



A N N U A L R E P O R T



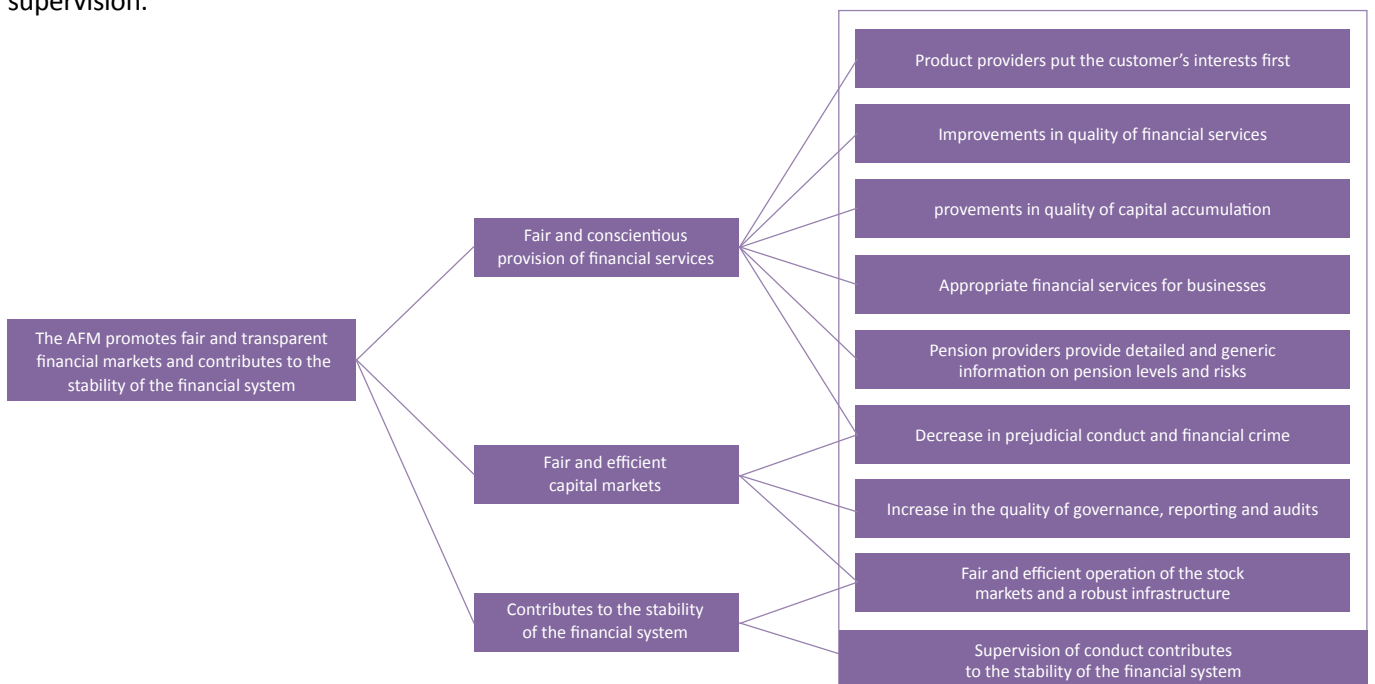
Summary AFM Annual Report 2015

Management summary

MAIN RESULTS OF THE SUPERVISION

In 2015 the supervision activities of the Netherlands Authority for Financial Markets (AFM) were organised around nine themes. The aim of each theme was to control a crucial market risk by maintaining adequate supervision.

The diagram below shows how the AFM mission statement was translated into strategic aims and themes in 2015.



Below is a summary of the main results of the supervision in 2015. A more detailed version can be found in [Chapter 1](#) (in Dutch only) of this annual report.

Putting the customer's interests first

The AFM has observed stabilisation in the scores of the largest financial organisations on the dashboard after a continuous upward trend lasting five years. In 2015 banks and insurers could have taken the initiative more often to go the extra mile for the customer and changes were not always passed on to departments, distribution channels or types of customer, other than those upon which the AFM had previously focused its supervision efforts (see Customer Interest Dashboard below). We must therefore review our approach to determine how and where to give fresh momentum to the market. Concrete improvements have been achieved in the development of supplementary health insurance and car-financing products. Insurers have now activated the vast majority of their investment policy holders and improvements are being implemented in the treatment of customers with mortgage arrears.

Quality of financial services

Our supervision activities for 'Quality of financial services' focused primarily on adherence by the sector to recent regulations on professionalism and to the ban on commission. At the same time, we invested in research on consumer behaviour to gain a clearer understanding of why consumers do not or cannot always make appropriate choices. Since 2015 the vast majority of financial advisors have been in possession of the diplomas required for the job. They have the latest knowledge and skills, which should enable them to deliver good advice. Most of the large and medium-sized independent advisors no longer have agreements or cash flows with intermediary providers.

Capital accumulation

The AFM worked hard to improve investment services within the 'Capital accumulation' theme. It encouraged and motivated the sector by conducting studies on

the quality of the investment services, by making costs more transparent and by pushing for changes to national and international legislation. The AFM would like to see a better match between services and customer needs. Knowledge about the motives of individual investors could help to achieve this. Our research into investment services at banks and independent asset managers indicates that the quality has, on average, improved since 2014. The ban on commission, introduced in 2014, is being properly adhered to. It was thanks to the efforts of the AFM that the Comparative Cost Standard (Vergelijkende Kosten Maatstaf) was introduced on 1 January 2015. This tool will allow consumers to draw clear comparisons between the costs of services.

Services for business

The AFM takes the view that the improvements implemented by the sector in recent years in the interests of the consumer should be extended to businesses (also vulnerable businesses). We are not yet confident that the sector is taking this extra step. For example, the good scores that the sector achieved for providing information to private customers are in stark contrast with the dashboard results for Information Provision Banks for Business Customers. The banks scored an average of 2.3 for pre-contractual information on credit facilities for SME, which is far short of the norm. The banks in question have accepted the findings and agreed to take the necessary steps. The banks also failed to put the customer's interests first in their own working programmes when re-assessing interest rate derivative contracts with small and medium-sized enterprises. An administrative fine was imposed on one bank for failing to keep proper records of interest rate derivatives. In March 2016 the AFM presented a strategy to have banks compensate customers with interest rate derivative products for their losses. The AFM also found shortcomings in its own review of the re-assessments. The Supervisory Board ordered an independent inquiry in December to redress this situation.

Pensions

The AFM started work on the 'Pensions' theme with supervision of the Pensions Communications Act (Wet pensioencommunicatie), which came into force on 1 July 2015. Under this new legislation, all information that pension providers supply to participants must be clear, correct, consistent, and in keeping with the participant's requirements and wishes. New information tools such as Pension 1-2-3 will be officially introduced in the course of time and give participants a clearer idea of pension risks and uncertainties. More than 80 per cent of pension providers are familiar with the new Pensions Communications Act and can interpret and implement it correctly. Investigations by the AFM have revealed that pension funds do not keep their participants adequately and consistently informed about indexation in the past and present and – most importantly – the anticipated indexation in the coming years. An inspection of five pension providers at the end of 2015 indicated that most have improved their information services.

Audits

An improvement programme was launched in 2015 for 'Governance, reporting and auditing'. In 2013 and 2014 the AFM found that the quality of the audits performed by the larger accountancy firms was below standard. In a report entitled 'In the public interest' (Dutch: In het publiek belang) the Royal Netherlands Institute of Chartered Accountants (NBA) concluded that fundamental changes were needed in the governance, structure, processes, conduct and culture in accountancy firms in order to realise substantive improvements in quality. The AFM will use the newly introduced dashboard, amongst other things, to monitor developments and urge the parties to report the progress to the sector and other stakeholders. The AFM will also act in an enforcement capacity if necessitated by the seriousness of specific offences. The aim of the AFM is to motivate accountancy firms to work assiduously to realise fundamental change

and improve the preconditions. Hopefully, this will lead to an improvement in the quality of their statutory audits, which will then be more in tune with the public interest. In the wake of the findings of the Big 4 inspections in 2014, the AFM handed over four files to the 'fine officer'.

The quality of financial reporting had been improving steadily for several years, but the trend did not continue in 2015. Inspections carried out by the AFM in 2015 on listed companies with an increased risk of errors in the financial reporting for 2014 delivered a relatively large number of findings (provisional). Scope for improvement was also revealed by three AFM studies on information on interests in businesses, pensions and bank covenants.

Capital markets

The number of reports on insider trading and market manipulation rose by 20 per cent in the past year. Compared with the number of reports received by other European regulators, the AFM concludes that this increase is not the result of more market abuse, but more efficient checks by market players, who are also better served by a market that operates fairly. The AFM investigated many of these reports; four have resulted in files being handed over to the 'fine officer'. One led to a referral to the Public Prosecution Service. The AFM had more than 250 contact moments with listed companies, traders and investors on how to handle price-sensitive information, financial reporting, reports and emissions/public offerings. In around 25 cases this contact had an immediate effect resulting, for example, in a press release or the correction of a report in the media. The AFM had to interrupt trading three times to prevent trading with asymmetric information until a press release was issued.

Financial stability

One important aspect of 'Financial stability' in 2015 was the impact of the low interest rates on

the operations of financial markets. Other, related issues were the influence of the low interest rates on market liquidity and the potential system risks in asset management. An investigation was performed jointly with the DNB to determine the effects of the new regulations on the operation of the derivatives markets. This led to a joint AFM/DNB publication under the umbrella of the Financial Stability Committee (FSC). An FSC-led study was also carried out on the Dutch mortgage market, which led to recommendations from both authorities to lower the maximum loan-to-value to 90 per cent over the course of time.

Prejudicial conduct and financial crime

Under the theme 'Prejudicial conduct and financial crime' the AFM took action against mala fide players: recidivists, multiple offenders and parties that operate without authorisation. The AFM also excluded unethical executives from the market and took action against harmful earnings models and products. In 2015 it issued 11 warnings against boiler rooms. Forty-one parties which were active without a licence were told to cease their activities and around one third took immediate steps. In 2015 the AFM sent out 25 transfer-of-standards letters to address breaches of integrity by licence-holders. To prevent money laundering and the funding of terrorism 116 transfer-of-standards letters were sent to investment companies, followed later by further details in a newsletter.

FORMAL AND INFORMAL ENFORCEMENT

In 2015 the AFM imposed a total of 17 fines, significantly fewer than the 31 imposed in 2014. The AFM has made no changes to its enforcement policy. The fines for 2014 included a relatively high number of smaller businesses and could be settled with a simple, more or less standardised procedure. Most of the fines in 2015 concerned more serious and complex cases at larger companies. The fines in 2015 amounted to a total of €9,616,250 compared with €7,327,287 in 2014. The total number of formal enforcement measures was also lower in 2015: 52 compared with 106 in 2014. The

decrease is largely attributable to lower penalties and public warnings. The number of informal enforcement measures rose to 575 in 2015 compared with 471 in 2014.

Further details on enforcement measures can be found in Toezichtaanpak AFM (AFM Supervision Strategy) (qualitative) and in Chapter 3.2 AFM in cijfers (AFM in figures) (quantitative).

STRENGTHENING SUPERVISION BY INVESTMENTS IN TECHNOLOGY AND METHODOLOGY

Technological and societal developments affect the AFM as well as the financial sector. We can continuously increase our effectiveness via data availability, analysis and application. In 2015 we pursued this aim by gaining further insight into consumer and investor behaviour and cultural change (see Chapters 2.2 and 2.3).

Technological developments are having a profound impact on the financial market and the market structure. For example, we are seeing more and more new earnings models and new players. Meantime, the long-established players are expected to change with the times. The changes in the market structure are driven by both supply (fintechs) and demand (consumers and investors). Technology will also accelerate the internationalisation of retail markets. Internationalisation could speed up in the coming years, especially in areas where there is relatively little national legislation and regulation and hardly any direct customer contact. The AFM decided to strengthen its knowledge in this area in 2015 and plans to set up the Innovation & Fintech programme for this purpose on 1 January 2016.

INCREASING THE EFFECTIVENESS, EFFICIENCY AND AGILITY OF THE INTERNAL ORGANISATION

In order to respond adequately to external changes the AFM must further develop its own organisation. In 2015 the AFM management was strengthened

by the appointment of a new Supervisory Board and two new directors. The supervision system which was restructured and implemented in 2014 has been evaluated. These steps and the further development of the organisational setup of the AFM are summarised in the Multi-Year Agenda.

Strengthening the management

After the departure of several Supervisory Board members at the end of 2014, the Minister of Finance appointed Paul Rosenmöller, Rob Becker, Bart Koolstra and Annemarie van Gaal on 15 July to fill the vacancies. Annemarie van Gaal resigned as of 1 January 2016.

In April 2015 Theodor Kockelkoren resigned as a board member and was succeeded by Femke de Vries on 1 October 2015. At the same time, Frans van den Hurk was appointed Chief Operations Officer (COO) with responsibility for all the AFM business operations. Rotation and renewal were implemented at managerial level to strengthen the management and in response to the evaluation.

Evaluation of the reorganisation

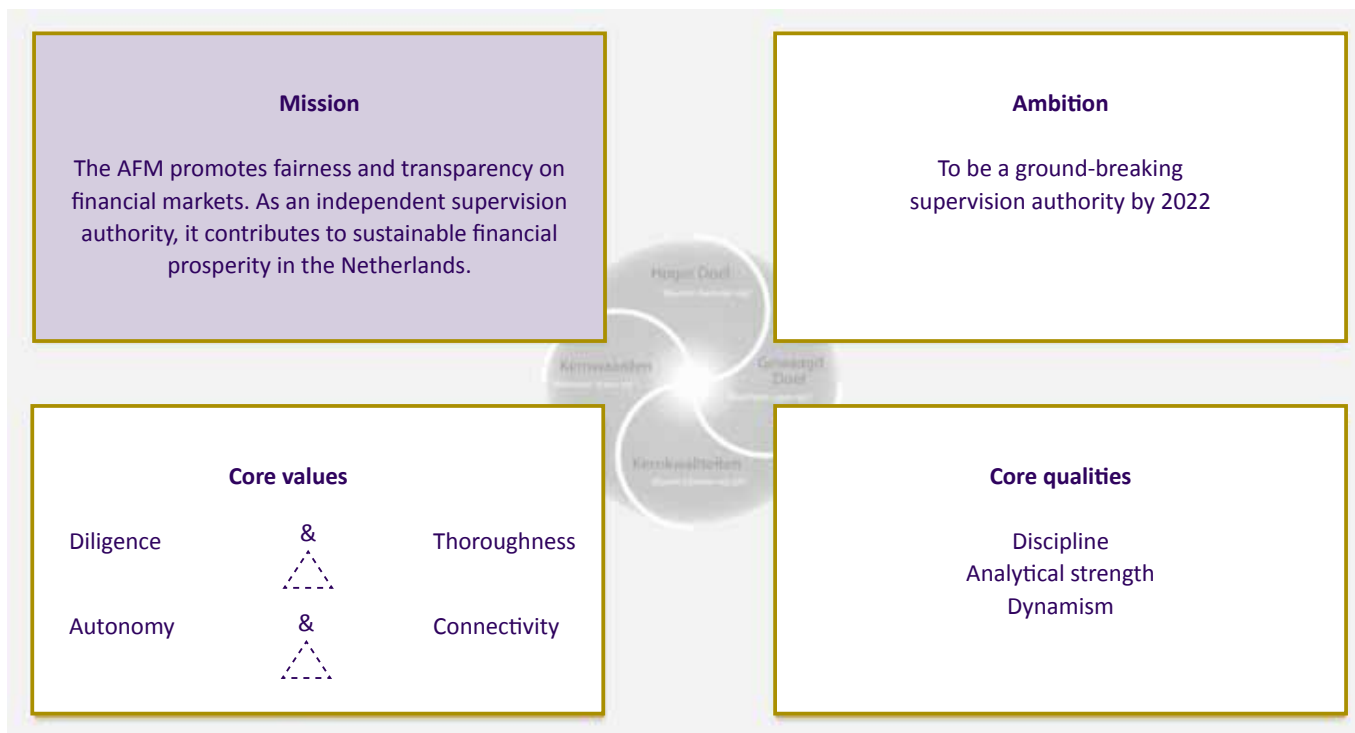
On 1 January 2014 the AFM carried out a reorganisation, which was evaluated in 2015 and led to further changes. Starting from April 2016, AFM supervision will be split into six domains with renewed themes and objectives and a time horizon of three to five years. The Expertise Centre and the Innovation & Fintech programme, due to start in 2016, will give further content to the supervision.

Multi-Year Agenda

The Multi-Year Agenda was launched in 2015 to define the AFM in the medium term. The AFM has developed a four-part vision for the Multi-Year Agenda, with a renewed mission, revised core values and qualities, and an ambitious aim for 2022.

The aim of the AFM is to be a recognised ground-breaking supervision authority by 2022; an

organisation that sets the tone. The AFM wants to push the boundaries to make a lasting impact on its environment and tackle relevant issues. The AFM must therefore anticipate and respond promptly to the changing world, but shape and influence this world at the same time. This combination will ensure that the AFM, as a supervision authority, will stay a step ahead and operate effectively. It also means that the AFM will understand and apply the latest technology for its supervision tasks and make optimal use of the available data. The AFM will ensure that its interventions remain effective by making use of insights into behaviour and corporate culture. The AFM will push the boundaries by constantly reviewing and evaluating its own effectiveness and by keeping pace with developments in the sector and in supervision in both the Netherlands and abroad.



The ambition ‘To be a recognised ground-breaking supervision authority by 2022’ is fleshed out in a strategic roadmap which sets out the AFM plans in the coming years to achieve this ambition. Further information on the Multi-Year Agenda can be found in [Chapter 3](#) (in Dutch only).