

The AFM Agenda in 2015

Including the budget for 2015

This translation consists of selected items from the AFM's Agenda for 2015, and is not the full text. The full text is available in Dutch from the following link: <http://afm.nl/nl-nl/professionals/over-afm/jaaragenda>.

This is an informal translation only. In case of any conflict between this translation and the original text, the latter shall prevail.



Netherlands Authority for Financial Markets

The AFM promotes fairness and transparency within financial markets. We are the independent supervisory authority for the savings, lending, investment and insurance markets. We promote the fair and conscientious provision of financial services to consumers and private investors, as well as professional and semi-professional parties. We supervise the fair and efficient operation of the capital markets. Our aim is to improve consumers' and companies' confidence in the financial markets, both in the Netherlands and abroad. In performing this task, the AFM contributes to the stability of the financial system, the economy and the reputation and prosperity of the Netherlands.

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Foreword and key items

This Agenda describes the items the AFM intends to focus on in 2015. It is the result of our observation of relevant developments in the financial markets over which we exercise supervision and our prioritisation of identified risks. We will continue our nine supervisory themes from 2014. The issues that represent the themes still require our attention as much as ever. A more detailed overview of our supervisory plans is presented in the theme plans below. In this foreword, I would like to address certain specific supervisory areas that will be given special attention in 2015. I will also describe some important developments that link the themes together, as well as the changes that we and the sector are going through. I shall start with the last point.

Supervising a sector in transition

The parties over which we carry out supervision, such as financial enterprises, pension funds and audit firms, are operating in turbulent times. They have to implement and apply a multitude of new regulations. Their business models, earnings models and remuneration structures are undergoing fundamental changes as a result of changed perceptions. The public expects them to play a meaningful role in the creation of progress and prosperity. Helpfulness, care, transparency and sustainability are key terms in this respect. There is a widespread conviction that the financial sector needs to change. A fundamental adjustment to behaviour and culture is therefore required.

As the supervisor of a sector in transition, we must also continually look closely at ourselves. New supervisory developments, such as necessary processes of behavioural and cultural change, technological developments and different perceptions of human behaviour demand specific knowledge and expertise. In order to exercise our supervisory duty effectively, we must continue to become more professional.

We are striving to structure an effective, creative and flexible organisation so that we can continue to operate effectively in changing markets. Our external communication is very important in this respect: it must be timely, clear and correct. The increasing level of digitalisation in the financial sector requires modernisation of our IT processes and out data use. As supervisors, we must invest in this. The internationalisation of the financial markets and supervision is a crucial factor in this respect. We must continually position ourselves in the right way in the international arena. Our HR policy is designed to encourage diversity, adequate competence and sufficient seniority.

A professional attitude also means that we must continue to review our supervisory strategy and approach. We continually critically review both *what* we do and *how* we do it. A focus on effectiveness is increasingly becoming embedded in our supervision and an integral element in our approach. Accordingly, we assume different roles in our supervision in order to achieve the desired effect. We define our role according to the activities that are needed to encourage the desired behaviour. Every subsector of the financial sector is different and is in a different phase: our role and approach may therefore also vary.

The financial crisis is definitely not over, and the effects of it are still noticeable every day. Supervision will continue to be essential in the coming years. We note that public support for institutions is by no means automatic. The AFM also has to deal with this as a supervisory agency. Personally, I see this is positive. Authorities must earn their authority by forcing themselves to be transparent and efficient and demonstrably achieving good results. Our ability to account for ourselves to all our stakeholders is becoming increasingly important. Not only to the financial sector, but also to investors, consumers and the public, which has entrusted us with our supervisory duty. Accountability applies not only in retrospect, but also in advance: this is the reason for our Agenda.

Special attention to specific themes

Capital markets

Numerous measures have been introduced recently to tackle vulnerabilities in our financial system. However, risks do not disappear so easily, they reappear in different places and in different forms. Larger capital buffers at the banks and reduced risks in their balance sheets mean that the financial risks have been transferred from bank balance sheets to the capital markets. The essential importance of efficiently operating capital markets has therefore increased further. The AFM will accordingly devote additional attention to these markets in 2015, with a strong focus on good price formation, the provision of truthful information, management of risks and combating market abuse.

The corporate market

Incidents have occurred recently with regard to financial services provided to corporate clients, including small and medium-sized enterprises (SMEs). Interest-rate derivatives, lending and special management require particular attention. We are currently engaged in identifying the risks and listing vulnerable client groups. This will enable us to define our strategy in this area more specifically in 2015 and carry out our risk-driven supervision adequately. Supervision of the corporate market will be significantly intensified.

Audit firms

In September 2014 we had to recognise that the quality of a large number of audits was still not satisfactory. The number of incidents appears to be increasing. Our interventions in the form of enforcement, factual reporting and the public attention we have requested for necessary fundamental reforms and cultural change in the sector have been echoed in the political arena as well as in the media. We intend to act robustly in 2015 and will further strengthen and intensify our supervision of audit firms.

Important developments

Technology

The changes that will have to take place in all segments of the financial sector in the coming years will to a large extent also be dictated by the technological developments that are rapidly occurring in the financial markets. This is not restricted to all the technical innovations that are taking place in stock exchange trading. Online and mobile service concepts are changing the way in which consumers save, borrow, invest and arrange their insurance. The AFM intends to ensure that its supervisory expertise continues to keep pace with these changes. Technological developments therefore receive special attention in our plans for 2015.

Information on consumer behaviour

The AFM considers it important that consumers become more resilient. We want to ensure that consumers are given the possibility of making the right decisions. We are striving to gain a better understanding of investor and consumer behaviour as part of our effort to continue to increase the effectiveness of our supervision. Our work increasingly involves the use of insights from the behavioural sciences, including behavioural economics. We use our supervision to encourage institutions to offer information, services and products that suit the needs of investors and consumers. Our efforts in this respect are a recurring theme in this Agenda.

Behaviour and culture

As mentioned already, the financial sector is going through turbulent times. Market parties face a series of radical changes. This full agenda must not prevent them from one top priority that applies to all of them: a sustainable restoration of confidence. There is a broadly shared conviction that sustainable confidence can only come about as a result of behaviour and culture in which helpfulness, care, transparency and sustainability are commonplace. The changes needed to achieve this must of course be brought about by the parties concerned themselves.

Conduct supervision

As a conduct supervisor we are not an extension of the financial sector, we cannot assume this responsibility and we cannot bring about a sustainable change of behaviour and culture on our own. We do have a role as an encourager, by naming shortcomings at institutions under supervision in good time and without fear or favour, establishing causes and taking enforcement action where this is needed. We also have a role in monitoring the transition process that a large part of the financial sector has embarked upon. The performance of these two roles has our full attention. We are convinced that the combination of applying pressure with respect to the sector's own responsibility, supported by the authority of the supervisor by means of conviction and enforcement will contribute most effectively towards achieving the desired effect: a sustainable and justifiable restoration of confidence.

Conclusion

Our appeal in May 2014 to join us in consultation regarding the draft Agenda was positively received by the market. We received various questions, comments and suggestions that have been very useful in the formulation and elaboration of our plans. We have held discussions with various market parties and interest groups. The responses and consultations have been extremely useful, and have helped us define the priorities for our supervision in 2015, one of which concerns increasing our own transparency regarding our activities. We think it is important that people are aware how we develop and realise our general thematic objectives. In this context, we intend to publish further practical details of our plans in February. In addition, we will strive to continue to give account to the market of the decisions we make and the progress achieved by the AFM through the year.

Questions or comments with respect to this Agenda are most welcome. There are various ways to contact us, including by e-mail to [via focus@afm.nl](mailto:via%20focus@afm.nl). Your knowledge, experience and insights will contribute to the formation of the AFM's vision. We look forward to your response!

Merel van Vroonhoven

Chairman

1.1 Product providers put the customer's interests first

Strategic part

Problem analysis

This theme was initiated at the end of 2009 in response to the credit crisis. Consumer confidence in the financial sector had reached a low point as a result of a series of incidents (including the collapse of DSB), product scandals (usurious insurance policies) and negative publicity (on bonuses, for instance). Fulfilling the promise made by product providers to put customers' interests first is the only way to restore this confidence in a way that is sustainable and justified.

Financial products are often complex and intangible, their impact is significant, they are not frequently purchased and they have a long incubation period. These features mean that consumers are often not sufficiently knowledgeable and critical, and they also tend to lack interest in the products. There is thus a large information asymmetry between providers and their customers. The unequal relationship between provider and customer can moreover be easily maintained and strengthened by the providers, for instance by encouraging uncertainty and other feelings or emotions among consumers.

This leads to a situation in which consumers cannot exercise sufficient counter-pressure on the price/quality ratio of the products and services of the providers. This may create incentives for the providers to focus excessively on commercial results in the short term and not enough on creating long-term value for the customer. Customer interests will therefore only be put first on a permanent basis if i) the countervailing power of the consumer increases, or ii) the providers choose to do this themselves. Within this theme, the AFM focuses primarily on the second possibility. We are using the knowledge and insights into consumer behaviour that we are developing further to reach consumers through the providers. We therefore work on the responsibility that providers have for the relationship with their customers.

The sector has made progress in many areas in recent years. There have been changes to the mission, vision and core values, but also in practical terms such as interest policy for mortgages, complaints management and the treatment of claims. The AFM also sees steps in the right direction taking place with regard to the improvement of the product development process. The connection between the product and the target group to which the product will be sold still appears to be an important item of attention. The measures taken by banks and insurers are radical and do benefit consumers, however they mainly concern instrumental adjustments to processes. The most important challenge is the permanent embedding of customer interests in the culture. The AFM notes that there is a broadly shared awareness among the main players at the large banks and insurers that further change is necessary and urgent in order to ensure continuity in the long term.

The economic climate is always a threat to the solidity of financial enterprises (for instance, for the life insurers). They frequently operate with very obsolete ICT systems and have to implement extensive new legislation at a time when they also have to cut costs and staff. The AFM sees that enterprises are struggling to set priorities in a crowded change agenda. This makes it difficult to look backwards. In order to sustainably regain customer confidence, it is essential that the banks and insurers work on their self-critical abilities and create room for debate. It is also important that the vision at the top of the business is adequately reflected in the attitude and behaviour of employees and the structure and culture of the organisation.

Becoming an organisation that is permanently focused on the interests of its customers also requires all the large banks and insurers to focus more on the environment and the customer. Banks and insurers have a social

responsibility. The challenge is to get the customers to understand that a long-term process has been initiated and that not all the changes can be achieved from one day to the next. The sustainable embedding of customer interests in the culture requires stamina. The AFM therefore calls on the sector to continue to take action and to continue to invest in a social dialogue.

Intended effects for the long term

The intended effect of the theme in social terms is that consumer confidence in the financial sector is justifiably restored. In order to achieve this, it is important that consumers are no longer faced with foreseeable disappointments. Furthermore, it is important that the results of the efforts by the product providers are recognised by society.

The intention with respect to compliance is that financial enterprises should put their customers' interests first on a permanent basis.

This means that:

1. Product providers have embedded the principle of customer interests first (CIF) in their behaviour and culture;
2. Product providers have embedded the principle of CIF in their policy and practice;
3. Product providers prioritise CIF in their agenda and conduct an adequate dialogue with society.

Main objectives for the long term

The AFM wants product providers to put the customer's interests first and think proactively from the customer's perspective. Consumers will then be able to rely on the products and services that they purchase. The AFM has the following long-term objectives in this respect:

1. The AFM supports the embedding of the CIF principle in the behaviour and culture of the product providers. The long-term objective requires that product providers effect a permanent change of behaviour and culture;
2. The AFM encourages the embedding of the CIF principle in the policy and practice of the product providers;
3. The AFM encourages product providers to prioritise CIF in their agenda and conduct a dialogue with society. Dialogue with society is important, because the product providers need to create sufficient support among their customers and stakeholders. Acknowledgement of the continuing efforts and achievements with respect to putting the customer's interests first is necessary for a justifiable restoration of confidence in the financial sector.

Operational part

Targets for 2015

1. The AFM is obtaining further understanding of the extent to which the large banks and insurers (G11) have embedded CIF in their behaviour and culture, and will share these insights with them.

The most important challenge for the sector is to permanently embed CIF in the behaviour and culture of the organisation. In order to encourage this, and to continue to monitor the extent to which the G11 have progressed, and to continue to make the right interventions, we have decided to change our approach in the coming years to a more specific and case-by-case approach. This will give us better understanding of what we and the sector still have to do in order to permanently embed CIF in behaviour and culture. Furthermore, it will help us to establish whether the AFM and the sector are doing the right things in the right way.

- The AFM will encourage the largest providers in each product group to improve by measuring the extent to which they have embedded CIF in their policy and practice. The target is to achieve a CIF Dashboard score that is higher than the average in 2013 (3.5).

Companies have made improvements to their products and service provision in recent years. This is shown, among other things, by the rising scores in the AFM's dashboard. In 2015 we will continue to encourage this by measuring the extent to which companies have embedded CIF in their policy and practice. Moreover, we will continue to innovate as regards our supervision in order to ensure that our dashboard continues to be effective. Among other things, we will do this by developing frameworks of standards by means of co-creation or getting companies to take measurements themselves. Re-establishing the contents of the dashboard each year will moreover enable us to reflect developments in areas such as non-life insurance, mortgages and consumer credit.

- The AFM will encourage a situation in which more products and services meet the desires and needs of customers and society.

To ensure there is a level playing field between the large and the medium-sized providers, we will also include medium-sized providers in various modules if they are among the largest providers of a particular product group. The AFM's supervision of the product development process will also strive to find a suitable balance between the large and the medium-sized providers. Through a combination of dialogue, guidance and supervision, our product supervision will be designed to encourage a permanent and sustainable improvement in the quality of products.

It is very important that more products and services of the product providers meet the desires and needs of customers and society. The involvement of social stakeholders (including customers) as providers can increase the counter-pressure from consumers and consumer organisations. In this respect we are continually in contact with the Dutch Banking Association and the Insurers' Association regarding the initiatives they are developing in this context, such as the Certification of Client-Oriented Insurance (*Keurmerk Klantgericht Verzekeren*) and the disciplinary rules applying to bankers.

- The AFM encourages the product providers to increase their ability to apply CIF to their own organisation, measure this independently and communicate their achievements.

Rising dashboard scores are a positive development, however our impression is that there is still not enough change happening in areas to which the AFM is devoting somewhat less attention. For instance, scores on aspects measured for the first time are often significantly lower than for modules that have already been measured several times. This confirms our suspicion that companies are still not reviewing their products and service provision independently and proactively to an adequate extent. We would therefore like to see a situation in which the providers improve their ability to reflect CIF in their own organisation and measure the extent to which they achieve this. We expect the sector to show more initiative in these respects.

Resources

Product providers put the customer's interests first	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	10.9	10.5	10.1	-7%	12.0
Expenses as percentage of total expenses	13%	13%	12%	-10%	15%

*Budgeted theme expenses (*EUR 1 mln.)*

1.2 The quality of financial service provision has improved

Strategic part

Problem analysis

The approach to the theme of 'The quality of financial service provision has improved' originates from our observation that on average the quality of advice provided by financial services providers was not up to standard. Recent reviews such as the exploratory review of the quality of advice with respect to expiring annuities 2013 continue to raise concerns regarding the quality of advice.

The introduction of a ban on inducements for complex products with effect from 1 January 2013 was intended to bring about a change of culture from product-driven sales to customer-oriented service. This measure affects the earnings model of financial services providers. It also means a radical change for consumers, who were for the first time confronted with fees for advice and for distribution. This could encourage them to be critical with respect to the price and added value of the service. The fact that new forms of electronic service provision are affecting the financial needs and choices of consumers is also a factor.

The challenge for the AFM is to guide market parties and consumers in these changing circumstances, and at the same time to continue to strive for improvements to the actual quality of the service.

Intended effects for the long term

The intended effect of this theme in social terms is primarily that consumers can rely on the fact that the provision of financial services is of decent quality. In other words, that financial services are fair and safe.

The AFM's intention with this theme is that consumers can focus adequately on the possibilities, the quality on offer and the costs of the service in the market for financial services. We also want to see financial services providers presenting a varied range of service concepts, thus meeting the diverse needs of consumers. This will mean that consumers are offered more fair, safe and appropriate services that are in the interests of their financial housekeeping. This should contribute to the objective that Dutch consumers can provide effectively for their financial future.

The intended compliance effect is that financial services providers, including advisers employed by providers, make the transition from transaction-driven sales to an independent service in which the customer's interests are put first. The providers have an important role here as the product designers. They must continue to put the customer's interests first in their product development, distribution strategies and service concepts.

Main objectives for the long term

The AFM specifically focuses on improving the quality of financial services provision. Here we look at the distribution of products rather than the quality of the products themselves. This latter aspect is part of the CIF theme. By financial services provision, we mean the total process of the provision of services to customers. This process begins with making it possible for consumers to orient themselves towards a suitable service. This is followed by the financial services provider identifying the customer's needs. This will lead to a good recommendation and/or a product solution. All this can be continued in a form of ongoing service provision. This total process can take various forms, with or without the intermediation of an adviser. Consumers must be able to rely on the fact that the financial services provision is honest and safe. The AFM has the following long-term objectives in this respect:

1. The AFM encourages financial services providers, including advisers employed by providers, to put the customer's interests first in their service provision;
2. The AFM wishes to see a situation in which the consumer receives financial services that meet their needs;

3. In order to achieve these two objectives, the AFM encourages product providers to recognise their responsibilities in the spirit of the pure market model and contribute to an effectively operating distribution channel.

Operational part Targets for 2015

Intervention

1. The AFM encourages improvement to the quality of financial services provision. By quality, we mean financial services that are fair, safe and appropriate to consumers;
2. The AFM encourages new service concepts that put the customer's interests first. This means service concepts that suit the desires and needs of the customer;
3. The AFM encourages a pure market model. In a pure market model, product providers charge fair prices for advice and distribution and, in the spirit of the ban on inducements, they do not exercise undesirable influence; They also enable financial services providers to serve their customers well.

Investigation

4. The AFM will obtain better understanding of the needs of consumers. It is important to understand whether the current range of services sufficiently meets the desires and needs of consumers. We also want to understand the possibilities for orientation consumers need when approaching the market for financial services;
5. The AFM will obtain better understanding of the cultural change among advisers and intermediaries. It is important to understand what opportunities and limitations are present in the culture with respect to the provision of good quality financial services to consumers.

Resources

The quality of financial service provision has improved	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	7.0	8.2	7.8	11%	12.3
Expenses as percentage of total expenses	8%	10%	9%	7%	15%

*Budgeted theme expenses (*EUR 1 mln.)*

1.3 The quality of capital accumulation has improved

Strategic part

Problem analysis

Around one million households in the Netherlands invest actively. Still more households invest passively (meaning indirectly or unintentionally) in the form of savings or accumulation within a mortgage, pension or an annuity product for example. Households are increasingly having to build up capital independently to provide for their future needs. This is due among other things to the underfunding of pension funds in recent years and the growing number of employees that are responsible for their own pension accrual (including self-employed persons with no employees, known as ZZPs). There are however various signals and studies that show that the services on offer for the retention and accumulation of capital frequently do not put the customer's interests first. This was evidenced for example by the AFM's review in 2014, which showed that the quality of advisory and other services left much to be desired, both in terms of understanding the customer's own situation and in terms of the policy with regard to the investments. The recording of customer information was inadequate in many cases and the policy according to which the customer's assets were to be invested was not established in many cases and/or was poorly substantiated.

The intention of the introduction of the ban on inducements for investment firms as of 1 January 2014 was to bring about a cultural change to a customer-oriented service. As a result of the ban, investment firms simply receive a direct fee from the consumer for their service and these charges are no longer hidden in the price of the investment product. The earnings models of investment firms have been turned upside down. This has created competition on price and the quality of the service itself. Furthermore, consumers are aware of the costs of the service for the first time. They are thus becoming more critical with respect to price and the added value of the service. The challenge for the AFM is to guide market parties and consumers through the transition to increased openness that is now taking place in the sector (in the area of commissions, but for instance also regarding the costs of investing) and at the same time to continue to strive to improve the actual quality of the service.

Intended effects for the long term

The intended effect of the theme in social terms is to increase consumer confidence in the services provided for the retention or accumulation of capital. The services provided should meet their specific financial situation and needs. Our 'point on the horizon' is therefore that investment firms and collective investment schemes put the customer's interests first in the services provided for the retention and accumulation of capital.

To achieve this, it is not only important that consumers trust the services and the service providers: the point is that this trust has to be justified, in the sense that consumers can truly be confident regarding the quality of the service. To be able to achieve these effects, the AFM is investing in gaining insight into consumer behaviour and will use this insight when designing its supervision. We influence consumer behaviour indirectly through financial institutions, not directly. In this way, insight into consumer behaviour contributes to the realisation of our strategic objectives.

The aims in terms of compliance and the social context are:

- The quality of services provided by investment firms and collective investment schemes for the retention and accumulation of capital is increased, and these services add value for customers;
- The products offered by investment firms and collective investment schemes add value for consumers in the service concept in which they participate;

- Consumers understand the options available to them and are more financially aware and critical with respect to the costs and added value of services that are essential for the retention and accumulation of capital.

What this means, among other things, is that consumers (and their representatives) provide more effective counter-pressure and that proper preconditions regarding the quality of the service are in place. Furthermore, the services for the retention and accumulation of capital should not (or no longer) be driven by potentially wrong incentives in the form of commissions and they will be of higher quality. Consumers will moreover be in a position to take decisions that are appropriate to their desires and needs. In order for this to happen, a number of basic conditions have to be met. For instance, information on the features of the service must be readily available and the relationship between charges, return and risk must be explained clearly by investment services providers, so that the added value of the specific service they provide is clear to the consumer.

Main objectives for the long term

The main objective of this theme is that financial institutions, and especially investment firms and collective investment schemes, put the customer's interests first in their services for the retention and accumulation of capital.

The AFM's specific aim with this theme is to improve the quality of investment services. We also consider the distribution of products and the processes surrounding the usage of products. By investment services provision, we mean the total process of the provision of services to customers. This process ranges from orientation by the customer towards a suitable service and service provider, through adequate identification of the customer's needs, and ultimately leads to an appropriate solution. This total process can take various forms, with or without the intermediation of an adviser or asset manager. Customers must be able to have rely on the fact that the investment services provision is honest and safe. The AFM has the following long-term objectives in this respect:

1. The AFM encourages investment firms and collective investment schemes to improve the quality of the services they provide to consumers for the retention and accumulation of capital;
2. The AFM encourages a situation in which the processes surrounding products, the development of products and the use of investment products are based on putting the customer's interests first.
3. The AFM contributes to a situation in which consumers can make a considered choice between various service providers so that they can adopt a critical attitude with regard to the services provided for the retention and accumulation of capital.

Operational part Targets for 2015

1. The AFM encourages especially larger market parties to take the initiative and offer consumers and their representative institutions practical instruments and means to enable them to make considered choices between various service providers and obtain a better understanding of the costs of investing.
2. The AFM encourages investment firms to improve the quality of their service provision. The AFM wishes to see an increase in the quality of the advisory and management services provided by a larger number of investment firms in 2015 compared to 2014, so that the whole market moves to the level of what is currently a small group of leaders. In any case, the AFM wishes to see the dashboard scores by the major banks in the field of investment services improve on the last measurement.

3. In the context of changing market conditions and changed consumer needs, the AFM will obtain further insight into innovative service concepts. Moreover, the AFM will help businesses in further prioritising the customer's interests through innovative service concepts and will encourage and support those service concepts that already do this. The idea is to be able to identify service concepts that do not put the customer's interests first, in other words service concepts involving foreseeable disappointments for customers, at an early stage and to influence these parties to operate on the basis of the CIF principle.
4. The AFM will obtain further insight into the changes in the market for investment firms in order to increase the quality of the investment services provided. We will look at the changes that for instance are taking place due to the ban on inducements for investment firms and the changing market circumstances and changed consumer needs. By identifying various aspects of the business conduct of investment firms, the AFM will monitor how the market is dealing with the changes, and will intervene if appropriate in order to prevent developments that are detrimental to consumers.
5. The AFM will obtain further insight into the nature of conflicts of interest that occur at investment firms and collective investment schemes with respect to remuneration structures, payment structures, cash flows that conflict with the ban on inducements or other incentives that could mean that an investment firm or collective investment scheme does not put the customer's interests first. The AFM will intervene where this is necessary.

Supervision of alternative collective investment schemes as a result of the AIFM directive

Problem analysis

With the introduction of the AIFM Directive, managers of alternative collective investment schemes (Alternative Investment Fund Managers, hereinafter AIFMs) such as certain pension providing organisations, hedge funds, private equity and property funds are now subject to supervision by the AFM. The aim of supervision includes contributing to the further development of a harmonised European regulatory framework, the realisation of stronger investor protection and more effective management of systemic risks.

The AIFM regulation concerns new – and still developing – regulation with respect to a population that has mostly not previously been subject to supervision. Previously, managers that offered rights of participation only to qualified investors were excluded or exempted from supervision. Furthermore, the managers of alternative or traditional collective investment schemes already subject to supervision offering their products to retail investors must now comply with the new AIFM regulation. In practical terms, this means that all AIFMs must have applied for a licence from the AFM or have registered by 22 July 2014.

The challenge for the AFM is, partly in collaboration with DNB, to implement this new task in its supervision. In 2014 this concerned mainly the issuing of licences to and registration of AIFMs. In 2015, the implementation will focus on follow-up actions relating to the licensing process and, building on our observations and initiatives undertaken during the licensing process, the further development of and commencement of ongoing risk-driven supervision of managers of alternative collective investment schemes.

Intended effects for the long term

- A properly functioning and efficient market for alternative and traditional collective investment schemes and a level playing field for AIFMs offering their products to professional investors in Europe, whereby those wishing to raise and place capital and risk can find each other as effectively as possible.
- Investors in alternative collective investment schemes can have confidence that their assets will be managed fairly and appropriately.

Targets for 2015

1. The AFM will promote a situation in which AIFMs comply with the new legislation and regulation in terms of structure, management and conduct.

The AFM will carry out a diligent licensing assessment, including the completion of still pending licence applications from 2014, check whether the AIFMs that have legally had their old collective investment scheme licence changed into an AIFM licence comply with all the new regulations and check whether there are managers who have not applied for a licence when they should have done so. The AFM will also obtain insight regarding the extent to which licensees implement the new regulations, and will take action where necessary.

2. Further identification of potential risks and further development and implementation of an effective supervisory framework and strategy, focusing on problem-driven and risk-driven supervision.

Building on the knowledge and experience gained during the licensing process, the AIFM landscape and the potential risks will be further identified with the aim of arriving at a more well-founded risk framework and supervisory strategy. Account also has to be taken of developments in the 'other segment' of the asset management landscape, the UCITS, due to the overlap with and reflecting effects between both types of collective investment schemes and the applicable regulation. This analysis will focus on behavioural aspects of asset management, such as appropriate governance, dealing with conflicts of interest, and adequate risk and liquidity management. We will also focus on the custodians. On the basis of the further identification of risks and the insights already gained from the licensing process, the strategy for and implementation of the problem-driven and risk-driven supervision of AIFMs will be further developed.

3. The AFM will ensure that it is in a position to process the reports from AIFMs on their activities and funds under management, via DNB, and to report to ESMA on the basis of these data. The AFM is also studying the extent to which the data can be used to gain insight with respect to the market and market developments for the purpose of its ongoing supervision.

4. The AFM will contribute to the further elaboration and further development of European regulation.

Through ESMA and IOSCO, the AFM will actively contribute to the drafting and preparation of guidelines, recommendations and Q&As to ensure consistent application of the regulations for collective investment schemes. An important condition for this is that the AFM will do this as part of a constructive dialogue with the market, the government and foreign supervisors. The intention here is not only to achieve harmonised regulations (and consistent application of the regulations) for the protection of professional investors, but also to ensure that retail investors continue to enjoy a high level of protection.

The ongoing targets are as follows:

1. The AFM will promote a situation in which AIFMs comply with the new legislation and regulation in terms of structure, management and conduct.

2. The AFM will ensure close cooperation with DNB in order to gain more control of the systemic risks that can be disseminated and/or reinforced by the behaviour of managers of large investment firms, including alternative investment firms.
3. The AFM will contribute to a continuing high level of protection for retail investors in alternative collective investment schemes.
4. The AFM will contribute to the further development of a robust (European) harmonised and stringent regulatory framework for managers of alternative and traditional collective investment schemes.

Resources

The quality of capital accumulation has improved	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	10.4	7.8	9.0	-13%	8.3
Expenses as percentage of total expenses	12%	10%	10%	-16%	10%

*Budgeted theme expenses (*EUR 1 mln.)*

The costs of this theme do not include the costs of the non-recurring duties (such as the AIFM licences and registrations). The expenses for non-recurring services are shown separately in section 3.10.

1.4 Financial services provided to professional and semi-professional parties is appropriate

Strategic part

Problem analysis

Incidents have occurred in recent years in connection with services provided to professional and semi-professional customers (hereafter: business customers). For instance, there were problems associated with the conclusion of interest-rate derivative contracts with SMEs and public and semi-public organisations such as Vestia. The way in which banks have issued loans to SMEs is a further example. Although there are many overlapping areas with respect to services provided to consumers and small businesses, there are material differences. These mainly concern the type of customer being served and the degree of desired supervision of this customer group (in terms of intensity, cost, pro-activeness etc.) for which a specific approach is desirable. The AFM has therefore initiated a theme focusing on the services provided to business parties by financial enterprises. It is still not sufficiently clearly established which groups of business customers are most vulnerable. We will accordingly obtain further insight into the risks in the corporate market in 2015. Based on our current perceptions, we estimate that self-employed persons, SME owners, public and semi-public organisations and parties in civil society are more vulnerable.

One of the aims of conduct supervision in the financial markets is to ensure that customers are treated with due care. The assumption here was usually that consumers are more in need of protection than business customers. It was expected that business parties would be able to look after themselves, or that they would be sufficiently assertive and/or possess sufficient financial resources to obtain adequate assistance. It has however become clear that some groups of business customers are in practice less capable of exercising counter-pressure with respect to the price/quality relationship and risks associated with the products and services provided by financial firms. This may create incentives for the financial enterprises to focus excessively on their commercial results in the short term and not enough on creating long-term value for their business customers.

Some groups of business customers have difficulty in avoiding potential losses due to a faulty financial product or an inappropriate financial service. Financial products are often complex and intangible, their impact is significant, they are not frequently purchased and they have a long incubation period. These features make it difficult for some groups of business customers to critically assess a product and/or service and resist unnecessary follow-up sales. There is thus a large information asymmetry between financial enterprises and these business customers. Furthermore, in some cases these customers may be afraid to harm their relationship with their bank if they depend on the bank for their funding.

The interests of business customers can only be put first on a permanent basis if i) the counter-pressure the business customer can bring to bear is greater, or ii) if the financial enterprises choose to do this voluntarily. The AFM will focus primarily on the second possibility (and therefore mainly on the providers).

Intended effects for the long term

The intended effect of the theme in social terms is that the confidence of business customers in the financial sector is justifiably restored. In order to achieve this, it is important that business customers are no longer faced with foreseeable disappointments.

The intention with respect to compliance is that financial enterprises should put their business customers' interests first on a permanent basis. This means that they will embed the principle of putting the business customer's interests first in their conduct, culture, policy and practice. In more practical terms, this means for instance that they will solve problems with interest-rate derivatives as necessary and at least return the customer to the position that would have applied if the bank had provided a proper interest-rate derivative service in the first place. By this we mean that the customer should have known what he was signing up for, he should have been able to understand the risks and he should have been able to manage his interest-rate risk in the way he wished to.

Main objectives for the long term

The AFM wishes to see a situation in which business customers can have confidence in the products and services they purchase from financial enterprises. The AFM has the following long-term objectives in this respect:

1. The AFM will intervene in case of identified problems at vulnerable business customers and will act in the interests of these customers.
2. The AFM will obtain insight regarding the needs of vulnerable business customers, the extent to which they are able to understand the complexity of products and services and the way in which they process information and make decisions. The AFM will urge the providers to improve by sharing these insights with them.
3. The AFM supports embedding the principle of putting the interests of more vulnerable business customers first, firstly in behaviour and culture and secondly in the policy and practice of financial enterprises.

In 2014 the AFM devoted extensive attention to potential and actual abuses in the corporate market and public attention to this issue. We are already at an advanced stage in our analysis of interest-rate derivatives. After an inventory of the risks, examination and making recommendations, we are now urging the banks to reassess the interest-rate derivative contracts concluded with SMEs. For example, the AFM recently initiated an exploratory study of Special Management. Intervention (if necessary) will follow at a later stage. In 2015 we want to obtain further insight regarding other potential risks in the corporate market, after which we may be able to initiate further exploratory studies. In order to be able to assess the risks and intervene effectively, the AFM needs to have a better understanding of business customers, including their behaviour and needs. We will give priority to understanding the groups of business customers that are vulnerable. Attention will initially be devoted to the service provision of the providers. This means that advice from third parties will be considered at a later stage.

Based on the insights obtained in 2014, we have been able to define the strategy for this theme more specifically: we wish to see a situation in which business customers can rely on the products and services they purchase from financial enterprises. With this exercise to obtain more in-depth understanding in 2015, the AFM will have a better understanding of what is needed with respect to the behaviour, culture, policy and practice at financial enterprises. Besides dealing with current abuses such as those concerning interest-rate derivatives appropriately, we consider it necessary to take a more preventive and pro-active stance by intervening at earlier stages in the service chain. Ultimately, we wish to put the interests of business customers permanently on the agenda. This will be achieved for instance by encouraging products that are cost-effective, useful, safe and comprehensible, that their distribution is in the interests of business customers and their transparency supports good decision-making.

Operational part
Targets for 2015

1. The AFM will deal with potential abuses with respect to vulnerable business customers adequately. This entails continuing attention to interest-rate derivatives services and investigation of practices at Special Management.
2. The AFM will obtain further insight with respect to the risks for vulnerable business customers. On this basis the AFM will select the relevant issues and will look for suitable interventions with respect to financial enterprises. The AFM will moreover take account of the expectations that vulnerable business customers may have or actually have with regard to the AFM.
3. The AFM will obtain insight with respect to the needs of vulnerable business customers. With the insights obtained, the AFM will urge the providers to improve their products and services.

The AFM will urge the banks to ensure that their processes associated with products and advisory and other services, including development and distribution, put the interests of business customers first, exactly as they do for their private customers.

Resources

Financial services provided to professional and semi-professional parties is appropriate	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	1.4	2.3	2.8	96%	1.0
Expenses as percentage of total expenses	2%	3%	3%	89%	1%

*Budgeted theme expenses (*EUR 1 mln.)*

1.5 Pension providers provide an overview of and insight into the amount of pension, and the risks to pension

Strategic part

Problem analysis

Economic, demographic, employment market-related and policy-related developments will lead to a curtailment of second-pillar pensions and increasing transference of risks to the scheme members. Ideally, pension scheme members will anticipate their future loss of income on retirement and the uncertainty related to this in good time. Scheme members are however not well prepared for their financial situation after they retire, because they have no or unrealistic expectations regarding the amount of their second-pillar pension, they have made either no choice or a wrong choice with respect to their pension, and/or they have or have had a pension scheme which was not as good as it could have been. Scheme members mostly do not make timely financial plans for their retirement because this is still far in the future. The content or form of information on pension moreover does not provide the information that the scheme members need. Scheme members are not being given enough guidance on how they can take independent action to make financial plans for their retirement.

At micro level, this leads to a situation of disappointed scheme members receiving less pension than they expected, less pension than could have been attained or too little pension to be able to continue their current standard of living. At macro level, this could lead to the loss of confidence in the pensions system and reduced prosperity.

The pension providers are under significant pressure, in view of the above and the multiplicity of new legislation and regulation. In addition to the new Pensions Communication Act (*Wet Pensioencommunicatie*) there are other changes relating to the formulation of the contract (the new Financial Assessment Framework (FTK) for pension funds and the changes to the tax and other parameters applying to pensions, known as the *Witteveenkader*) that are important, as well as European regulation (the AIFM Directive for pension providers and IORP II). For insurers, the requirements under Solvency II are relevant and the issuance of guarantees is becoming more expensive. There is a risk that pension communication will receive less attention than necessary as a result of these changes and developments.

For the AFM, the challenge is to ensure that pension providers provide their scheme members with information to assist them in making financial arrangements for the future. And also that the scheme members have a pension scheme that is cost-effective for them.

Intended effects for the long term

The intended effect in social terms is that pension scheme members are well prepared for their financial situation after they retire. For this, it is necessary that 1) the information provided to pension scheme members assists them in making their financial arrangements, 2) the second pillar pension is explainable, practical and cost-efficient and 3) scheme members are able to understand their pension situation. We explain these effects further below.

1. Pension providers communicate effectively with their scheme members. This means that they enable their scheme members to obtain an overview of and insight regarding their personal pension situation. The information supplied by the pension providers supports the scheme members in making their choices. Pension providers provide their scheme members with the means to consider their actions and help them make decisions regarding their pension. The pension providers have collectively provided for the development of the website mijnpensioenoverzicht.nl, where scheme members can easily find an overview, insight and details of the options available to them. The means (the pension information) is thus better suited to the purpose (financial

planning for retirement). For the scheme members, overview and insight also means that they have realistic expectations regarding their pension scheme and the associated risks: the pension providers thus provide clear, accurate and balanced information.

2. Pension scheme members can assume that the scheme in which they participate on a compulsory basis puts the interests of the scheme members first. This means that each euro of contribution paid in should lead to the highest possible pension benefit for the scheme member for a certain risk profile. The pensions system is designed so that the system is cost-effective for the members. The system moreover provides scheme members the optional features that meet their needs and competences. It is not necessary for all scheme members to understand the details of how the system works. They must however experience the choices made in the system as explainable and fair. Pension schemes should also be as simple as possible, and therefore explainable and practical. The administration of schemes should also be cost-effective.
3. Scheme members should be able to understand their pensions because the information provided is designed to meet their wishes and needs. They are willing to go into further detail regarding their pension and understand what the information they receive means in their situation. Partly through the use of mijnpensioenoverzicht.nl, scheme members should be able to make a general estimation of the extent to which their pension benefit will be adequate, and be aware of the options available for making changes in this respect if necessary.

Main objectives for the long term

The main objective is that the AFM contributes to a situation in which scheme members are well prepared for their financial situation after they retire, and that they should receive an appropriate pension.

This main objective can be divided into the following three subsidiary objectives:

1. The AFM encourages pension providers to provide a good overview of and insight with regard to their pension situation and offer the possibility for financial planning, including an expansion of the Pension Register.
2. The AFM contributes to the creation of cost-effective, explainable and practically feasible second pillar pensions that meet the needs of the scheme members.
3. The AFM encourages scheme members to consider their own pension situation in more detail, to understand this and take action if necessary.

Operational part Targets for 2015

1. The AFM will ensure that 80% of the pension providers are aware of the new requirements in the Pensions Communication Act and know what the AFM expects from them. The AFM will formulate a clear vision with regard to the various issues and will actively communicate this. The focus will be on the new standard of 'balanced', the further development of the website mijnpensioenoverzicht.nl and the way in which the sector implements the Pensioen123 and the pension comparison module. After the new Pensions Communication Act takes effect (in 2015), the AFM will also monitor compliance with the new requirements. The exact date on which the Act will come into effect and the transitional periods are not yet known, but the focus will probably shift to enforcement of the new act with effect from 2016.
2. The AFM will encourage further development of the website mijnpensioenoverzicht.nl, as stated in the Pensions Communication Act. The AFM will monitor that the interests of the scheme members are given sufficient priority. In addition and together with other stakeholders (also outside the pensions sector), the AFM will obtain insight

regarding the question of whether an electronic financial 'shoebox', in other words a total overview of financial data, would be desirable and feasible, and what form this should take.

3. The AFM will obtain insight regarding the question of whether there is a difference between the expectations of scheme members on the basis of the forecast pension benefit communicated by pension providers and what the pension providers can ultimately achieve, and what this difference is. Specifically, the AFM will focus on the communication regarding risks and uncertainties (including indexation) and the communication on changes to pension schemes.
4. We will raise items that are important to the AFM in the dialogue regarding the future of the pensions system. We will stress the importance of explainable risk-sharing, cost-effective administration and a degree of freedom of choice that is appropriate to the scheme member.
5. The AFM wishes to obtain insight regarding ways of encouraging specific groups that are at risk to increase their knowledge with respect to their pensions. We want to know how we can motivate these scheme members to become aware of their personal pension situation and take action if needed.

Resources

Pension providers provide an overview of and insight into the amount of pension, and the risks to pension	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	3.5	3.5	4.2	21%	4.1
Expenses as percentage of total expenses	4%	4%	5%	17%	5%

*Budgeted theme expenses (*EUR 1 mln.)*

1.6 The quality of governance, reporting and audits will improve

Strategic part

Problem analysis

The proper functioning of the capital markets depends on the conduct of the players in those markets. The critical role of the preparers of reporting, audit committees, shareholders and auditors is essential to ensure that the reporting and the responsibility embedded therein can be relied upon. The reviews conducted by the AFM in recent years have revealed that the way in which these actors fulfil their roles can and must involve a more critical attitude.

Investors and other stakeholders cannot rely with sufficient justification on the opinions expressed by auditors in their auditor's statement. The AFM completed its baseline measurement in 2013. Investigations at the various groups of licensees, the four largest audit firms (the Big 4 firms), the other PIE audit firms and the non-PIE audit firms (which can be divided into NBA and SRA firms) have shown that in numerous cases the quality of the statutory audits conducted has fallen short of the established requirements, and that the audit firms must take radical measures in order to bring the quality of their statutory audits up to the required level. In 2014, the AFM investigated whether the quality of the statutory audits carried out by the Big 4 firms (Deloitte, EY, KPMG and PwC) had improved since the baseline measurement. This investigation showed that there had not been sufficient improvement. The number of statutory audits qualified by the AFM as inadequate is still much too high. There are still material shortcomings in the audit which cannot be qualified as administrative irregularities or legitimate differences of interpretation.

After the first review in 2010, the Big 4 firms formulated plans to increase quality, but the effects of this are still not adequately visible. The AFM's visible interventions in the form of enforcement, factual reporting and the public attention we have systematically requested for necessary fundamental reforms and cultural change in the sector have been echoed in the political arena as well as in the media. The AFM notes that the sector itself now recognises the urgent need for real and more fundamental measures in order to increase audit quality. The Big 4 firms have announced more far-reaching measures as a result of the most recent review. The report by the accountancy professional organisation the NBA 'In the Public Interest' also puts forward suggestions for improvements across the entire accountancy sector. The AFM hopes that this will provide a basis for the necessary strengthening of this important sector and the cultural change that this entails. We still have to see whether these measures will have the desired effect. The audit profession is legitimately expected to provide consistently high audit quality on the basis of the statutory duties entrusted to it. To meet this expectation, a more in-depth analysis of all the root causes that are obstacles to quality will be needed.

The AFM has called on audit firms to implement the announced measures expeditiously and resolutely, including the measures arising from the sector-wide NBA proposals.

The AFM will monitor the introduction and effectiveness of the restorative and improvement measures closely. It will continue its dialogue with the audit firms in question and the sector. If the measures turn out not to be sufficiently effective, the AFM can apply formal enforcement measures to compel expeditious and resolute implementation.

Investors and other stakeholders cannot justifiably rely on the financial and non-financial information in annual reports in all situations. This is because the reporting of too many companies does not adequately meet the required qualitative standards, including those relating to relevance, reliability, comparability, comprehensibility, timeliness and verifiability. The AFM notes that improvements are needed in these situations. The AFM has the impression that most companies are becoming more familiar with the application of IFRS and that the quality of financial

reporting has improved further in certain respects. On the other hand, we note that certain reporting standards are not observed correctly in all cases. This year, the AFM has again been confronted with signals that indicate that financial reporting has not been correct in a number of cases. This is also shown in the desktop reviews we have performed and the thematic reviews of pensions and the remuneration of directors. The AFM sees that correct application of the reporting standards comes under pressure when for instance new standards take effect or standards are amended, or in the event of non-recurring transactions. The reporting of non-recurring transactions *inter alia* concerns the acquisition or disposal of business divisions.

Companies in the Netherlands face challenging economic conditions. The issues relating to measurement of assets (such as loan portfolios and commercial property), provisions and the disclosures of these items will therefore continue to require attention in the years to come. The AFM still has numerous questions regarding items that are materially affected by interpretation and management estimates, such as the valuation of property, receivables, goodwill (and the frequently related provisions or impairments) and pensions, including the assumptions used. In the current economic conditions it is especially important for the users that companies are transparent regarding management estimates.

Good corporate governance contributes to the proper functioning of the capital markets. The AFM has the impression that members of audit committees of supervisory boards are not in all cases sufficiently aware of the importance of their role with respect to the quality of a company's reporting and the audit. In cases where they fulfil their role properly at all times and in all respects, this should positively affect the quality of the reporting and the audit. Stronger internal supervision will prevent surprises from the external supervisor. It is also expressly a responsibility of the shareholders to ensure that supervisory boards properly perform their more onerous role with respect to the selection of auditors, the internal control system and as the primary recipient of findings.

Supervision is becoming more international, both in cooperation and in direction, partly through the development of a global approach to supervision within the International Forum of Independent Audit Regulators (IFIAR), the formation of the Committee of European Auditing Oversight Bodies (CEAOB), the advent of the Banking Union, initiatives from ESMA, the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) and numerous other cooperative relationships designed to exercise supervision more collectively. The AFM supports cooperation in order to increase the effectiveness of supervision and will also continue to be an active participant in various international and European forums.

Intended effects for the long term

The AFM strives to achieve the following:

- Investors and other stakeholders can justifiably rely on the opinions expressed by auditors in their auditor's statement.
- Investors and other stakeholders can justifiably rely on the financial and non-financial information presented in the annual reporting.

Main objectives for the long term

The long-term objective for this theme is that the AFM encourages a situation in which the audit, reporting and governance meet the relevant regulatory requirements and public expectations. The AFM contributes to increasing the quality of regulation in the area of auditing, reporting and governance. This objective can be divided into four subsidiary objectives for the long term:

1. The AFM will influence audit firms and other stakeholders with the aim of ensuring that the auditor substantiates his statements with sufficient and appropriate audit evidence.
2. The AFM will influence companies with the aim of ensuring that their reporting meets qualitative standards with respect to relevance, reliability, comparability, timeliness and verifiability.
3. The AFM will enter into dialogue with supervisory boards and shareholders of companies with the aim of ensuring that they contribute to improving the quality of auditing and financial reporting.
4. The AFM will influence national and international legislation and regulation with the aim of ensuring that the regulations applying to auditing, reporting and governance are enforceable and in the public interest.
5. The AFM will encourage international cooperation between supervisors with the aim of ensuring that the quality of auditing and reporting increases both in the Netherlands and internationally.

Operational part Targets for 2015

The theme strives to achieve the following short-term targets that are based on the objectives for the long term:

1. The AFM will influence the NBA with the aim of ensuring that the NBA formulates the details of its reform plans in its report "In the public interest" and then rolls them out across the sector.
2. The AFM will urge the Big 4 firms to develop (additional) action plans based on the root causes of the quality failures and supervise that they implement these measures in 2015.
3. The AFM will encourage audit firms to report incidents without delay and to take adequate follow-up action when incidents occur.
4. The AFM will urge the other PIE firms to formulate action plans on the basis of the reform plans of the NBA and supervise that these plans are based on the root causes of quality failures and that these firms implement them.
5. The AFM will make the non-PIE firms aware that the majority of the statutory audits they perform are not of sufficient quality.
6. The AFM will obtain insight into the extent to which companies apply new and existing reporting standards and encourage compliance, and will follow up on the findings of previous baseline measurements.
7. The AFM will compel companies producing annual or other reporting containing errors to correct errors on a timely basis.
8. The AFM will follow and actively contribute to developments in the field of reporting.
9. The AFM will obtain additional insight with regard to how audit committees fulfil their duties with respect to financial reporting and auditing in practice.
10. The AFM will influence national and international legislation and regulation with the aim of ensuring that the regulations applying to auditing, reporting and governance are enforceable and in the public interest.
11. The AFM will encourage international cooperation between supervisors with the aim of ensuring that the quality of auditing and reporting increases internationally.

Resources

The quality of governance, reporting and audits will improve	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	14.3	13.1	16.0	12%	12.5
Expenses as percentage of total expenses	17%	16%	18%	8%	16%

*Budgeted theme expenses (*EUR 1 mln.)*

1.7 The securities markets operate fairly and efficiently and the infrastructure remains robust

Strategic part

Problem analysis

The capital markets have an important role in creating economic growth by bringing together the supply and demand for capital and risk. They thus contribute to the prosperity of the Netherlands. The need for efficiently operating capital markets has further increased in recent years. This is because banks are less able to provide funding for the existing demand for capital as a result of more stringent requirements with respect to capital and liquidity. The capital markets have to make up for this funding gap.

An efficiently functioning capital market is however not a given. During the credit crisis, it became apparent for instance that lack of confidence in the capital markets among the participants could bring the meeting of supply and demand for capital and risk to a halt. This interruption to the functioning of the capital markets led to instability in the global financial system, with a loss of prosperity as a result.

It is a feature of the capital markets that they are international. The Dutch capital markets are closely connected to other capital markets. Many of the participants in the capital markets are international players. Problems in the capital markets therefore usually extend across borders. International cooperation, especially within Europe, in the conduct of supervision and the preparation of regulation is thus essential. The AFM is a strong proponent of this.

The capital markets are also undergoing radical technological developments. While these developments contribute to innovation and therefore potentially to the more effective operation of the capital markets, they also lead to increasing complexity which involves risks. The AFM accordingly explicitly includes this item in its supervision.

The capital markets operate at their best when there are no obstacles preventing buyers and sellers of capital and risk from finding each other and interacting. Such obstacles do however exist in practice: buyers and sellers cannot find each other, no suitable financial product is available, the price is not right or the settlement of transactions cannot be relied upon.

The obstacles are caused by a lack of confidence among investors for example because of market abuse, lack of a suitable trading mechanism, investors being unlawfully treated unfairly or the inability to trade financial products effectively. The products and information moreover do not always meet the needs of investors. There may also be problems in relation to the payment for or transfer of the financial product.

Most of the problems in the capital markets are such that the participants are themselves able to mitigate or remove them. The challenge for the supervision of capital markets in the Efficient Capital Markets (ECM) theme is to keep the obstacles for buyers and sellers of capital and risk as limited as possible.

Intended effects for the long term

In the Dutch capital markets, buyers and sellers of capital and risk can find each other as easily as possible. This is because the buyers and sellers of capital and risk have confidence that the capital markets operate fairly and efficiently. For the buyers, or borrowers, raising capital is a simple matter and can be realised at low cost. Those offering capital (the sellers) receive a suitable and desirable product. The Dutch capital markets therefore optimally provide the core functions that support the Dutch economy, namely the allocation of capital, reallocation of risk, determination of value and provision of liquidity. The capital markets make a huge contribution to economic growth in the Netherlands.

Main objectives for the long term

The main objective for this theme is that supply and demand for capital and risk can meet fairly and efficiently. This main objective is divided into the following subsidiary objectives:

1. The AFM encourages a situation in which supply and demand in the capital markets can find each other with as few restrictions as possible.
It is important that the conditions for the bringing together of supply and demand are as favourable as possible. For example, the role of the capital markets in the provision of funding requires good trading conditions. Trading must be possible at the lowest possible cost, must be orderly and trading systems must be robust. Buyers and sellers must also have confidence in the operation of the capital markets. In order for this confidence to exist, market abuse, unlawful unfair treatment of investors and untrustworthy borrowers must be combated as effectively as possible.
2. The AFM encourages a situation in which financial products are suitable and available to buyers and sellers of capital and risk.
Supply and demand can meet if the financial product or contract offered adds value for both buyer and seller. Our supervision contributes to a situation in which the products offered in the capital markets meet the expectations and needs of investors.
3. The AFM encourages a situation in which the prices of financial products are set correctly and are available.
For good price-setting, buyers and sellers of capital must possess information that is accurate, complete and timely and appropriate to the target group: the investors. Information must be comprehensible to the target group. It is moreover important that prices are not manipulated and that prices are adequately known to all participants in the capital markets on a timely basis.
4. The AFM encourages reliable settlement.
Buyers and sellers of capital must be able to rely on agreements being fulfilled. For this reason, it is essential that all parties in the chain of settlement of capital markets transactions can meet their obligations. It is crucial that the risk of non-payment or failure to deliver financial products that have been purchased is kept to a minimum and that the ownership of a financial product is clearly established at all times.

Operational part

Targets for 2015

1. The AFM will develop more detailed insight with respect to the behaviour of investors and groups of investors and the effectiveness of the information provided for the purpose of investment decisions.
We will reflect the insights obtained in our supervision of transparency and ensure that investors receive the relevant information in a comprehensible and user-friendly form. And in a way that enables the investor to use it in practice.
2. The AFM will make information in its registers (notifications) more accessible.
The AFM will ensure that relevant information notified to the AFM and in separate registers is made publicly available so that it can be accessed and conveniently combined in a user-friendly way for everyone. This will mean that investors can obtain information relevant to their investment decisions more quickly.
3. The AFM will encourage correct price-setting for commodity derivatives and benchmarks.
The AFM will obtain insight into the setting of prices for commodity derivatives and benchmarks and will take enforcement action if needed.
4. The AFM will address the major obstacles in the bond market.
The AFM will intensify its supervision of the bond market by concluding contracts with market parties to show whether, and if so where there are structural problems in the bond market and where irregularities occur. Where necessary, the AFM will provide clarity by means of the publication of guidelines and principles.
5. The AFM will limit potential risks for trading and the stability of trading platforms to the extent that this arises from High Frequency Trading (HFT) and trading on the basis of algorithms.
The AFM will ensure that this is visible to the market. We will focus on the internal controls at traders and on trading platforms and on the strategies used in HFT and algorithm trading.
6. The AFM will develop a better approach to cross-market and cross-product market abuse.
We will expand our detection systems and further develop our statistical analytical methods.
7. The AFM will continuously encourage listed companies, advisers and financiers to act correctly with respect to price-sensitive information.
Timely and full publication of price-sensitive information is crucial for good price-setting and to prevent insider trading. The general rule is and continues to be: publish price-sensitive information without delay. Delaying the publication of price-sensitive information, which is allowed under strict conditions, should be the exception.
8. The AFM follows and contributes to the direction of the European Capital Markets Union (CMU) initiative and supports an efficiently operating crowd-funding market.
New initiatives such as the CMU and crowd funding are potentially important for the functioning of the capital markets.
9. The AFM will monitor and encourage that the services provided by clearing institutions are robust.
We will focus on the critical role that the clearing institutions have in the management of counterparty risk. The AFM will moreover encourage a situation in which they fulfil their role with respect to trading and access to trading fairly and adequately.

10. The AFM will obtain insight with respect to the risks in the derivatives markets, at transaction level.

We will focus on concentration risks, the risks relating to the suitability of products and conduct risks at buyers, sellers and service providers. The AFM will take action with regard to abuses it encounters.

Other supervisory duties and preconditions

In addition to the above-mentioned priorities, ECM supervision concerns the provision of information (notifications, prospectuses, advertising, offering memorandums, price-sensitive information), trading platforms, settlement systems, proprietary traders, credit rating agencies, transaction reporting, the orderly conduct of bids and market abuse (manipulation and insider trading). The capital markets are moreover continually monitored for signals that could give rise to supervisory action. Since the regulation of the capital markets is more or less exclusively at European level, the AFM strives to achieve optimal preconditions for the Dutch capital markets and its supervision thereof. The AFM exercises its influence in this respect in working groups of European supervisors with responsibility for the further development of regulation, for example of MiFID II and EMIR.

Resources

The securities markets operate fairly and efficiently and the infrastructure remains robust	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	12.4	12.8	14.3	15%	12.2
Expenses as percentage of total expenses	15%	16%	16%	11%	15%

*Budgeted theme expenses (*EUR 1 mln.)*

The costs of this theme do not include the costs of the non-recurring tasks (such as the testing of prospectuses and tender offers). The expenses for non-recurring services are shown separately in section 3.10.

1.8 Conduct supervision contributes to the stability of the financial system

Strategic part

Problem analysis

Since the financial crisis erupted six years ago, it has become increasingly clear that financial instability is not only caused by risks at the banks and that a broader approach to potential risks to stability is needed. The sub-prime problem in 2008 is an example of how perverse incentives and harmful earnings models within the financial sector can cause instability, with serious macroeconomic consequences. More attention has to be focused on risk chains and players outside the traditional banking system (shadow banking), such as collective investment schemes, insurers and clearing institutions. This wider attention to systemic risks presents a challenge to conduct and market supervisors to deal with this effectively.

One of the challenges in the theme of Financial Stability is to integrate insights with respect to system-wide risks in the thematic supervision. One example of this is the increasing number of securities financing transactions whereby the interrelationship between markets and players in the financial system is taking on new forms. There is the general problem of bubbles forming in markets, which leads to price inefficiencies and other stability problems. Bubbles may occur in any market. The activities of the AFM are similar to normal risk analysis, but with a clear focus on implications for financial stability. The most important developments for our supervision in the long term are broadening the range of risks to financial stability (attention outside the banking system as well) and the international policy discussion on the overlap between macro-prudential supervision and conduct supervision.

Other important developments for the AFM are the debate on legislation and regulation (for example, increased protection for the SME sector) and increasing operational risks in the financial infrastructure due to developments in technology (for instance, in relation to cybercrime).

Supervision of stability is carried out in cooperation with DNB, since stability risks concern the whole of the Dutch financial system. There is therefore permanent and ongoing exchange of information with DNB. Financial stability is a collective responsibility of supervisors and policymakers around the world, and externally we are linked to national and international forums such as the Financial Stability Committee (FSC), with the aim of collectively strengthening the financial system.

Intended effects for the long term

The ultimate effect we aim for is the absence of serious failures within the international financial system, with a focus on the Netherlands. The impact of interventions by the AFM is usually limited to one or more underlying drivers for such failures. Stabilising effects in the market are introduced in cooperation with other supervisors. For this reason, the intended effects of this theme are mainly indirect.

The intended effects for this theme in the long term are:

- Supervision will focus on both micro conduct risks as well as the related system-wide risks.
- Conduct-driven risks to stability should be less common.
- System-relevant markets or market segments subject to supervision by the AFM should be less vulnerable.
- There should be a constructive social debate regarding a sustainable design for the financial system.

Main objectives for the long term

1. The AFM will obtain keen insight into risks to financial stability. The AFM will have a full and up-to-date overview of risks to financial stability and there will be permanent and ongoing exchange of information with DNB. Having a complete overview of external and internal risk signals will mean that related risks can be quickly discovered. Perverse incentives and earnings models within the Dutch financial sector will be identified and behavioural trends (at micro level) will be detected. The AFM will identify behaviour patterns and vulnerable segments that could lead to a build-up of financial instability at an early stage.
2. The AFM will encourage mechanisms for improving financial stability. Frequently in cooperation with DNB, the AFM will influence the public debate on a sustainable design for the financial system. With a focus on the medium to long term, the AFM will encourage debate on structural solutions for the prevention of systemic risks. This means devoting public attention to market segments and developments in market segments and underlying behaviour patterns that can make the financial system more resilient against shocks.
3. The AFM will contribute to the mitigation of stability risks. The AFM will contribute to strengthening the cooperation with DNB and international supervisory forums in the field of financial stability. At national level, the AFM will contribute to the FSC through the performance of its core duty in the field of conduct supervision. The AFM will take the initiative towards a collective approach to risk by proactively putting stability risks on the international agenda. The AFM will initiate or plan projects in relation to financial stability with the aim of mitigating stability risks related to its core duty.

Operational part Targets for 2015

The contours of financial stability are changing with the development of the financial system. The design of an efficient risk identification and appropriate prioritisation methodology is thus an evolutionary process. In 2015 the theme will focus on enhancing the signalling and prioritisation methodology that was implemented in 2014. Further efforts will also be made in 2015 on strengthening the cooperation in external supervisory forums with respect to financial stability. Financial stability is a priority for the AFM in the coming period. The short-term targets are therefore closely linked to the long-term objectives. The targets for 2015 are as follows:

1. The AFM will obtain deeper insight into potential risks to stability for the Dutch financial system. System-relevant risks will be an internal agenda item for the AFM. Various supervisory divisions within the AFM will contribute proactively to the identification of risk with potential effects for the financial system. The AFM will be able to identify and link behaviour patterns and risk signals from its divisions on the one hand and externally identified risks to stability on the other.
2. The AFM will improve its methods for establishing the systemic relevance of identified risks. The AFM will possess a smooth and efficient process for analysis prioritisation. Stability risks will be well defined and classified. The vulnerability of the players concerned will be clearly recognised and the potential impact on the financial system will be analysed. Using its enhanced prioritisation methodology, the AFM will select the risks to financial stability that are relevant to its core task and that it accordingly wishes to address and mitigate.
3. The AFM will intensify its cooperation with DNB in the area of financial stability. Market risks and behavioural components will be given greater importance in the agenda of national policy with respect to financial stability

within the Financial Stability Committee (FSC). There will be a consistent and clear approach to macro and micro prudential supervision that DNB carries out together with the AFM.

4. The AFM will place matters relating to financial stability on the international agenda. The AFM will be actively involved in the analysis of risks to financial stability in an international context and will use its existing international contacts for this purpose. Identified risks to financial stability that internationally fall between the purviews of the various supervisory forums will be placed on the agenda at an early stage.

Resources

Conduct supervision contributes to the stability of the financial system	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	1.7	0.7	1.0	-41%	1.1
Expenses as percentage of total expenses	2%	1%	1%	-43%	1%

*Budgeted theme expenses (*EUR 1 mln.)*

1.9 Harmful behaviour and financial criminality diminish

Strategic part

Problem analysis

The risk that market parties will behave in a harmful manner can never be completely excluded. There will always be parties that display harmful behaviour that seriously damages consumer confidence in the financial market and seriously disrupts the level playing field for market participants. Some of these parties are actually guilty of financial criminality or facilitate this. Such behaviour is in conflict with criminal legislation and is malpractice. Parties behave in a harmful way or even commit malpractice due to the fact that there are and will continue to be opportunities in the financial markets for financial gain through unethical behaviour. This kind of behaviour develops along with developments in the market, and therefore manifests in different forms. What qualifies as harmful behaviour therefore has to be continually updated. The misleading of consumers, whether intentional or otherwise, is always involved to a greater or lesser extent.

This involves illegal parties that carry out financial activities without having obtained the required licence or issuing a prospectus and exempted parties that carry out financial activities for which they have an exemption from the licensing requirement and/or other requirements pursuant to the Wft. Parties who are licensed are also guilty of this kind of behaviour. This seriously damages consumer confidence, disrupts the level playing field and harms the integrity of the system, in other words the resilience of the financial system against harmful influences from within and from outside.

Incidents such as the LIBOR and Vestia affairs would appear to suggest that the culture and behaviour of financial enterprises are not changing fast enough. These incidents are evidence of inadequate service, care, transparency and sustainability. Too many financial enterprises have weak governance with respect to certain areas. In combination with a misguided culture and inappropriate behaviour, inadequate control of risks such as those associated with conflicts of interest and involvement with fraud lead to new incidents occurring. Six years after the financial crisis, the market has not yet recovered. Many parties are experiencing financial pressure. In their search for ways to keep their heads above water, they can be tempted to make money by harmful or dishonest means. Changes to legislation such as the ban on inducements moreover have led to market parties looking for new earnings models. If these models are designed to evade legislation or the spirit of legislation, the interests of consumers may be harmed.

The challenge for the AFM is to limit the effects of harmful behaviour and/or malpractice on the financial markets as far as possible, by acting in an integrated and cause-driven way instead of taking a symptom-driven approach.

Intended effects for the long term

- There will be fewer illegal, dishonest and/or unethical service providers operating in the financial markets, or compliance with financial legislation will improve and parties will act more in the spirit of legislation and regulation;
- The impact of illegal, dishonest and unethical service providers on the financial markets will diminish. Damage to consumers will thus be limited and prevented;
- The impact of illegal and/or harmful products on the financial markets will diminish. Damage to consumers will thus be limited and prevented.

Main objectives for the long term

The objectives for this theme and area are twofold:

1. The AFM will reduce the effects of financial criminality on the financial markets (or the facilitation thereof).
2. The AFM will reduce the impact of harmful behaviour on the financial markets.

The first objective concerns behaviour that threatens the integrity of the financial markets. One example of this is the organisation or facilitation of money-laundering constructions, or the raising of money from consumers with dishonest intentions. This behaviour is in principle always in direct conflict with financial legislation and regulation. The second objective concerns behaviour that is not always in direct conflict with financial legislation and regulation, but does have seriously harmful effects, for example abuses in the rescheduling market.

Both strategic objectives contribute to strengthening confidence in the financial market among consumers, investors, capital providers and financial enterprises, and protecting a level playing field and the integrity of the system.

This leads to the following three subsidiary objectives:

1. The AFM will act against illegal or harmful products of (dishonest) service providers that operate illegally or under an exemption.
2. The AFM will act against serious breaches of integrity by parties subject to supervision.
3. The AFM will act against harmful earnings models at financial enterprises with a licence.

'Action against' is intended to achieve a long-lasting effect. This means that parties will no longer display their harmful or dishonest behaviour because they have changed course or they are no longer active in the financial markets. The AFM accordingly sets itself the objective of looking at the entire service chain and working effectively and actively together with its chain partners (OM, FIOD etc.).

Operational part Targets for 2015

Action has to be taken against the various manifestations of this behaviour in order to achieve the long-term objectives. The various expressions of harmful and/or dishonest behaviour against which the AFM will act in 2015 are, in general terms:

1. The AFM will act against dishonest parties and will combat intentionally harmful behaviour such as misleading and/or aggressive trading practices.
2. The AFM will act against harmful financial products and services that are misleading in nature.
3. The AFM will act against parties operating without the necessary licence.
4. The AFM will expose and act against constructions designed to evade legislation and regulation, such as evasion of the licensing requirement or puppet constructions.
5. The AFM will ban unethical directors.
6. The AFM will act against the involvement of parties in conflicts of interest and financial and other crimes (such as money-laundering and fraud).
7. The AFM will act against recidivists and repeat offenders: natural persons who have repeatedly displayed harmful and/or dishonest behaviour.

8. The AFM will act against harmful earnings models. These are earnings models that seriously harm the interests of consumers and that are more or less exclusively designed to extract fees from consumers.

Malpractice and harmful behaviour are continually evolving, and reflect developments in the market. Changes to legislation and regulation are also a factor. We are thus seeing harmful and dishonest behaviour occurring in continually changing market segments and changing product groups and parties. Our definitive thematic plan for 2015 will define the market segments, product groups and/or types of parties in which the stated aspects are involved and the specific targets for 2015.

The AFM is moreover developing the following activities for supervisory support:

1. The AFM will increase its intelligence gathering activities, whereby it will strive to obtain reliable signals at the earliest possible stage and detect trends in order to take timely action.
2. The AFM is developing innovative supervisory tools, including the further development of mystery shopping. It will also continue to develop a whistle-blower's scheme or a clemency scheme.

Resources

Harmful behaviour and financial criminality diminish	Budget 2014	Semi annual report 2014	Budget 2015	Deviation from B2015	Actual 2013
Expenses	14.3	13.4	13.9	-3%	9.1
Expenses as percentage of total expenses	17%	16%	16%	-6%	11%

*Budgeted theme expenses (*EUR 1 mln.)*