

Shaping regulatory and supervisory framework in Latvia – **key messages** to the market

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Challenges and opportunities of 2020



Covid19

Uncertainty remains
high

The deterioration in
the loan portfolio
quality in the future
cannot be excluded



AML

Seeking a balance

Requirements
Risks
Business and
Investments



Sustainability

Embracing the future

Environment
Social
Governance



Unclear effects of Covid-19



The Latvian banking sector **proves resilient** to the shock caused to the economy by Covid-19.

- The profit was substantially reduced by the first-half provisions.
- Banks decided to include retained earnings in equity.



The negative impact

of Covid-19 is not yet fully observed because of the State aid measures.

- The moratorium applied to 11 554 loans for a total amount of EUR 1168 M.
- 33 loans had received *Altum* guarantee as part of the Covid-19 crisis support for businesses (EUR 43 M)



Uncertainty remains high and the deterioration in the loan portfolio quality in the future cannot be excluded.

- Supervisors' focus – adequacy of provisions and post-moratorium situation.
- With deterioration of the situation a moratorium could be reinstated at EU level.
- Implementation of Basel reform postponed for a year.



Development of AML/CFT system

The main focus of year 2020 in the financial sector is seeking a balance and proportionality between requirements, risks and common sense.

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Further directions on AML/CFT



Enhancing inter-institutional cooperation in Latvia



Strengthening of risk-based approach to the regulatory framework
Ability to take responsibilities and manage risks



Continued cooperation between Latvian and foreign supervisory authorities



New culture of compliance in Latvia

Common understanding on the application of laws and regulations
Introduction of “advice first” principles for banking and client cooperation



Sustainability – greening financial system

Role of Supervisor

- Active involvement in the development of financial sustainability regulatory framework
- Open communication with an industry regarding supervisory expectations

Supervisor expectations

- Act proactively and include sustainability considerations into business strategy and processes
- Incorporate climate-related and environmental risks into risk strategy and risk management framework and use scenario analysis and stress tests as an evaluation tools
- Properly enhance governance arrangements
- Promote climate-related disclosure that is both qualitative and quantitative
- Activity towards discussion of future regulatory framework





Fintech – financial innovation, added value and functionality

- The existing regulatory framework not always supports fast developing and demanding innovation environment



- Technology-based financial services will increase but we cannot undermine quality over quantity
- As more global regulations are rolled out, Fintech companies are constantly challenged to keep up and stay compliant — which is essential for both partner and customer trust.
- Fintech businesses should consider regulations as a framework for best practices





Main challenges of Capital Market



Our priority is to **develop** Capital Markets locally and support the European level Capital Markets Union.



European capital market is **fragmented**, and therefore we are looking for measures to close this gap between most developed markets and those which are catching up.



Setting up 10 step approach to **energize** the Latvian Capital Markets



Thank You!

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