

## AFM Annual Report 2013

### SUMMARY

#### **Informal translation**

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



## SUMMARY

This summary of the AFM Annual Report for 2013 shows the AFM's activities in 2013 for each of its selected themes in table form, and the results thereof. We also explain how we structure these activities, and what costs are involved. The summary moreover describes how the AFM is assessed by its stakeholders, in order to show clearly how our activities are experienced by them. Firstly, we give a brief account of the AFM's achievements in 2013.

### **The AFM in 2013 in brief**

2013 was the year of integrity. A year in which it again became clear that fairness is a core value that still requires much work in the financial world. This applies equally to trading in the capital markets and the servicing of corporate and retail customers: without fairness, there can be no trust.

The biggest challenge for the financial sector in the next few years is to create a business culture of fairness and security, and thus increase confidence in the financial sector, because at this moment that confidence has still not recovered. The key words are fairness, security and efficiency. Market parties need to integrate these three factors. Good business sense also plays a part here. An intelligent cooperation between market parties, supervisors and politicians is needed to embed fairness, security and efficiency in the sector. Wherever there are opportunities for this, the AFM continues to conduct a dialogue with the market. But we will also continue to act forcefully where necessary.

Extensive legislation was passed in 2013 which gave the AFM the necessary means to be able to supervise the quality of financial services provided to consumers and semi-professional investors. The introduction and implementation of the ban on inducements for financial services was an important milestone, which required much effort this year. Many parties were forced to make substantial changes to their business model as a result of the ban. Consumers also faced a new situation now that the costs of advice are clearly stated in advance. Making preparations for the ban on inducements for investment services, which came into effect on 1 January 2014, was also one of the AFM's priorities.

Besides the changes that are prescribed by law, we are striving to bring about a cultural change and renewal in the sector that comes from an inherent desire to help customers in a way that actually serves their interests. The Customer Interests Dashboard is showing a positive trend with respect to the issues under the AFM's attention. If the sector really wishes to regain trust and moral authority, it has to be proactive in implementing such changes. The AFM wishes to play a constructive role in encouraging this cultural change.

There were also many developments in the capital markets. Just as the ban on inducements will help give truly independent advice without a conflict of interests (whether intentional or not), new legislation for the audit industry should achieve a similar aim, namely the separation of consultancy services and audit work by audit firms. This is certainly needed, given the continuing negative reports regarding the auditing of financial statements and the quality thereof. A series of incidents involving failings in the audits of both smaller institutions and large listed companies came to light in 2013, in which the role of the auditor came under scrutiny.

Benchmarks became an item of attention due to the LIBOR scandal, and the AFM provided substantial support for the related investigation by DNB. New proposals were made in 2013 to strengthen the regulation of how rates are formulated, and to enable financial supervision to deal effectively with abuses.

The financial crisis revealed a number of structural problems that require a solution for the longer term. To some extent, this can be dealt with by better regulation. At the same time, it is clear that regulation and the supervision of compliance with regulation cannot adequately address the risks that are still taken in some cases.

Partly in this context, the AFM devoted more attention than previously to financial stability in 2013. While this is primarily a prudential issue, the crisis showed that aspects of conduct can also threaten stability. The formation of the Financial Stability Committee, in which DNB, the Ministry of Finance and the AFM have discussed these issues collectively, is an important outcome of this.

Once again, there were a relatively large number of new and amended guidelines from Europe that affect the Dutch market to a greater or lesser extent. The supervision of transactions in derivative instruments, which took effect in 2013, and the new supervision of alternative investment funds, are intended to provide better information on sections of the financial markets that until now have been unregulated and not transparent. Here too, the AFM has made a vigorous start in consultation with the market. In 2013, the AFM warned of the potential consequences of other European regulations under preparation that threaten the consumer protection that is currently provided under specifically Dutch regulations. The Banking Union will also inevitably affect the way in which the supervision of Dutch banks is conducted.

### Nine supervisory themes

The AFM acts in areas where the greatest risks lie. We analyse market [developments and risks](#), which change continuously. The AFM is flexible, and adjusts its priorities and organisation accordingly. Nine supervisory themes have been formulated, two of which are new. These are the themes of ‘Non-retail customers receive an appropriate service’, and ‘Conduct supervision contributes to the stability of the financial system’. Outside these themes, there are risks at play over which we have less influence. These are explained in the [risk statement](#).

### A flexible organisation with fixed objectives

In recent years, the AFM has invested heavily in the development of a problem-oriented approach to supervision and the flexible organisation needed for this. We have divided our themes and tasks into five multi-disciplinary divisions: Customer Interests First, Pensions & AIFM, Quality of Auditing and Reporting, Efficient Capital Markets, Market Integrity & Enforcement. In addition to these, there are three divisions that conduct the continuous supervisory duties. The number of employees rose slightly but remained below the forecast level for 2013, and the AFM was six per cent under budget for the year. Three-quarters of its total income of €87.4 million comes from contributions by market parties, with just over €20 million coming from the government.

<b>The AFM in figures</b>	<b>2013 actual</b>	<b>2012 actual</b>	<b>2011 actual</b>
<b>General</b>			
Total expenses (in EUR x million)	80.4	81.0	80.3
Net expenses (in EUR x million)	79.1	79.8	76.1
Total income (in EUR x million)	87.4	80.8	79.3
Government contribution as percentage of total income	24%	32%	36%
Market contribution as percentage of total income	75%	67%	62%
Other income as percentage of total income	1%	2%	2%
Average workforce employees in service (in FTE)	541	526	483
Average total workforce (including temporary personnel; in FTE)	555	549	500

Number of institutions under supervision <sup>1</sup>	10,500	10,900	11,200
<b>Overview of supervisory measures</b>			
<i>Formal supervisory measures</i>			
Administrative fines	20	22	36
Orders for incremental penalty payments	14	28	19
Referrals to PPS	0	5	11
Withdrawals of licences	31	93	102
Instructions	10	16	64
Public warnings	30	5	7
Appointment of Wft receiver	0	2	0
Civil law measures (Wtfv)	5	15	22
Commitments (Whc)	0	1	0
<b>Total formal supervisory measures</b>	<b>110</b>	<b>187</b>	<b>261</b>
<i>Informal supervisory measures</i>			
Instructive conversations/letters on compliance with standards	331	543	919
Warning conversations/letters	191		
<b>Total informal supervisory measures</b>	<b>522</b>	<b>543</b>	<b>919</b>

<sup>1</sup> The number of unique institutions is shown with effect from 2013. The comparative figures for 2011 and 2012 have been adjusted accordingly.

### **Supervision: prevention is better than punishment**

The AFM wishes to be as effective as possible. As a learning organisation with a public duty, the AFM has to assess the effects of its supervision as objectively and completely as possible. What works is used more frequently. What does not work satisfactorily also helps us to learn. The measurement of effectiveness thus supports the setting of priorities.

Supervisory measures are simply a means to an end. The focus is shifting towards activities that encourage acceptable behaviour, such as our role as the orientation point for the introduction of the ban on inducements. A letter or a conversation is sometimes enough to motivate institutions to change the way they behave. A more informal approach is also becoming more common in cases where instructions are issued, for instance by sending reminder letters. The effect is the same as with a formal approach, but a less formal approach is more efficient and reduces the administrative burden. Each sector is different, and therefore our approach can vary.

This focus on effectiveness is increasingly becoming embedded in our supervision and an integral element in our approach. The application of the Customer Interests Dashboard, which measures the extent to which banks and insurers are making progress in improving their service provision, is an example of this. The Dashboard encourages actual improvements and contributes to the solution of problems without the immediate application of a formal supervisory measure. The upward trend in Dashboard scores over the years demonstrates its effectiveness.

Permanent acceptable behaviour requires a cultural change in the sector that comes from within. Enforcement through the imposition of fines and warnings is only effective to a certain extent; a continuing dialogue with providers on issues such as how information to customers can be improved also contributes. Ten of the largest banks and insurers have redesigned three-quarters of their core offerings, in part on that basis.

When it comes to parties that do not behave ethically, it is in certain cases more effective and efficient to increase the (perceived) probability of being called to account for market parties across the board in order to achieve better compliance with the rules, than to devote all our efforts to the application of formal measures that have limited reach. Research shows that the perception among market parties is that we recognise 50% of illegally acting market parties, and that we actually deal with 70% of those.

In the securities markets, we prefer to identify and prevent problems at the source. A phone call from the AFM immediately after a suspicious price movement has been observed has an immediate effect without the need for formal action. A call to non-PIE licensees to voluntarily remove themselves from our register demonstrates the point: 22 firms have now done this. Across the board, we strive to exercise our ability to influence in order to reach our goals through means including explaining, convincing and imposing penalties.

This policy is leading to a decline in the number of informal measures such as instructive conversations and letters on compliance with standards and warning letters. The number of formal measures such as administrative fines, orders for incremental penalty payments, withdrawals of licences, instructions and notifications has also declined. Only the number of warnings has risen. Due to a wider policy for the setting of fines, the total amount imposed has risen to €5.8 million. There were no Wft receivers appointed, commitments made, complaints filed with the Disciplinary Court for Auditors or submissions to the Enterprise Chamber in 2013. There were also no enforcement cases which led to a referral to the Public Prosecution Service this year. The number of institutions subject to supervision declined from 10,900 to 10,500 in 2013. The AFM received fewer licence applications from investment firms; the number of applications for credit providers and investment

providers remained the same. We received applications for crowdfunding for the first time. We refused 25 parties applying for access to the market, and 14 parties withdrew their applications voluntarily.

## **Stakeholders: what is their opinion of the AFM?**

We wish to know how the parties that fall under the supervision of the AFM experience the way that we operate. This helps to make us aware of areas in which we can improve. We also want to hear what consumers think of us, and we use independent market research for this. This has led to two reports being prepared: How stakeholders see the AFM in 2013, from TNS Nipo, and the AFM Consumer Monitor in the autumn of 2013, from GfK.

### **Business stakeholders**

The general opinion of business stakeholders regarding the AFM has not changed significantly since 2011, and is positive: 41% expressed a positive or very positive opinion (2011: 41%), 43% were neutral (40%), and 16% expressed a negative or very negative opinion (18%).

The attitude with respect to supervision has not changed significantly in the last two years. The majority of the target group consider that the market could not function properly without the AFM, and there is a slight preference for self-regulation as well as some instances of preference for preventive supervision. The AFM's integrity is seen as beyond doubt, and most respondents approve of the priorities it sets. On the other hand, there is a perception that the AFM's practical knowledge leaves something to be desired and that the AFM accordingly does not wholly understand the field in which the respondents operate.

The target group considers that the AFM's effectiveness has sharply increased: 44% mention good or very good effectiveness, compared to only 29% in 2011.

### **Consumers**

One third of consumers have an overall idea of what the AFM does, one third knows the AFM by name and the remaining third have never heard of the AFM. Three quarters of the consumers who had heard of the AFM expressed a positive opinion of the AFM. Furthermore, the better people know the AFM, the higher their appreciation of the AFM is. People with greater confidence in the financial markets are also more positive regarding the AFM.

To the question of whether the AFM promotes fair and transparent financial markets, over one third said yes (in autumn 2013), and one in seven said no. By contrast, in the autumn of 2012, half of the consumers thought that the AFM was accomplishing its mission. We are concerned about these indications, and will be carrying out further research in 2014 to gain a better understanding of the reasons why this is the case.

Approximately one in five Dutch people (20%) consider that the financial markets in the Netherlands are well organised, and one in three do not (34%). One in five consumers have confidence in financial supervision in the Netherlands, and over four out of ten do not. The crisis has clearly damaged consumer confidence: in the autumn of 2008, 46% thought that the financial markets were well organised.

**Summary of theme: product providers put the customer’s interests first**

Since the credit crisis, the restoration of confidence has been the top priority for the financial sector. This is a task that requires stamina. The financial sector is relatively unaffected by consumer pressure on the price-quality ratio of products and services, and we do not expect this to change in the near future.

We use the Customer Interests Dashboard to measure the extent to which the large banks and insurers are putting the customer’s interests first in the provision of their services. On a scale of 1 to 5, the score has risen from 2.7 in 2010 to 3.5 in 2013.

The banks and insurers are changing their business culture and are adjusting their missions and visions accordingly. Practical changes such as the policy on savings, setting interest rates for mortgages, complaints management, investment services and product development are benefiting consumers. However, we are still encountering cases where this is not happening. For instance, incidents connected with the provision of information and the quality of investment services. We are encouraging actual and rapid changes that will be maintained over the long term. To achieve this, companies need to structurally embed the principle of ‘putting the customer’s interests first’ in their culture. Progress has been steady, but the process is not yet complete.

The AFM supervised the product development process and the products themselves for the first time in 2013. Here too, the customer’s interests must come first. We provide clarity regarding the new standard, map the product landscape, monitor the offering of 6,500 products, remove products from the market and warn consumers of risky products such as investment-linked bonds and bitcoins.

The results of this theme are presented in the table below.

<b>The challenge</b>	<b>Approach by the AFM</b>	<b>Effect</b>
Putting the interests of retail customers first	Measuring on a scale of 1 to 5 using the Customer Interests Dashboard	Rising trend in the Dashboard scores: 2.7 in 2010, 3.0 in 2011, 3.3 in 2012, 3.5 in 2013
Helping customers with investment-linked insurances to cover their financial losses	Dialogue with providers and assessment of their efforts. Review of activation at each provider	Rising Dashboard score, from 2.1 in 2012 to 3.1 in 2013
Improving information to customers	Dialogue with providers	The 10 largest banks and insurers have rewritten 75% of their core product offering; customer evaluation of information provided on mortgages has substantially improved
Introduction of new mortgage regulations as of 2013: increasing transparency	Test the extent to which providers are complying with the new regulations	All the providers reviewed have adjusted their information on the basis of the AFM’s findings
Quality of information when applying for a credit card	Market scan for credit cards	All the providers reviewed have adjusted their information on the basis of the AFM’s findings
Putting the customer’s interests first in product development	Product monitor; database of 6,500 products continually monitored with respect to price and features Warnings to consumers	Daily intervention possible due to up-to-date information. Nine products removed from the market. Consumers informed.



## Summary of theme: The quality of financial service provision will improve

Consumers have to have confidence that their interests are put first throughout the service provision process. Now that advisers and intermediaries no longer receive inducements for complex and risky financial products, they are free to work exclusively in their customer's interests. This requires new service concepts and can contribute to the desired cultural change. The initial signs are hopeful, but it is too soon to conclude that the quality of advice has actually improved.

The AFM also devoted attention in 2013 to financial enterprises which demonstrated such harmful behaviour that consumer confidence was seriously damaged and the level playing field was seriously disrupted. We have had successes in dealing with, among others, the hidden charging of fees for consumer credit, the harmful trading practices of parties in the rescheduling of funeral insurances, and investment-linked insurances.

With our statement of view on Tailor-Made Service Provision, we show that current legislation and regulation leave room for the efficient structuring of services in order to meet customer needs more effectively. There have been various other initiatives designed to improve the provision of information to professional target groups, ranging from adjustments to the website and press releases to company visits and information meetings.

The results of this theme are presented in the table below.

The challenge	Approach by the AFM	Effect
Correct implementation of the ban on inducements for advisers and intermediaries	Explanation, market monitoring	The costs of mortgage advice have substantially declined
Clarity of application of the rules for direct remuneration of providers for fair price for advice	Continuous provision of information on application of cost price model	Adjusted cost price models, most providers comply with rules adequately
Prevention of double costs for consumers	Appeal to consumers; review of service subscriptions	Review ongoing
Helping consumers compare and evaluate advisers/providers	Standard service provision document developed	98% of financial services providers have a standard service provision document
Standard for appropriate remuneration of authorised agents, combating excessive charges	Review of payments to authorised agents; dialogue with the market, including on the new nominal model for payments	Market is taking the lead in the development of a nominal remuneration model
Increasing the quality of advice on annuities	Review of provision of information and advice on expiration of annuities	Insurers have committed to improving the information provided on expiration of annuities
Ensuring the regulations for online service provision are applied properly	Publication of interactive statement of views on Tailor-Made Service Provision	Clarity on possibilities for making advice accessible and affordable within the law
Dealing with hidden fees for consumer credit	Review and enforcement	Excesses have disappeared, permitted payments are lower
Dealing with harmful trading practices in renewal of investment-linked insurances	Review and enforcement	Significantly fewer players with doubtful practices: approach continued in 2014
Dealing with harmful trading practices in connection with funeral insurance	Review and enforcement	70% of the registered service providers have changed their approach or ceased to offer the product

## Summary of theme: Improvement of products and advice for capital accumulation

Financial institutions can serve the interests of their customers better by improving the quality of their advice and products for capital accumulation. Progress was made towards achieving this goal in 2013. Consumer confidence in investment advisers and portfolio managers has increased slightly. However, the quality of the service provision is still unsatisfactory throughout the market. Providers of investment services are not devoting sufficient attention to listing the customer's actual targets and risk appetite. The selection policy for the investments also leaves something to be desired. It is therefore difficult to establish whether customers are subsequently given appropriate advice and have portfolios that suit their needs. We are disappointed with this, and expect market parties to improve their services.

As a result of the Alternative Investment Fund Managers Directive (the AIFM Directive), the AFM has been supervising alternative collective investment companies such as hedge funds, private equity and property funds since July 2013. Further development of this is still ongoing. We expect to issue around 80 new licences and the registration of 180 AIFMs.

The results of this theme are presented in the table below.

<b>The challenge</b>	<b>Approach by the AFM</b>	<b>Effect</b>
End of commissions at banks, investment firms and fund providers	Approaching large banks and portfolio managers	Six large banks announced that they would voluntarily cease to charge commissions and return commissions as of 1-1-2014. Asset managers and fund providers already offer funds with no distribution fees
To be able to assess the total costs of investments more accurately and compare them using a consistent measure of costs	Discussion document and workshops on the introduction of Total Cost of Ownership (TCO)	Shared information on costs. Coordination with the market regarding the calculation method for cost measure
Increasing supply of high-risk corporate and other bonds	Media approach to issue warning	Greater awareness among investors
Lack of investor awareness regarding leverage products with in-built stop loss	Market research and approach to providers of these products	Providers themselves propose measures for better investor protection
Information for investment decisions is clear and comprehensible	Check that the level of the risk indicator in Essential Investor Information (EII) is calculated correctly	Unsatisfactory in some cases. The parties concerned have been spoken to
60% of providers give incorrect information in return scenarios	Call providers to account	Provide revised information to existing customers, quotations for new customers in accordance with the rules
Request Minister to monitor SNS review of Participation Certificates and to supervise the settlement of the compensation process	Monitoring	SNS makes proposal to customers for compensation
Offer consumers practical trading perspective for investment decisions	Investment section on the AFM consumer website renewed, tools, checklist	Information available for retail investors

**Summary of theme: Non-retail customers should receive an appropriate service**

This new theme was started in 2013 as a result of signals of problems in the service provided to non-retail customers. Various reviews have been initiated, for instance on interest-rate derivatives for SMEs. Risks have also been identified at semi-public institutions, and the service when entering into interest-rate derivatives can be improved. We have seen that the nature of the service is not clear in all cases, which usually emerges when there is a need for advice during the term to maturity. Some banks do not make it clear to customers that their offering of interest-rate derivatives does not include advisory services. This can cause confusion among customers. The information provided on interest-rate derivatives often presents excessively optimistic expectations. Furthermore, the banks often fail to inform SME customers adequately as to whether they qualify as professional or non-professional customers, and the consequences of this.

We have started to investigate problems with respect to other products and financial services providers. The customer information recorded by the banks leaves much to be desired. In many of the files we reviewed, there was no proper regular review of the customer relationship recorded. Records of customer interviews were often lacking, and it was not possible to accurately establish whether (and how) banks had assessed whether the service they were providing was appropriate. A number of banks have announced measures to improve this. The AFM is following these changes closely. In the autumn, we initiated an investigation of the financial services provided to SMEs in a wider sense, focusing on loans, insurance and savings products.

The results of this theme are presented in the table below.

<b>The challenge</b>	<b>Approach by the AFM</b>	<b>Effect</b>
Investigation of potential problems in the services provided to non-retail customers	Review of services provided by a number of banks to professional SMEs when entering into interest-rate derivatives	A number of banks have announced measures to improve this. The AFM is following developments closely and will engage in a dialogue with the sector regarding the desired suitability of the service

## Summary of theme: The size and risks of pensions will be made more transparent

Effective pension communication can contribute to the restoration of confidence in the pensions sector. A central element for the future is the interactive Pensions Dashboard, which will give people a practical overview and explanation. The issues we monitored in 2013 included curtailment information and the pensions register.

In order to achieve effective pension communication, we are acting as secretary for the behavioural economics recommendations of the European regulator EIOPA. We are working together with the Ministry of Social Affairs and Employment and with the sector on new rules for pension communication that will put consumers in a better position to make suitable financial plans for their retirement. We are an active partner in the Wijzer in Geldzaken platform, and share a collective help desk with DNB at the annual Pensioen3daagse. Our consumer website offers information and references.

The results of this theme are presented in the table below.

<b>The challenge</b>	<b>Approach by the AFM</b>	<b>Effect</b>
Improving information on defined contribution schemes	Recommendations formulated together with the Insurers Association	Defined benefit schemes are more cost-efficient, safer and more understandable for both employers and employees
Improving benefit payment information from pension funds	Review of five funds; instructive letters / conversations on compliance with standards	Pension funds concerned have corrected incorrect benefit payments
Improving the effectiveness of enforcement	No administrative fine, but 40 instructive letters/conversations on compliance with standards	Pension administrators are more frequently reporting incidents voluntarily
Effective rules for pension communication that suit consumers	Together with the sector, advising the Ministry of Social Affairs and Employment on parliamentary bills	The proposed parliamentary bill will put consumers in a better position to make suitable financial plans for their retirement

**Summary of theme: Threats to the integrity of the financial sector are effectively dealt with**

The main objective of this theme is to minimise the damage to the confidence and the assets of consumers as a result of fraudulent, unethical and illegal behaviour. We focus on the most serious cases with the greatest social impact. The emphasis is on unethical fundraisers, intentionally misleading information, investment and other fraud and matters of a criminal nature and complex dynamics.

In 2013 we focused mainly on commonly occurring illegal and/or unethical practices. This is frequently the case with (exempt) providers of land and gold as an investment, providers of unlisted property funds, illegal credit providers, unethical fundraisers, boiler rooms and providers of investment products in foreign currencies. Serious offences by licensed institutions, such as involvement in fraud or unethical business practices and unreliability of directors, also required our attention. We moreover conducted a number of crisis investigations of financial and social importance.

Due to the large number of reports and signals, an effective process has been set up. If for instance there is doubt regarding a provider’s obligation to obtain a licence, the provider in question will, if appropriate, have the possibility of following a step-by-step plan to determine itself whether its activities require it to obtain a licence. This lessens the burden for all those concerned. Obviously, there is consultation with the PPS in matters involving criminal law. There is also intensive cooperation and sharing of information in the FEC, the joint venture of seven agencies with supervisory, investigative and prosecution duties in the financial sector. ‘Mystery shopping’ is another efficient method, in which we pose as a consumer. The use of this method increased by 20 per cent in 2013.

The results of this theme are presented in the table below.

<b>The challenge</b>	<b>Approach by the AFM</b>	<b>Effect</b>
Better compliance with rules by increasing the perceived probability of prosecution among market parties	Enforcement and publicity	According to the market, the chance that the AFM will see offences is 50%, and the chance of actual action is 70%
Reducing abuse by fundraisers who are outside the supervisory regime	Investigation and calling providers to account	Five providers stopped their offering, one provided additional information voluntarily and one case was referred to the PPS
Dealing with the offering of pay-day loans	Forcing providers to stop. Enforcement through imposition of fines, etc.	Further decline in the number of providers, 2 providers were compelled to stop, 1 licence was withdrawn
Consumers should no longer be deceived by boiler rooms selling false or worthless shares	16 warnings to consumers, also warnings passed on from foreign supervisors	Consumers have been warned. Number of boiler rooms unchanged
Combating illegal offering of forex products (foreign exchange)	10 instructive letters on compliance with standards, and one order for incremental penalty payments. Extra warning	Expected decline in the offering of forex products without a licence
Combating the offering of risky and illegal land investments to consumers	Enforcement, including fines and withdrawal of licences. Information on the AFM consumer	Shift of land as an investment to investment bond

	site on the risks of investments	
Supervision of integrity among licensees	Testing and continuous review	Various instructions to dismiss policymakers. 5 licences withdrawn, 14 withdrawn at own request

## Summary of theme: The quality of governance, reporting and audits will improve

The operation of the capital markets depends to a great extent on honest reporting, supported by good governance and a good quality audit. This theme concentrates on the performance of the auditor, the executive directors and the supervisory directors and on the reporting.

We conduct numerous reviews in order to keep our finger on the market's pulse. Too often, the quality of audits in the Netherlands is unsatisfactory. At the big-4 audit firms, the AFM reported in 2010 on its relevant findings with respect to 29 of the 46 audits reviewed. In 2013 the AFM reported serious shortcomings at the other PIE audit firms in 35 of the 47 cases and at the non-PIE firms in 88 of the 110 cases. These findings received extensive attention and served as a catalyst for a change of culture and an improvement in quality.

In October 2013, the AFM published the annual report 'In Balance 2013' with its findings from its normal supervision in 2012 and its thematic reviews in 2013. The results show that while companies are definitely making progress in certain areas, there is still much room for improvement in the financial reporting of listed companies. By publishing these items early, the AFM is giving companies the time to include items of improvement in the preparation of their financial reporting.

As of 1 January 2013, the financial reporting supervisors can exchange confidential information with all divisions of the AFM. This contributes directly to better and more effective application of the experience and expertise of the supervisors.

The results of this theme are presented in the table below.

The challenge	Approach by the AFM	Effect (2013)
Improving quality of aspects of reporting	Review of impairment of assets (2012)	Review of annual reports reveals better disclosure of impairments
Improving follow-up of notifications in relation to financial reporting	Communication with audit firms and large companies	Follow-up: 94%
Improving audit quality	Baseline. In 2008 and 2009 big-4 firms; in 2011 and 2012 other PIE firms and in 2013 non-PIE firms  Appeal to all non-PIE firms to take (possibly radical) measures where necessary to ensure the quality of their statutory audits  Complaints to the Disciplinary Court for Auditors and appeal to CBb	Market and NBA now increasingly convinced of the need of sector-wide improvement to quality  85% of the non-PIE firms have responded to the AFM's appeal. More than half found shortcomings in their audits  2 irrevocable reprimands; 1 warning and 1 reprimand against which an appeal has been filed
Ensuring adequate application of transitional arrangement for the separation of audit and advisory services	Review at audit firms and dialogue with the Netherlands Institute of Chartered Accountants	Audit firms refuse engagements in order to meet prohibitory provision

**Summary of theme: The securities markets operate fairly and efficiently, and the infrastructure remains robust**

14 investigations of market abuse were carried out in 2013. By intervening earlier, also through contacting the parties involved at an earlier stage, results can be achieved more effectively and quickly.

The AFM considers adequate IT controls at market parties to be an important issue. In 2013 we carried out a project-driven review of the use of trading software by Dutch parties which trade on Dutch trading platforms. The risk analysis we have developed will play an important part in our follow-up activities in the coming year.

Work is in progress on the further automation of the tracing of suspicious transactions. With the advent of new directives such as MiFID II and EMIR and the additional reporting requirements these entail, much more data is becoming available. In 2013 the notification requirement pursuant to the regulation on short selling in the Netherlands generated 950 public notifications of short positions in shares, and many notifications of positions of up to 0.5 per cent to the AFM.

Derivatives contracts have been subject to the European Market Infrastructure Regulation (EMIR) since August 2012. The AFM and DNB carried out supervision of the obligations under EMIR that came into effect in 2013.

We made a significant contribution to the investigation of the LIBOR scandal at Rabobank in 2013. Particular attention was devoted to benchmarks and the way in which these are formulated. The European Commission quickly formulated a regulation to enable supervision of these benchmarks. In anticipation of the European regulation, the AFM has listed the financial and other benchmarks formulated by parties established in the Netherlands. Furthermore, the AFM and DNB conducted a fact-finding investigation of benchmarks, with particular attention to exchange rates.

In the review of prospectuses, additional attention was devoted this year to the risk of unsuitable investments being offered to (retail) investors. The safeguarding of high and consistent quality of the supervision of public offerings was also an item of attention.

The results of this theme are presented in the table below.

<b>The challenge</b>	<b>Approach by the AFM</b>	<b>Effect</b>
Greater transparency regarding short positions in shares	Introduction of short sales register on the AFM website	950 public notifications of short positions in shares Many notifications of up to 0.5%
Adequate IT controls by market parties (in view of the increasingly technological nature of securities trading)	Research into the use of trading software by Dutch parties on Dutch platforms	Developed risk analysis that plays an important part in controls of automated trading at market parties
Prevention of market manipulation	14 investigations of potential market abuse, direct contact at an early stage, 19 instructive letters on compliance with standards in relation to unusual trading behaviour, 1 administrative fine, 3 times one trading measure	Discouraging price manipulation by means of active presence and intervention in the market



## Summary of theme: Conduct supervision contributes to the stability of the financial system

The AFM made a start on a thematic approach to the supervision of stability last year. Since stability risks often transcend sectors, we focus on cooperation with DNB, and on conduct by market parties that can undermine financial stability, as well as the transparency of systemic risks.

This is accomplished through the Financial Stability Committee (FSC), as well as by other means. The committee's duty is to identify risks to financial stability in the Netherlands and to make recommendations in this context. Representatives of DNB, the AFM and the Ministry of Finance discuss relevant developments. The committee met on three occasions in 2013. The items discussed included the housing market, strengthening bank balance sheets and the desired improvement of transparent reporting of risks by the banks. The Financial Stability Committee also put forward recommendations with respect to the last-mentioned item.

The theme of stability is also designed to obtain more understanding of the inter-professional market for financial services and products. The AFM and DNB have studied how the banks obtain their funding. The transparency of the reporting of risks by the banks in their annual reports was also studied. As a result of this, the Financial Stability Committee called on banks to provide more information on these risks and how they are managed.

Time was also invested in the development of a methodology whereby the plausibility of potential stability risks can be estimated. This method will also be used to estimate the scale of stability risk.

Finally, the AFM was also involved in the activities of ESMA, IOSCO and the European Systemic Risk Board (ESRB). Until last year, for example, the AFM provided the chairman of the ESMA Committee for Economic and Markets Analysis (CEMA). In this role, the AFM directed its efforts towards a stronger connection between economic analysis and policymaking. The AFM also led the first thematic review of IOSCO last year: a review of the implementation of the new IOSCO principles 6 and 7. These principles relate to the role of supervisors in the identification and management of systemic and other risks within and outside their regulatory mandates. The AFM set the direction for the evaluation of practical supervision of systemic risks.

The results of this theme are presented in the table below.

The challenge	Approach by the AFM	Effect
Transparency regarding financing, market and credit risks of banks and the management thereof	The AFM and DNB have reviewed the transparency provided by banks with respect to risks as published in their annual reports and the improvements that are desirable in this context	The FSC called on banks to provide more information on these risks. Investors and external parties will thus be able to form a better opinion on the strength of a bank's position
Identification of stability risks	Development of a methodology for the estimation of the plausibility and scale of systemic risks	The AFM is currently working with a methodology that corresponds as far as possible with the cycles of DNB
International cooperation	Intensive contribution to European and global networks	The AFM is seen as a serious supervisor in the area of financial stability