitions used. From now on, alcohol export will have the meaning of taking alcohol products out of Lithuania to other countries, except for countries of the European Economic Area and Turkey. Import means bringing in alcohol products to Lithuania from other countries, except for the European Economic Area and Turkey. The procedure for issuing documents certifying conformity of alcohol products has changed. Breweries that use contracted services of food product quality research laboratories of other institutions and undertakings which have been certified under established procedure may issue a conformity declaration on their manufactured beer on their own based on beer research protocols issued by those laboratories. Under the former version of the law, these breweries had to refer to laboratories regarding the issue of conformity documentation.

The procedure for issuing licenses in wholesale and retail trade in alcohol products has been revised. Undertakings that intend to engage in retail trade in alcoholic beverages in retail establishments and catering establishments located in multi-family dwellings are issued licenses if consent of the residents is received under established procedure.

The new version of the Law establishes an additional restriction on trade in alcoholic beverages: this is prohibited from 10.00 p.m. to 9.00 a.m. in commercial enterprises established in multi-family apartment houses.

With effect from 01.01.2008, a legal provision imposing more severe restrictions on alcohol promotion on radio and television will come into force. Advertising alcohol will be restricted from 6.00 a.m. to 11.00 p.m. in programmes of broadcasters or re-broadcasters belonging to Lithuanian jurisdiction.

- **Additional information:**
Regina Derkintyte
e-mail: regina.derkintyte@sorainen.lt

TAX

New provisions in Law on Tax Administration

As from 19.07.2007, a new version of the Law on Tax Administration became effective. Based on the new provisions, officials of the central tax administrator performing the functions entrusted to them may take photos and audio or video records without violating a person's right to privacy. Under the Law on Tax Administration, information on a taxpayer provided to a tax administrator must be kept confidential and used solely for lawful purposes. The Law also provides for a list of information not subject to this rule. With effect from this amendment, this list will also include data on annual financial accounts, which will no longer be treated as secret information.

LEGAL UPDATE

The amendment extends the list of cases where persons are temporarily exempted from filing tax returns or from submitting other documents specified in legal acts. Taxpayers are exempted from submission of tax returns in cases when the tax administrator receives information to-be-submitted from third sources, as well as in other cases when submitting tax returns and other documents is inexpedient.

From now on, the provisions regarding submitting tax returns by a legal entity under liquidation or reorganisation also apply to a legal entity that is going bankrupt or is subject to reorganisation. A legal entity is bound within 30 days after initiating bankruptcy or restructuring procedure to provide the tax administrator with the relevant tax return for the period from the beginning of the tax period until initiation of these procedures.

Under the new version of the Law, a tax administrator, having identified formal deficiencies in a tax return, may eliminate them at his own initiative, so long as the tax obligation of the taxpayer remains the same.

The new wording of the Law also establishes one more bases for expiry of a tax obligation: the period of limitation for enforced recovery of arrears in payments has expired; and reduces the number of cases when a taxpayer may be exempted from default interest. With effect from this amendment, taxpayers are not exempted from default interest when this was calculated on arrears in one payment, irrespective of the fact that the taxpayer had overpaid the same or some other tax for the same period.

- **Additional information:**
Tomas Davidonis
e-mail: tomas.davidonis@sorainen.lt

CORPORATE ADVISORY

Changes in procedure for issuing permits for temporary residence in Lithuania

The procedure for applying for a temporary residence permit has changed. As from now, a foreigner, who applies for the first time regarding the issuance of a permit, has to submit an application for issuance of a permit to the consular office; in case he is legally staying in the Republic of Lithuania, he has to submit an application to the migration service or the Migration Department in person. Applications for temporary residence permit of an alien's family members entering for family reunification purposes may be submitted to a consular office, migration service or Migration Department by the alien himself or by one of his adult family members.

The list of foreigners entitled to receive or change permits for temporary residence in Lithuania was also supplemented. Based on the new rules, temporary residence permits may be obtained by: a minor whose parents (foster parents) or one parent, or a spouse of one of the parents who is fostering a minor, resides in Lithuania; an alien whose child (adopted child) resides in Lithuania and who is given refugee status and is issued a long-term Lithuanian residence permit; an alien who is accepted at an educational institution for

studies under the secondary education curriculum; an alien who is or was a victim of trafficking in persons and cooperates with a pre-judicial investigation authority or court in the fight against trafficking in persons or against crimes relating to trafficking in persons.

The new rules also establish a list of documents evidencing that a foreigner has a reasonable prospect of acquiring a right of permanent residence in Lithuania: a certificate of retention of the right to Lithuanian citizenship or documents evidencing: an alien's Lithuanian origin, family kinship, a marriage or registered partnership contract, ownership or co-ownership of the company, enterprise or organisation registered in Lithuania, or that the individual is a manager or authorised representative of a manager of that company, enterprise, or organisation.

- **Additional information:**
Mantas Rimkevicius
e-mail: mantas.rimkevicius@sorainen.lt

NEWS IN SORAINEN

■ Recent deals

Advising Realia Group Oy in acquisition of Ober-Haus Real Estate Advisors

Sorainen offices in Estonia, Latvia, and Lithuania, in cooperation with law firms in Finland and Poland, advised Realia Group Oy in its acquisition of Ober-Haus Real Estate Advisors. Ober-Haus is the largest real estate agency in the Baltics and Poland, also operating in the Ukraine. Realia Group Oy owns the dominant Finnish real estate brands Huoneisto-keskus, SKV, and Huoneistomarkkinointi. The purchase of Ober-Haus Real Estate Advisors creates the largest property agency in Central and Eastern Europe with nearly 2,000 staff in Finland, Estonia, Latvia, Lithuania, Poland, and the Ukraine.

Investments in leading social network websites in the Baltics

Tallinn office has consulted investment firms Tiger Global and Digital Sky Technologies in the purchase of shares of AS Forticom, the developer and operator of leading social network websites www.one.lt, www.one.lv, and www.one.ee in the Baltic countries. The case was handled by partner Toomas Prangli and associate Stefano Grace.

Acquisition of the largest producer of ceramic building materials in the Baltics

Riga office advised private equity funds managed by Capital International in the app. 24 MEUR acquisition by private contract of an 82.8% stake in Lode, the listed Latvian ceramic building materials manufacturer. The transaction was handled by partner Pekka Puolakka and senior associates Eva Berlaus-Gulbe and Renate Purvinska.

Successful representation of Latvian Central Depository in the administrative proceedings

Riga office successfully represented Latvian Central Depository (LCD) in the administrative proceedings initiated by two Latvian companies against the Financial and Capital Market Commission and LCD. The Latvian Supreme Court held that LCD had not violated the applicable laws and LCD rules by unblocking the shares. The Court accepted that LCD was acting in the realm of private law when rendering such service as unblocking the shares to participants in the financial instruments market. The Court held that when receiving the information from the listed company's management (in this

Contributed by Tiina Erik, Estonia; Gita Rivdike, Latvia; Neringa Petrauskaitė, Lithuania. Editor: Girts Ruda, Latvia.

case - decision of cancellation of the shareholders meeting from the board of the company), LCD did not have to verify either the lawfulness of the decision or the procedure of its adoption, but could rely on such information. The case was led by partner Girts Ruda.

Maxima Latvija acquires shopping centre with gross lease area of around 7,000 square meters

Riga office advised Maxima Latvija in its acquisition of Tirdzniecības Centrs "Mukusala", a company owning a mid-size shopping centre (gross lease area of around 7,000 square meters) in Riga. Our advice covered both the share acquisition deal, and obtaining merger clearance for the deal from the Competition Council of Latvia. The case was led by partner Girts Ruda and senior associate Eva Berlaus-Gulbe, with senior associate Rudolfs Engelis acting for the client in the merger clearance proceedings.

Successfully representing the interests of the Republic of Lithuania in ICSID case

A team of lawyers from Vilnius office led by partner Renata Berzanskiene together with Freshfields Bruckhaus Deringer Paris and N.Y offices won a case when representing the interests of the Republic of Lithuania in the first and only multimillion ICSID case against Lithuania concerning investments in the public parking infrastructure of the City of Vilnius.

Norwegian company Parkerings-Compagniet AS sued Lithuania for alleged breach of its obligations under an Agreement between the Government of the Republic of Lithuania and the Government of the Kingdom of Norway on the Promotion and Mutual Protection of Investments and international law, claiming app. 30 MEUR damages sustained. The final award, rejecting Parkerings claims in their entirety, was sent to the parties on 11.09.2007.

Advising in acquisition of major Lithuanian insurance broker

Vilnius office advised Colemont Holdings AS in acquisition of one of the largest Lithuanian insurance broker companies, UADBB Hansa draudimo brokeris, formerly a member of Hansabank Group. Colemont Holdings AS belongs to Colemont Global Group, one of the major insurance global brokerage networks. Our team was led by partner Laimonas Skibarka and senior associate Tomas Kontautas.

NCC acquires Siauliu titanai

Vilnius office advised NCC Construction Ltd, the second largest construction company in Northern Europe, in its acquisition of major Lithuanian construction

company UAB Siauliu titanai. UAB Siauliu titanai is active throughout Lithuania in the construction of residential and commercial properties. The transaction was handled by partner Laimonas Skibarka and senior associates Mantas Petkevicius and Liudas Ramanauskas.

Asseco acquires Sintagma in Lithuania

Vilnius office team led by partner Laimonas Skibarka and senior associate Raminta Karlonaite advised Asseco Poland S.A. in its acquisition of a majority stake in UAB Sintagma, a major Lithuanian IT company. Asseco Poland S.A. is the largest IT company in Poland. Asseco Group also operates in Slovakia, the Czech Republic, Romania, and Serbia and plans to enter Germany and Austria.

HeidelbergCement Group enters Lithuanian market

Vilnius office assisted the world's leading building materials producer – HeidelbergCement Group – in its acquisition of a 70% stake in Lithuanian cement distributor UAB Gerdukas. The transaction was handled by partner Laimonas Skibarka and senior associate Raminta Karlonaite.

■ Employees

Our team now includes a patent agent

To raise our IP practice to a new level of excellence and improve the efficiency of client service, Tallinn office has employed patent agent **Indrek Eelmets**. Mr. Eelmets is an expert in intellectual property law at our Tallinn office, specialising in the field of trademarks, domain names, industrial designs, copyright, and geographical indications. Before joining Sorainen in October 2007, he worked with Patent and Trade-mark Agency Lasvet. Mr. Eelmets is an Estonian and European Trademark Attorney entitled to practice before the Estonian Patent Office, the Board of Appeal of Industrial Property, and in Community trademark and design matters before the Office for Harmonization in the Internal Market. During over seven years of practice he has represented clients in domestic and international trademark matters in trademark and industrial design disputes in courts and in anti-counterfeiting matters before the Estonian customs.

Three new lawyers have joined Sorainen team

Piret Lappert, a senior associate, is the most recent addition to our M&A team. Piret joined our Tallinn office in July 2007.

She has extensively advised major institutional and private investors in mergers and acquisitions and corporate law matters. For the last 9 years, Ms. Lappert worked for the law firm Hedman Osborne Clarke and has also been a chair of the Consumer Dispute Resolution Committee.

Indrek Ergma has been an associate at Sorainen Tallinn office since June 2007. He is involved in general corporate and employment law matters. During the last 7 years he has advised clients in corporate and employment law issues.

Lasma Liede joined Sorainen Riga office as an associate in August 2007. Her key areas of expertise are litigation and arbitration and IT law. Before Sorainen, Lasma worked at Nordea Bank Finland Plc Latvia branch where she started to work as corporate assistant and later as legal counsel. She has also worked as a trainee at the Constitutional Court and the Ministry of Justice. Lasma has graduated with distinction from the University of Oxford (MJur) and the University of Latvia (Dipl.iur.).

Two of our employees returned from their master studies - Janis Bite from UK, Department of Law of Durham University, and **Tadas Milasius** from UK, London School of Economics and Political Science. Janis joins the Corporate Advisory Team in Riga and Tadas joins the M&A and Banking & Finance Teams in Vilnius.

■ Seminars

International Conference "Insurance and Reinsurance in the Baltics 2007"

Sorainen supported the 11th Annual International Conference "Insurance and Reinsurance in the Baltics 2007" organized by the Latvian Insurers Association on 11 October 2007 at the Hotel Radisson SAS Daugava in Riga. Tomas Kontautas, senior associate from Sorainen Vilnius office, delivered a presentation on the topic "Provision of Insurance Services in the Baltics by Foreign Insurers: Outstanding Issues".

Undiscovered opportunities of Baltic capital markets

Girts Ruda, partner at Sorainen Riga office, was invited by Riga Stock Exchange to deliver a presentation on the topic "Undiscovered opportunities and challenges on First North and Baltic Capital markets" at the "CFO Day" of the 13th Baltic Financial Forum to take place on 25-26 October 2007 in Riga.

■ Other

Sorainen is No. 1 regional M&A law firm in CEE

According to leading M&A intelligence company Mergermarket, the Sorainen M&A team ranked No. 8 by deal volume in the league tables of legal advisers in M&A transactions within the CEE region in the first three quarters of 2007. This means that Sorainen is No. 1 regional law firm in CEE because only big global law firms ranked ahead of us.

Sorainen becomes a Certified Adviser for "First North" in the Baltics

Tallinn Stock Exchange signed a letter of intent with Sorainen as a Certified Adviser on the alternative marketplace First North in the Baltics. The status of certified adviser will be awarded to sufficiently experienced business and finance consulting companies that complete a special training programme for alternative market First North and enter into an agreement with at least one Baltic exchange. As an intermediary between companies, the stock exchange, and investors, a certified adviser plays a significant role in developing the alternative market. Partner Reimo Hammerberg and senior associate

Stefano Grace were appointed certified advisers on the newly opened alternative marketplace. For more information on "First North" please see <http://www.firstnorthbaltic.omxgroup.com/>.

Sorainen rewarded the best law theses

For the 3rd year in a row, Sorainen declared the winners of the scholarship contest for the best theses in law for Estonia, which began in autumn 2006. The winners were Maarja Torga and Piia Karu from the Faculty of Law of the University of Tartu. "This year's award-sharing theses were high-level works of practical value" said Carri Ginter, partner at Sorainen, member of the scholarship award committee. "We wish to continue with the tradition in order to signal to law undergraduates that their research works are valuable and to motivate them to do their research in a dedicated and high-quality manner."

Sorainen started to issue Tax Card

To spread tax-related information, our pan-Baltic Tax Team started to issue a Tax Card (available on our webpage: <http://www.sorainen.ee/file.php?16997>), a concise overview of tax systems in the Baltic States.

Amendments to the Estonian Securities Market Act: New Opportunities for Raising Capital and Additional Obligations for Market Participants

The Estonian Parliament recently adopted amendments to the Securities Market Act (SMA) transposing provisions of the Markets in Financial Instruments Directive (MiFID), the Takeover Directive and the Capital Adequacy of Investment Firms and Credit Institutions Directive. The amended SMA imposes significant new requirements for investment advisers, investment funds, fund managers, stockbrokers and banks with activities in Estonia as well as new rules pertaining to takeovers and capital adequacy requirements. In addition, the MiFID related amendments provide for the creation of deregulated multilateral trading facilities which will provide new opportunities for small to medium size growth companies seeking to raise capital. Given the complexity of these amendments, this article will focus primarily on some of the key amendments to the SMA arising from MiFID.

While Estonia missed the transposition and effectiveness deadlines, under the new MiFID provisions are effective as of 1 November 2007 and aim to provide the maximal common regulatory framework applicable to securities markets throughout the European Union. Under MiFID, the "passporting" of investment services is expanded enabling investment firms, banks and exchanges to provide their services across borders with greater ease based on harmonised national rules with respect to investment services and the operation of stock exchanges. The principle of passporting generally subjects investment firm and service providers to the business rules applicable in their home member state and to regulation primarily by their home member state's Financial Supervision Authority.

The MiFID related provisions create a "best execution" regime for investment service providers, requiring them to in certain situations consider more factors than merely seeking the best price, such as the costs, speed, size and nature of the transaction and the likelihood of settling the transaction. In addition, the MiFID related amendments provide new detailed requirements regulating the following business related obligations of investment service providers:

- Ensuring "fair, clear and not misleading" advertisements and promotional materials.
- Classification of clients as "eligible counterparties", "professional clients" and "retail clients".
- Ensuring that internal controls for managing conflict of interest situations are in place and are disclosed to customers.
- Ensuring transparency through trade and transaction reporting to clients.

- Maintaining adequate records for the "competent authority to monitor compliance with the requirements" of MiFID.

While the amended rules will benefit investors, issuers and market participants by promoting efficiency with respect to cross-border passporting, these additional requirements should be carefully considered and addressed when providing investment services.

Investment service firms falling within in the scope of the new MiFID related amendments are recommended to conduct a gap analysis between their current rules, procedures, disclosure measures and client agreements and the new requirements arising from MiFID to ensure compliance with the harmonized provisions. In addition, engaging local legal counsel can also assist such firms by providing MiFID compliance opinions and advising on how to implement these new measures into a firm's business practices.

Another important amendment arising under the transposition of MiFID is the deregulation of multilateral trading facilities (MTF), which provides new opportunities for small to medium sized companies to raise capital through trading their shares under less complex terms than those applicable to the regulated market.

OMX Group intends to launch First North Baltic relying on the newly adopted provisions of the SMA providing for the first MTF in Estonia, which is regulated by the market operator (the Tallinn Stock Exchange). As an MTF, First North Baltic is not subject to the SMA provisions or EU directives applicable to traded companies on the regulated market, including the Market Abuse Directive, the Transparency Directive and the Prospectus Directive. Instead, Issuers admitted to trading on First North are first required to enter into an agreement with a Certified Adviser and to abide by the First North Baltic Rulebook. The role of Certified Advisers is to advise the Issuer on the process of becoming admitted to trading on First North Baltic, to monitor and help ensure the Issuer's compliance with the First North Baltic Rulebook on a constant basis, and reporting any violations by the Issuer of the First North Baltic rules immediately to the Tallinn Stock Exchange.

■ Additional information:

Stefano Grace

e-mail: stefano.grace@sorainen.ee