

ANNUAL REPORT 2016

Intense supervision in a changed playing field

In case of differences in interpretation between the English and Dutch versions of the Annual Report, the original Dutch version shall prevail.



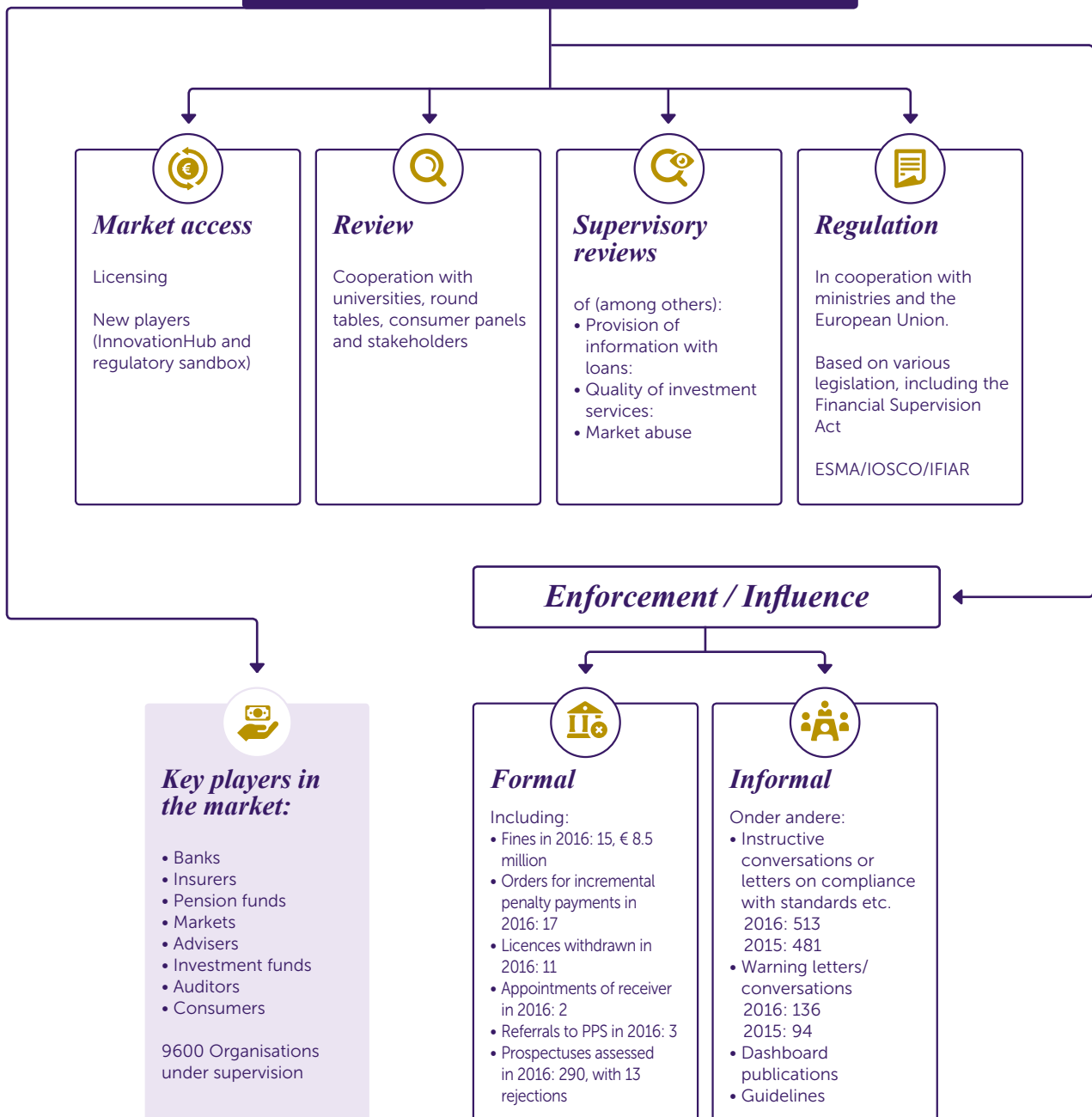


AFM in brief

- + Since 2002
- + 600 FTE
- + Total budget € 92.2 million

*Contributing to sustainable prosperity
in the Netherlands*

*Independent conduct supervisor
“Fair and transparent markets”*





Contents

Introduction →

- 04 About this report →
- 06 In brief: the financial sector →
- 08 The AFM in 2016 →
- 11 Foreword →
- 13 Management summary →



03

Organisation and management →

01

Intense supervision →

02

Report of activities →

- 31 **Priority 1:**
Reducing undesirable risks for society →
- 98 **Priority 2:**
Strengthening supervision through investment in technology and methodology →
- 103 **Priority 3:**
Increasing the effectiveness, efficiency and adaptability of the internal organisation →

04

Other information →

- 140 Enclosure →



About this report

This annual report gives account of the performance of our statutory duties, the cohesion of our strategy and governance and our financial results for 2016. The annual report follows the various financial markets subject to our supervision (Lending, Savings and Retail Investing, Insurance and Pensions, Market Integrity and Enforcement, Capital Markets, Asset Management and Audit Firms and Reporting). The report explains our activities, the effects achieved and the challenges that we face. Our stakeholders also express their views.

Preparation of the annual report

The Executive Board of the AFM is responsible for the preparation and adoption of the annual report, including the financial statements.

The Audit Committee of the Supervisory Board advises the Supervisory Board as to whether to approve the financial statements or not.

The Supervisory Board supervises the policy of the Executive Board and the general state of affairs, and advises the Executive Board. The annual report and the financial statements of the AFM are submitted to the Supervisory Board for approval. Following the approval by the Supervisory Board, the Executive Board submits the annual report to the Minister of Finance and the Minister of Social Affairs and Employment for approval.

Reporting frameworks

Our annual report meets the statutory requirements and standards for reporting. As stated in the Non-Departmental

Public Bodies Framework Act (Kaderwet zelfstandige bestuursorganen), the AFM's financial statements are as far as possible presented in accordance with Title 9 Book 2 of the Dutch Civil Code (Burgerlijk Wetboek). Instances where the provisions of Title 9 Book 2 of the Dutch Civil Code are not followed are explicitly disclosed. Where possible and relevant, this annual report is prepared in accordance with the Corporate Governance Code, and as far as possible in accordance with RJ400. We have taken the IIRC framework as our starting point. We aim to report fully in accordance with the IIRC framework within two years.

The AFM's financial statements must in addition meet the requirements of the Financial Supervision (Funding) Act (Wet bekostiging financieel toezicht, or 'Wbft') and the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector, or 'WNT').

Responsibility of the auditor

Our external auditor, the ADR (Audit Dienst Rijk, the Government Audit Service), has audited the 2016 financial statements. The ADR issued an unqualified audit opinion with respect to the financial statements on 13 March 2017. It also assessed whether the annual report contains any inconsistencies or shortcomings in relation to the financial statements. The goal here is to establish the plausibility of information. ADR does not provide any certainty with respect to the annual report or forward-looking information.





Dialogue with stakeholders

In the exercise of its supervision, the AFM is in dialogue with its environment: industry associations, financial institutions, consumers, other partners and supervisors. We follow social trends and current developments, focusing on the consequences for the longer term. We consult with special interest groups via the Advisory Panel and survey the opinions of consumers in the AFM Consumer&Panel. The dialogue with employees occurs via the Works Council, staff meetings, leadership days for management and on intranet. We also hold regular meetings with banks, insurers, intermediaries and auditors. We are in frequent contact with other supervisors in the Netherlands and Europe. The Executive Board consults with the Ministry of Finance and the Ministry of Social Affairs and Employment several times a year. To exert influence on the international supervisory playing field, we participate actively in European forums and we are

represented in umbrella organisations. The AFM initiated a stakeholder survey in 2016. We are reflecting the findings of this survey in our strategy and activities in order to strengthen our supervision.

Targets for annual reporting

Integrated reporting continues to develop. Our aim is to continue to develop our annual report in the years to come. This will involve more information on matters such as the relationship between the report and the financial statements, risk management, the relationship with and interests of our stakeholders and a materiality matrix. The Dutch version of the report of the Executive Board is also available for download from our website (www.afm.nl). In case of differences between the English and the Dutch version, the Dutch version shall prevail.

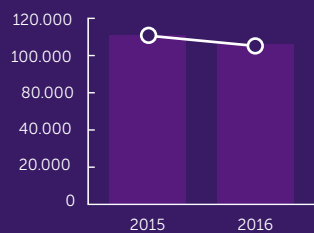




The financial sector in brief

Decline

The number of people in arrears on their mortgage has fallen by 5,400



€ 662 billion

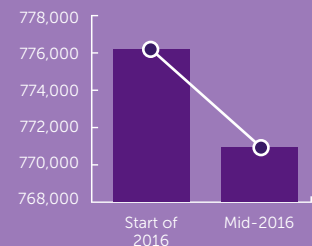
Total amount of mortgages outstanding, was 10 billion less in 2015.

€ 32 billion

Total amount of consumer credit outstanding, year-end 2015

Decline

The number of people in arrears on their consumer loans has fallen by 6310



290

Pension funds



subject to supervision

44

Pension funds



with coverage ratios higher than 110%

170

Pension funds



funds that did not allocate indexation in 2016

1.700

billion euro



Volume of pension savingst

3.1

million



Number of pensioners in 2014

0 **2.8** 5

Consumer confidence in the sector*

0 **3.2** 5

Consumer confidence in their own banks*

0 **31** 34

31 banks are complying with the Banking Code II*

* source: Monitoring Commissie Code Banken 2016





Investment firms



126
licensed managers



969
investment funds
managed by these
managers

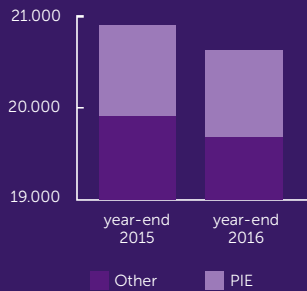


Crowd-funding

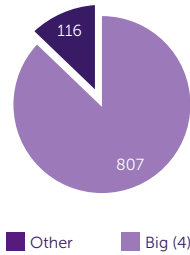
€ 147
million total capital
through intermediaries
in 2016

47%
47% increase on
the € 100 million
in 2015

Number of audits



PIE audits 2016



62,016.426

Euronext Cash market exchange transactions

10,486,137

Euronext derivatives exchange transactions

3,349,153

TOM MTF exchange transactions



247
investment firms



9.600
organisations
subject to
supervision

Supervision on:

7
7 IPOs in 2016



Bandwidth of savings
interest in 2016:

0,2%

-
0,7%

¹Public Interest Entities





The AFM in 2016

Key activities

Priority 1:

Reducing undesirable risks in the financial markets through regular and thematic supervision

Conversion of interest-only loans

As a result of our supervision, tens of thousands of customers with interest-only loans had their loans converted into a loan with repayments in 2016, enabling them to gradually pay down their loans.

0% car finance consigned to history

Misleading advertisements for cars tempting consumers to purchase a car at supposedly 0% interest have been consigned to history.



Compensation framework for interest-rate derivatives

On the advice of the AFM, the independent Derivatives Committee presented a compensation framework so that banks would offer appropriate compensation to the approximately 19,000 SME clients with interest-rate derivatives contracts. This sends a clear signal to the banks that they must take care with respect to the products they sell to particular target groups.



Ban on advertising of harmful investment products

Harmful investment products such as binary options and certain CfDs (contracts for differences) involve a disproportionate level of risk of losses and even residual debt for the average investor. We have taken the lead nationally and internationally by introducing a ban on the advertising of such products.



Fines imposed on the largest audit firms

Investors, pension scheme members and other consumers must be able to rely on the opinion issued by an auditor. We focus closely on this issue. The four largest audit firms have had fines imposed on them due to shortcomings in their auditing of financial statements. The fines should lead to an improvement in the quality of statutory audits.



Position Paper on the pensions system

The AFM aims to get scheme members to take more interest in their pension and simplify the system. We published our position paper that sets out our idea for a new system in June. A future-proof system that is fair and transparent, and which promotes sustainable prosperity.



Priority 1:

Reducing undesirable risks in the financial markets through regular and thematic supervision

MIFID II

The preparations for the implementation of MiFiD II in January 2018 are in full swing. MiFiD II gives the AFM and ESMA more possibilities for improving investor protection. More attention to product governance, clear rules in relation to product intervention and transaction reporting. These rules will help us to promote the integrity of the market more effectively and conduct our reviews more efficiently.

More transparent investment products

New European regulation is coming that will make the financial markets more efficient and transparent and increase investor protection. In addition to legislation for the markets in financial instruments (MiFiD II), there will also be a regulation for Packaged Retail Investment and Insurance-based Investment Products (PRIIPS). PRIIPS will increase the transparency of investment products through the introduction of a mandatory information document, a financial leaflet, on the nature of the product. In 2016 the AFM devoted attention to ensuring that the market complies with these rules when they take effect in 2018. Investors will thus obtain better insight into the risks, costs and target return of a product and make it easier to compare products with each other.



The fight against illegal providers of consumer credit

In the past two years, we have had 180,000 advertisements from illegal providers of consumer credit removed from online platforms.



InnovationHub

The InnovationHub was formed in cooperation with DNB with which we are supporting 114 parties with questions on regulation of issues including crowd-funding, automated advice and blockchain technology.



Insight into crowd-funding

The number of crowd-funding platforms has increased by 167% in two years. Our supervision is increasing along with the growth in this new sector. New investment limits and an investor test have been introduced.

Formation of the regulatory sandbox

The AFM set up the regulatory sandbox in cooperation with DNB to offer market parties the possibility of experimentation with new technology. Many innovations are not covered by the current regulatory framework. This enables market parties subject to supervision to test their innovative concepts.

A solution for interest-only mortgages

To prevent homeowners from getting into financial problems when repaying their mortgages, this year we strongly urged the mortgage providers to look for solutions for consumers with mortgages that are (fully or partly) interest-only.



Priority 2:

Strengthening and renewing supervision through focused investment in technology and methodologies

Better insight into consumer and investor behaviour:

- Approach to subconscious influence in relation to consumer credit
- Review of the effect of credit warning on consumer behaviour
- Experiment in encouraging people to pay down interest-only loans
- Effect of visual material in investment brochures tested
- Review of freedom of choice and responsible continuation of investment after retirement

Better insight into conduct of financial enterprises and audit firms:

- The financial institutions reviewed receive recommendations as to how to improve their organisation and reduce limitations. The AFM gives presentations to relevant stakeholders in order to disseminate these lessons more widely. We also make our review methodologies available.
- Cooperation with the Utrecht University in relation to insight into behaviour



Data-driven supervision given form and substance:

- Improvement to the organisation's skills in relation to data management and analysis
- Quantitative market view of alternative collective investment institutions
- New system to detect market manipulation

Priority 3:

Increasing the effectiveness, efficiency and adaptability of the AFM's organisation



Stronger governance model

- Further definition and design of the governance model of the AFM
- Clear Agenda and priorities
- Leadership programme: further development of result-oriented leadership and personal leadership for senior and middle management
- AFM Working Practices initiated: including quick response management and continuous process improvement

Further professionalisation of the business operation

- Further professionalisation of the IT organisation
- Infrastructures created for the transition to a data-driven supervisor
- Optimisation of working processes
- Investment in knowledge and skills of employees

Transparent reporting

- Clear communication on internal improvements
- More continuity and focus in our contacts with stakeholders
- Positive assessment by the IMF Financial Sector Assessment Program (FSAP)



Foreword

The Dutch economy is improving. In 2015, we already saw the first signs of economic recovery and this positive trend continued last year. The economy grew, an increasing number of foreign companies are choosing to locate in the Netherlands, there are more jobs and unemployment is falling. In addition, the housing market has overcome the crisis and there is a budget surplus for the first time in a long time.

Blurring of borders

The financial sector is increasingly transcending national borders. Money flows, services, companies and data are moving freely across national borders and across the borders of the traditional sectors we are familiar with. This cross-border activity is extremely important for economic growth and innovation. As a society, we benefit from this. But this is a trend that places high demands on legislators and supervisors that have to regulate the conduct of companies and the use of data, both in the financial sector and elsewhere. Moreover, we cannot allow the Netherlands and other countries to withdraw from the playing field of European and global cooperation. International cooperation between regulators and supervisors is essential in a world in which borders are blurred. The traditional landscape that we are accustomed to supervising is changing, and this places high demands on European cooperation, at a time when support for Europe appears to be crumbling.

Data are the basis increasingly often

In addition, we not only have to look beyond national borders, we also have to look beyond the borders of our traditional area of operation: the financial sector. It's

not just physical borders that are becoming less clear; the borders between sectors are becoming blurred as well. Data files are increasingly often becoming the basis for the lending by or the acceptance policy of insurers. These data will increasingly often originate from other sources or be offered by other companies. But who checks whether these data are correct? And how can we ensure that groups are not excluded on the basis of these data? The use of data may increase access to financial products and advice, but it may also lead to a situation in which certain groups in society no longer have access to these products and/or services. This may be because products become too expensive or are no longer accessible to certain people on the basis of information regarding their health, lifestyle or level of education.

It is a collective responsibility for legislators and supervisors to ensure that financial products continue to be accessible to all layers in society at a fair and transparent price. Now that the borders between sectors are becoming blurred and it is not always clear how services that are offered should be qualified in legal terms, we must prevent a gap from appearing between the traditional duties of existing supervisors. Such a no man's land between supervisors would mean that vulnerable groups in society become even more vulnerable and also poses the risk that the differences in society will increase.

Intense supervision

It can be seen from these developments that the AFM exercises its supervision in a constantly changing environment. Many of the developments in this environment require our attention. As a supervisor





however, we have limited capacity at our disposal. We therefore have to look critically at which risks we will concentrate on. In the context of its Agenda 2016-2018, the AFM has identified ten risks that will be given priority in the application of its supervisory capacity in this period. This Agenda describes how we intend to further strengthen and renew our supervision in the coming years and how we will make our organisation more effective, more efficient and more adaptable. This annual report explains the actions we have taken during 2016 to reduce undesirable risks in the financial sector and how we have improved our supervision and our internal organisation.

“The changing environment places high demands on the AFM as a supervisory authority.”

Supervision is also changing

The changing environment places high demands on the AFM as a supervisory authority, with respect to both understanding developments in the outside world and using technological possibilities to continuously improve our supervision. The AFM has set itself the objective of becoming a demonstrably ground-breaking supervisory authority by 2022. We made important progress towards realising this ambition last year, for instance by the formation of an InnovationHub where businesses can test innovative concepts against legislation and regulation. Supervision is thus not an obstacle to innovation, but we do critically monitor the boundaries to prevent innovation being at the expense of consumers.

We made further significant progress in 2016 that was necessary to increase the use of data in our own supervision. As a conduct supervisor, it is also essential that we understand how consumers behave when choosing financial products. We have increased our knowledge of consumer behaviour in order to ensure that our supervision actually leads to reduced risks for consumers. We will continue this commitment in the coming years. As in former years, we saw that the public had high expectations of the government and the supervisors in 2016. For the AFM, this means that we will keep to striving to continue our dialogue and cooperation with the many and various parties in society. We do this in order to keep up with developments, to improve our understanding of the risks in the financial sector and to enable us to intervene when we need to do so. However, this dialogue must also prevent unrealistic expectations with respect to supervision. Supervision can never prevent or control all the risks in society.

Sustainable prosperity

The environment in which the AFM exercises its supervision will continue to change radically in the coming years. In this changing environment, we strongly promote fairness and transparency in the financial markets. This requires us to continue to develop in our supervisory role, to use new insights and technology and to continually become more efficient and adaptable. In this way we will contribute to sustainable prosperity in the Netherlands in the years to come.

On behalf of the Executive Board,

Merel van Vroonhoven
Chair of the Executive Board of the AFM





Management summary

This annual report describes how the AFM conducted its supervision in 2016 and how we addressed the risks and opportunities in the financial markets. In order to address the risks effectively (and encourage the opportunities), the AFM focused on three priorities:

1. Reducing undesirable risks in the financial markets through regular and thematic supervision;
2. Strengthening and renewing supervision through focused investment in technology and methodologies;
3. Increasing the effectiveness, efficiency and adaptability of the AFM's organisation.

Key results priority 1

Reducing undesirable risks in the financial markets through regular and thematic supervision

Efficient Capital Markets

The focus here was on increasing the degree of responsibility taken by parties for the trading chain. Larger amounts of data resulting from European regulation have enabled better monitoring of the market. This contributes to fairer operation of the market. We also focused on the quality of the trading infrastructure, so that interruptions to trading are avoided.

The information inequality in the capital markets has been reduced as a result of the active application of the AFM's real-time supervision with respect to the publication of inside information. Much has been invested

in preparing the market for new European regulation in the field of market abuse (MAR) and the capital markets (MiFID II).

The highlights:

- + Publication of a report on the effects of High Frequency Trading (HFT) on the operation of the market.
- + In the prospectus supervision, there was a large increase in the number of prospectuses submitted for approval (+17%). In 32 cases we formally stated that the prospectus was below standards in important respects and ultimately 13 applications were definitively rejected.
- + New investment limits and an investor test have been introduced with respect to crowd-funding platforms.

Lending, Savings and Retail Investors

There were three main themes: appropriate service provision to non-professional investors, solutions for homeowners with problematic mortgages, and good service provision to SME clients with respect to finance. In all these areas, financial enterprises were successfully encouraged to come up with better solutions for their customers. The AFM also made efforts to get the banks to compensate for mistakes they made in their advice to customers in relation to interest-rate derivatives products.

The highlights:

- + The Compensation Framework for interest-rate derivatives: on the advice of the AFM, the independent





Derivatives Committee presented a compensation framework so that banks would offer appropriate compensation to the 19,000 SME clients who were wrongly disadvantaged with respect to interest-rate derivatives contracts.

- + Review and guidance with respect to quality and innovation of the provision of investment services and in relation to collection procedures. Consumers facing a collection procedure were informed with a public campaign and thus enabled to make better choices (in cooperation with ACM).
- + The initiation of a ban on the advertising of high-risk products such as binary options and CfDs, in anticipation of European regulation with respect to product development.
- + Consignment of 0% car finance to history: misleading advertising for cars in which consumers were told they could purchase a car with 0% finance while the actual costs were hidden in the product is now history.
- + In the past two years, we have had 180,000 advertisements from illegal providers of consumer credit removed from online platforms.

Insurance and Pensions

Much progress has been made on improving the information provided to scheme members on pensions, including on the risk of curtailment, the possibilities for pension commutation, and the impression given in the Uniform Pension Overviews (UPOs). We have provided clarity to pension providers regarding the statutory requirements in relation to the provision of information and duty of care in the new Premium Schemes (Improvements) Act (Wet verbeterde premieregeling). Insurers have developed an approach whereby scheme members make an informed choice regarding the continuation of non-accruing defined contribution schemes. In accordance with

the statutory target figures, the insurers are also actively approaching customers with an investment-linked insurance with a view to improving their situation. They have been urged to more closely monitor the quality of the advice provided by intermediaries to restore the situation. There is supervision of the intermediaries to ensure that they comply with the new professional competence requirements on 1 January 2017.

The highlights:

- + Our position paper made an active contribution to the discussion of the new pension system.
- + Publication of a guideline on Qualification of Innovative Service Provision.
- + A new measurement in the context of the Customer Interests Dashboard shows that we have been successful in our efforts to urge the banks and insurers to improve their information provision and product offerings in most respects.

Quality of Auditing and Reporting

Investors, pension scheme members and other consumers must be able to rely on the opinion issued by an auditor. The AFM is working with a multi-year programme to improve quality in this area. As part of this, reviews have been carried out of selected statutory audits performed by the Big 4 audit firms. The provisional conclusions have been shared with the audit firms and have led to the initiation of restorative measures.

The highlights:

- + The four largest audit firms have had fines imposed on them due to shortcomings in their auditing of financial statements.
- + Inadequately performing audit firms that do not perform audits for PIEs (public interest entities) have been placed under more intensive supervision.
- + Changes to the annual reporting of listed companies due to interventions by AFM.





- + In 2016, formal letters ('notifications') were sent to 5 companies instructing them to change one or more aspects in their financial reporting for 2014 or 2015; 2 of these 5 companies were instructed by the AFM to issue a press release (a 'recommendation') to inform investors.
- + As chair of the Monitoring Group in IOSCO, the AFM has contributed to changes to the manner in which the worldwide audit standards are formulated.

Market Integrity & Enforcement

There has been specific action against unfair earnings models and irresponsible lending. Strong enforcement action has been taken against ill-intentioned lenders and illegal boiler rooms. Most of the providers of pay-day loans have ceased this activity, partly due to the imposition of six orders for incremental penalty payments.

The highlights:

- + 22 boiler rooms were placed on the public warning list. 783 consumers were warned in writing that they were on the call lists of boiler rooms.
- + Two fines were imposed for failure to comply with the obligation to issue a prospectus, and one fine was imposed for failure to provide essential information on a product to consumers. One case of investment fraud was referred to the Public Prosecution Service.
- + The AFM urged the lending sector to reduce the number of consumers 'locked up' in a consumer loan in 2016. The loans to many thousands of consumers have been changed.
- + In dealing with parties operating without having obtained the mandatory licence, four qualifications of Wft violations were referred to the PPS and/or the police in support of ongoing criminal investigations.

Asset Management

To encourage asset management parties to exercise their duty of care with respect to the interests of investors, the AFM assesses whether they are sufficiently professional to fulfil their role expertly and with integrity. This is achieved among other things by licensing, fund notifications and testing of (co-)policymakers and supervisory officers. A survey of the market for asset management in the Netherlands was carried out in 2016. An internal risk card was formulated for this, using data made available under European regulation. The insights gained led to the design of a thematic review, which initially targeted parties legally holding an AIFM licence. There was also investment in preparing the market for the implications of MiFID II.

The highlights:

- + 11 licences were granted to new investment firms and one licence to a provider of investment properties. An extension of the licence was granted to four existing licensees. 12 applications from crowd-funding platforms were approved.
- + Two licence applications were rejected in 2016 because the applicants did not meet the requirements. In two cases, the AFM withdrew the licence or imposed limitations because the parties in question were no longer able to adequately perform their roles.
- + More than 190 persons were tested for properness and suitability; the majority of these were approved.

Innovation & Fintech

The mission of this programme initiated in 2016 is to accommodate technological innovation in the financial sector, as long as this innovation contributes to sustainable financial prosperity. For example, by removing unnecessary obstacles; in cases where there is an unnecessary barrier due





to legislation and regulation, the aim is to introduce appropriate amendments. The programme will also ensure that the risks for third parties relating to these innovations are identified and addressed. Substantive and important issues in relation to supervision included digital advice (in relation to the duty of care), the use of privacy-sensitive data and cybercrime. Work was done on preparing the AFM organisation for the implications of technological developments for supervision; the AFM is one of the leaders in this field internationally.

The highlights:

- + The InnovationHub was formed in cooperation with DNB whereby we are supporting 114 parties with questions on regulation of issues including crowd-funding, automated advice and blockchain technology. This enables market parties subject to supervision to test their innovative concepts.
- + The regulatory sandbox has been created to offer market parties subject to supervision the possibility of testing their innovative concepts.
- + To acquire and share knowledge, the AFM participated in European and global forums, including the European Supervisory Agencies (ESAs), the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

Key results priority 2

Strengthening and renewing supervision through focused investment in technology and methodologies

The availability, analysis and application of data enable us to operate with increasing effectiveness. New insights into the behaviour of consumers, investors and cultural changes also strengthen supervision. The AFM set up its Expertise Centre in 2016 in order to invest in further knowledge accumulation and sharing in this area. The Expertise Centre promotes technological and methodological innovation within the organisation.

The highlights:

- + Design of the 'Spot-on' programme, with the aim of increasing the organisation's skills in relation to data management and analysis.
- + Publication of the AFM & Consumer Behaviour review describing how the AFM is incorporating insights from behavioural science in its supervision.
- + Dealing with subconscious influence in relation to consumer credit: review of how consumer credit products are offered in the market and how this 'decision environment' subconsciously influences consumers.
- + Review of the effectiveness of the warning message attached to loans 'Beware! Borrowing costs money'. This review showed that this warning has no direct effect on online borrowing.
- + Review of the embedding of customer interests in culture and conduct at five insurers.





Key results priority 3

Increasing the effectiveness, efficiency and adaptability of the AFM's organisation.

There were three central areas of development: strengthening the management, making our business operation more professional, and reporting. In the field of management, the organisation structure has been simplified, performance management has been introduced and a leadership programme has been initiated. The organisational changes involved a rotation of the management. Making the organisation more professional entailed, among other things, increasing information security, improving processes, and pilot projects for the introduction of an AFM methodology focusing on quick response management. This will be rolled out across the organisation in 2017. Quality monitoring and risk management have also been strengthened. The improvements to reporting took the form of both internal and external audits (including the Financial Sector Assessment Program of the IMF and the report of the Ottow Committee). As a result of the report by Alvarez & Marsal, an internal improvement process has been initiated in accordance with the new measures mentioned above. In addition, the risk profile of projects is now monitored quarterly, and high-risk projects are discussed by the Executive Board on a monthly basis. Encouraging substantive debate is another priority. Specialists have been engaged in various areas to strengthen knowledge, including data analysis and risk management.

Supervisory measures

The total number of formal measures was 100 (2015: 52). The AFM imposed 15 fines in 2016 (2015: 17). The number of fines imposed in 2016 is in line with the average number of fines since 2012. In 2016 the AFM imposed fines mainly for more serious

violations occurring at larger companies.

The most notable of these were the fines imposed on the four large audit firms. The total amount of the fines imposed was € 8.5 million (€ 9.6 million in 2015).

There were 650 informal supervisory measures taken in 2016 (2015: 575).

Informal measures involve instructive or letters or conversations on compliance with standards and warning letters or conversations. In 2016, there was a small shift from warning letters and conversations to instructive letters and conversations on compliance with standards. There was a further increase of 75 in the total number of informal measures compared to the previous year (2015: +104). The increase in the number of instructive letters and conversations on compliance with standards was due to a higher number of measures against advisers and intermediaries.

Financial

The operating surplus in 2016 came to € 2.3 million, due to lower expenses (€ -2.1 million) and higher income (€ 0.2 million) than estimated. Lower expenses were due to lower employee expenses (€ -0.1 million), lower costs of amortisation and depreciation (€ -0.8 million) and lower other operating expenses (€ -1.2 million). Total income was higher than budgeted, due to the net effect of lower income from levies (€ -3.6 million) and higher income from fines and penalties (€ +3.8 million). The lower income from levies was mainly due to the settlement of a surplus of € 4.4 million with the market. The AFM is making use of a one-off possibility of moving part of the underspending in 2016 to 2017. These funds (€ 1.0 million) will be used for investment in developing the supervision and organisation and are included in the Agenda 2017.





“The AFM is an open and accessible supervisor”

Gilbert van Hassel, CEO Robeco

‘In today’s climate of low interest rates and concerns about pension, it is important that households take good account of personal asset accumulation. They must have a varied range of transparent products to choose from. I believe the AFM made important progress in this area in 2016, also by product governance in the context of MiFID II. It has also played a leading part in clarifying the new European Market Abuse Regulation.

My experience of the AFM is that it is an accessible and open supervisor, independent but not aloof. This is shown by the regular surveys of stakeholders regarding its own operation. It also looks to connect with industry organisations and individual firms to work together. The InnovationHub is an excellent example. For Robeco, it is refreshing and stimulating that our contacts are not solely about supervision, but also about new and innovative service concepts.

With effect from 2018 (MiFID II), asset managers across Europe will have to deal with restrictions on receiving commission. This will be a game changer in many countries and for many supervisors. In the Netherlands, we have had experience of a ban on commission for investment services to retail investors since 2014. I see good opportunities for the AFM to share these experiences internationally.’





01 Intense supervision



The world is changing rapidly. The AFM made significant progress in 2016 in the field of technology and data-driven supervision and cooperation with other supervisors, at all times in the context of our mission. The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

→ **20**
Ambition and mission

→ **28**
Stakeholder review



Strategy and vision

Mission



The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct supervisor, we contribute to a sustainable prosperity in the Netherlands.

Ambition



In 2022 we will be a demonstrably ground-breaking supervisory authority

Core qualities



Discipline

Core qualities



Analytical Strength

Core qualities



Progressiveness

Core values



Diligent and Thorough

Core values



Autonomous and Connected





Ambition and mission

The AFM has set itself the objective of becoming a demonstrably ground-breaking supervisory authority by 2022. We are therefore continuously strengthening and renewing our supervision, as described in our Agenda 2016-2018.

The AFM's mission is the guiding principle for all our activities. We fulfil this mission by identifying the risks in our area of operation and dealing with these risks where possible. This process begins with understanding the playing field and the changes therein. This concerns social developments as well as trends in the financial markets. We then determine the main priorities and risks that we will focus on.

The changing playing field

Our Agenda 2016-2018 outlines the major trends and risks in the financial markets and in society at large. These trends and risks are evaluated annually in the agenda and updated when necessary. A selection is then made of the most important risks for the AFM: our major risks.

The AFM identifies the following social trends that affect its supervision:

- + The role of technology and data is increasing: this change also affects the financial markets through developments such as the use of algorithms and new regulation that means that supervisors have increasing amounts of data available.
- 1. Supervision is becoming more international: Many businesses operate internationally and developments in the financial markets are not restricted by national borders. Relevant regulation originates mainly from Brussels. Cooperation between supervisors will only increase in importance.

- 2. High expectations of supervision: Society has high expectations of supervisory authorities, and even expects that abuses will be prevented. In many cases, people expect a supervisor to take full responsibility for ensuring a risk-free society.
- 3. Support for supervision is no longer a given: The financial crisis created social and political support for supervision of the financial markets. As memory of the crisis recedes and the economy improves, this support is waning.

In addition, the AFM has identified the following major trends in the financial markets:

- 1. The low interest-rate environment is having a major impact on the financial markets and has an accelerating or strengthening effect on other trends. Low interest rates are forcing investors to look for other means of realising higher returns, known as the 'search for yield'.
- 2. A shift from a collective system to individual risk-bearing, meaning that personal financial planning is becoming more important. This already applies to self-employed persons without personnel, who are themselves responsible for saving for their pension, but it increasingly applies to consumers as well.
- 3. Traditional parties are finding change to be a difficult process. Traditional financial enterprises have made progress on making the customer's interests a priority in their organisations, but are having difficulty in permanently embedding the necessary changes to conduct and culture.
- 4. Technological developments are leading to the arrival of new players and are putting the earnings models of traditional players under pressure. New parties are coming into existence, mainly because





marketing and distribution channels are becoming less dependent on physical contact, time or location. Certain elements of services to customers can increasingly be taken over by specialist parties.

5. The shift away from finance provided by banks to market finance is transferring risks to the capital markets. As a result, capital is increasingly raised in public markets with tradable instruments, with bonds playing the most prominent role. This trend can also be observed on a smaller scale, for instance in crowd-funding and credit unions.

“Our plan for 2016-2018 establishes the key risks we see for society in the coming years.”

Priorities

The AFM has set three priorities for the coming years based on these developments:

- + Reducing undesirable risks in the financial markets
- + Strengthening supervision
- + Increasing the effectiveness, efficiency and adaptability of the AFM

Priority 1: Reducing undesirable risks in the financial markets

Our plan for 2016-2018 establishes the key risks we see for society in the coming years. Based on current developments in society and the financial markets, we are continually refining these key risks and continue to use our supervisory capacity for this purpose. We formulate an approach for each risk, which we then translate into specific tasks for each division. The AFM also carries out its regular supervisory duties, such as licensing, tests and approval of prospectuses.





1. Intense supervision

Table 1 Top 10 risks

| Top 10-risks | Supervisory area 1 | Supervisory area 2 | Theme 1 | Theme 2 | Theme 3 |
|---|---------------------------------------|--------------------------------|--|---------------------------------------|--------------------------------------|
| 1. Tendency to excessive borrowing | Lending, Savings and Retail Investors | Market Integrity & Enforcement | Irresponsible lending | | |
| 2. Lack of proper consideration of risk and return | Lending, Savings and Retail Investors | Market Integrity & Enforcement | Unfair earnings models | Service provision to small investors | SME customers |
| 3. Inadequate planning for retirement | Insurance and Pensions | | Pension products | | |
| 4. Old problem products at insurers and incentives for new problem products | Insurance and Pensions | Market Integrity & Enforcement | Unfair earnings models | Homeowners with problematic mortgages | Pension products |
| 5. Inadequate improvement in quality of statutory audits due to auditors' working practices | Quality of Auditing & Reporting | | Improving the quality of statutory audits | | |
| 6. Growth of asset management leads to new conduct and systemic risks | Asset Management | | Asset management parties putting their houses in order | Unfair earnings models | Service provision to small investors |
| 7. Vulnerability of (customer) data | Innovation & Fintech | | | | |
| 8. Increased risk of cybercrime in data-driven society | Innovation & Fintech | | | | |
| 9. Growth of asset management leads to new conduct and systemic risks | Innovation & Fintech | Insurance and Pensions | Innovation | | |
| 10. Price formation in the capital markets* | Efficient capital markets | | Chain responsibility | | |

* Risks are dynamically assessed. This was included as a risk in the Agenda 2016. "Deterioration of service provision due to fragmentation of banks' earnings models" as exploratory review, replaced by "Price formation in the capital markets" in 2016.





Priority 2: Strengthening supervision

The new Expertise Centre is the driver of methodological renewal at the AFM. This is where we gather insights into the behaviour of people in the sector and of consumers. We use these insights to make our supervision more effective and efficient. To be able to keep up with social and technological changes in the financial markets, we invest in new systems that enable us to analyse large quantities of market data. We are thus building an organisation driven by technology and data.

Priority 3: Increasing effectiveness, efficiency and adaptability

We strengthen our management with the introduction of quick response management with the help of CPIs, and the further development of leadership in the organisation. We are making our business operation professional in the areas of IT, processes and HR. We give account to the outside world on the effectiveness of our supervision and the choices that we make. accountability. After all, continuous feedback from the outside world keeps us sharp and drives improvement. In addition to internal audits by the IAD, external reviews also drive improvement. The AFM regularly participates in peer reviews by ESMA and is reviewed by the IMF in the Financial Sector Assessment Programme every five years (including in 2016). There are regular external reviews of aspects of the AFM's supervision, such as the Ottow Committee, which put forward proposals for improving the procedure for testing directors. We also learn much from our own consumer panel, our contacts with the Advisory Panel and the periodic stakeholder review.

How does the AFM conduct its supervision effectively?

The supervision conducted by the AFM is risk-driven. This means that in general we base our supervisory efforts on our own analysis of market developments and risks, as well as on complaints or notifications of incidents and signals that we receive. This input may lead to more intense supervision or a thematic review, depending on the scale and content of the signals received. Our supervision consists of a combination of regular and thematic supervision. Regular supervision concerns our work in connection with activities that the AFM carries out continuously. This includes tasks such as the supervision of financial reporting, prospectuses and dealing with incidents and signals. Thematic supervision focuses on specific supervisory issues.

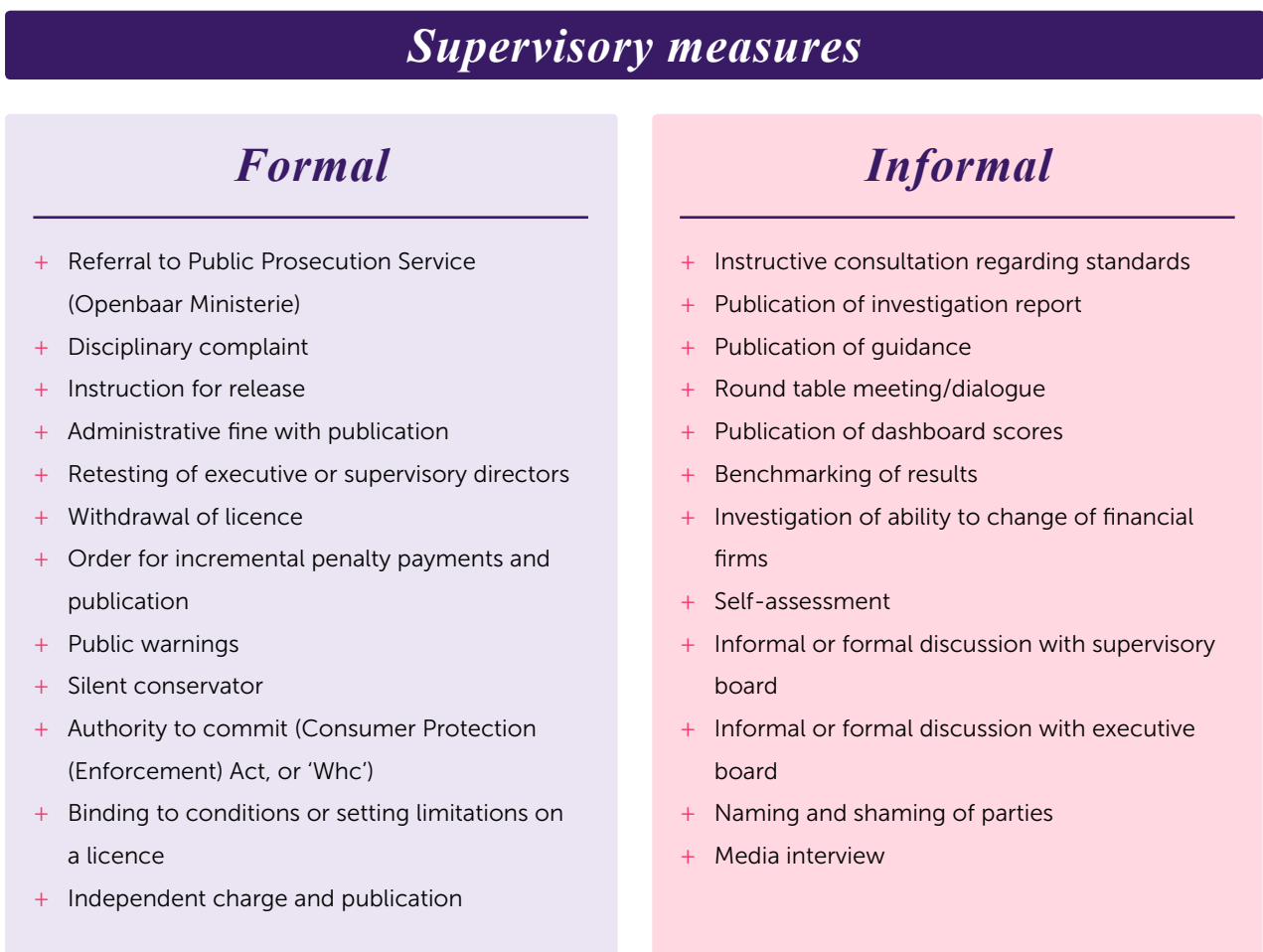
Supervisory instruments

The AFM uses various supervisory instruments in its regular and thematic supervision, ranging from informal influence (preventive) to formal enforcement (repressive) (see figure 1). We use our range of instruments consistently and select the instrument we use on the basis of effectiveness. Experience has shown us that the most effective approach is a mix of preventive and repressive supervision. Preventive supervision means that we explain, initiate dialogue with and give direction to the market. Repressive supervision involves corrective action.





Figure 1 Overview of the main supervisory instruments



Undesirable conduct

In our supervision, we focus primarily on undesirable conduct in the financial sector. We contribute to discussions on legislation in order to ensure that there are sufficient

effective standards to deal with undesirable conduct and that the AFM has sufficient instruments at its disposal. We state our wishes in this context in our annual legislation letter.





Measuring the effect of our supervision

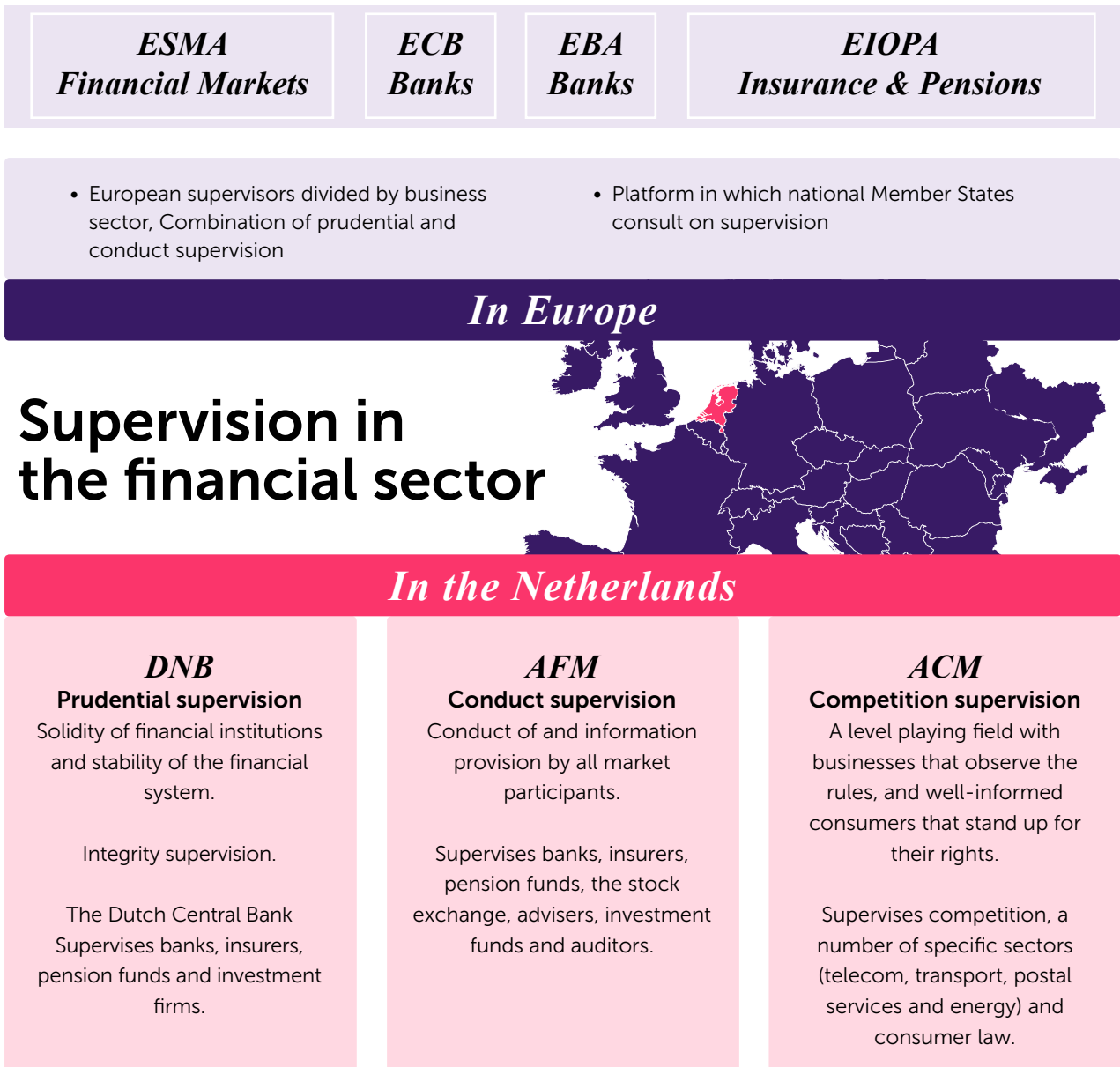
Where possible we measure the effects of our supervision, in terms of both compliance and social effects. Compliance effects can be measured by determining whether institutions are following the regulations or standards. Social effects can be measured for instance by establishing

whether consumers and investors change their behaviour as a result of the interventions by the AFM.

Cooperation with other supervisors

We increasingly cooperate with other supervisors, both in the Netherlands and internationally (see figure).

Figure 2 Overview of cooperation





International cooperation

Our international activities are partly designed to support our national interests or to ensure that these are not obstructed. The AFM plays an active part in organisations such as ESMA, IOSCO and IFIAR, forums in which supervisors cooperate at European and global level.

The aim is to promote cross-border supervision and to make efforts to reach international agreements regarding improvements to regulation and supervision. In addition, we support initiatives that lead to all European supervisors operating and acting consistently (supervisory convergence).

“The AFM plays an active part in organisations such as ESMA, IOSCO and IFIAR, forums in which supervisors cooperate at European and global level.”





Stakeholder review 2016/2017

Review of support and confidence

The AFM has set itself the objective of becoming a demonstrably ground-breaking supervisory authority by 2022. To achieve this, the AFM wishes to enter into dialogue and connect with stakeholders and partners without losing its autonomous role. Support and confidence are indeed essential in order to exercise supervision as effectively as possible and to achieve this objective.

At the end of 2016, the AFM instructed TNS Nipo to organise an online stakeholder survey of professionals working in the financial sector. The purpose of the survey is to review our own performance. This feedback is extremely useful. We will use it to strengthen and improve our own supervision and our communication.

The stakeholders involved include financial institutions, CEOs, CFOs, managers, compliance officers, consumers, product development, marketing, employees handling requests for information or licence applications, externally hired professionals such as lawyers and legal staff, opinion leaders and our own employees.

Besides the need to measure the opinions of our stakeholders with respect to the AFM, we will use this stakeholder survey to obtain insight into the extent to which our core values and our vision are recognised. The results will give us important hints and information for our communication. The results of the survey will be published in the first half of 2017.



“Improve the profile of the AFM”

Marjan Grund, pensioner, member of the AFM Consument&Panel

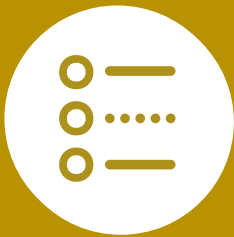
‘Perhaps I am mistaken, but I have the impression that eight out of ten Dutch people have no idea who or what the AFM is. This is a pity. As a member of the Consument&Panel, I see that the AFM strives to ensure that financial services providers behave properly. It is also actively engaged with foreign supervisors in agreeing stricter European rules. This is important work that benefits all consumers. My advice therefore is: raise your profile and tell everyone what you are doing.

Before I retired in 2012, I worked in the internal sales department of a production company. I was a member of the Works Council and represented the WC on the board of the pension fund. During that time I learned a lot about the AFM’s supervision of the pension sector. I know for instance that it urges pension funds and insurers to communicate honestly, clearly and comprehensibly. I think they could make a better story out of this. Take the UPO for instance, this is difficult for many people to understand. Also, as a pensioner, I hope that the AFM can help to ease the strict financial rules applying to pension funds. Indexation is now virtually impossible, and this needs to be solved.’





02 Report of activities



The AFM has a Multi-Year Agenda to become a demonstrably ground-breaking supervisory authority by 2022. The Agenda 2016-2018 establishes the steps we need to take in the coming years. Three priorities were formulated for 2016 for which targets have been set. We give account of this in our report of activities.

→ **31**
Priority 1: Reducing undesirable risks for society

→ **98**
Priority 2: Strengthening supervision through investment in technology and methodology

→ **103**
Priority 3: Increasing the effectiveness, efficiency and adaptability of the internal organisation



Priority 1

Reducing undesirable risks for society

In order to ensure fair and transparent financial markets and sustainable financial prosperity, it is important to reduce undesirable financial risks for society.

This is one of the three top supervisory priorities in the AFM's Agenda 2016-2018. Our focus here is on the top 10 risks. These risks are continually monitored, evaluated annually and updated when necessary.

The AFM has divided its supervision into the following areas: capital markets, services to retail, accountancy and reporting, enforcement, asset management and innovation. This is supported by the Expertise Centre, the Supervision Service Centre and Audit Supervision. Figure 3 gives an overview of the organisation of direct supervision, supervisory support and the activities.

In 2016, the divisions and their tasks were reviewed in the new context of our supervisory agenda and the top 10 risks we had formulated. One or more focus areas were established in each supervisory area and overall supervisory issues (or themes) were defined, with an ambitious target of a term of three to five years. These specific themes are in addition to our normal supervision, such as the continuous handling of signals and incidents, prospectus supervision, and licensing. We established the new Asset Management division in 2016

in order to address the risks in this area more effectively. The Innovation & Fintech programme was also initiated to ensure that the AFM accommodates technological innovation in the financial sector, to the extent that this contributes to sustainable financial well-being in the Netherlands.

In all supervisory areas, practical measures were taken and results have been demonstrably achieved with respect to protecting the public against undesirable financial risks. The following paragraphs describe this development for each division in more detail. An overview of the results for thematic and regular supervision is provided for each supervisory area, as far as possible followed by detailed descriptions of each result. A detailed account for each theme and for regular supervision is then given of the effects for the stakeholders, how the supervision is carried out, what enforcement aspects were involved, the form of international cooperation in the area in question and the expected effects over a 3 to 5 year horizon.



Figure 3 Overview of supervision

Direct supervision



Supervision support





Efficient Capital Markets

One of the major developments in the financial sector is the far-reaching internationalisation of capital markets. This increased internationalisation has hugely expanded the playing field. We are also seeing new players and new earnings models. This means that the scope of our supervision, also as a result of the various financial crises, has expanded.

Since the capital markets bring together supply and demand for risk and capital, they are playing an increasingly important role in the generation of economic growth. The AFM promotes the fair and

efficient meeting of supply and demand for finance. It encourages better transparency for investors and ensures that market parties take more responsibility for their activities. In addition, the AFM is responsible for the assessment of tender offers and prospectuses, supervision of trading platforms (both exchanges and alternative platforms), supervision of market manipulation, supervision of trading with inside information and conduct in relation to price-sensitive information.

In addition to these regular activities, the division focused on one of the top 10 identified risks, namely, 'fair and orderly price formation in the capital market is under pressure', taking a thematic approach.



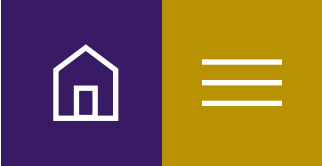


Table 4 Result Capital Markets

| Objective | Result | Contribution to intended effect 3-5 years (see Agenda) |
|---|--|--|
| <p>Thematic supervision The aim of this theme is that market parties demonstrate their maturity by meeting their own responsibilities with respect to fair and controlled trading.</p> | <ul style="list-style-type: none"> + Gaining additional insight into the maturity of chain players enables us to better estimate how the growth has occurred. + Improvements in preventing disruptions to trading has meant that trading has become more efficient. + Increased supervision has led to less manipulation in share trading, meaning that the markets have become fairer. + New provisions have brought about improvements in the crowd-funding sector, so that this sector is subject to a minimum level of regulation. + Support to market parties in the timely preparation for MiFID II. | <ul style="list-style-type: none"> + Institutions are improving the controls of their business conduct. + Crowd-funding platforms are making progress towards better transparency. + An increasing number of parties are taking responsibility for ethical trading behaviour. |
| <p>Regular supervision Promoting transparency in the investment sector</p> | <ul style="list-style-type: none"> + Better protection for investors against inadequate information in prospectuses by means of targeted supervision. This enables investment decisions to be taken on a sounder basis. + Better protection for investors by more active supervision of (unauthorised) advertising. + Supporting market parties with preparation for the Market Abuse Regulation with new brochures and additional guidance. + More active supervision of the quality of transaction reporting data has improved compliance with the transaction reporting obligations and therefore also the quality of the data. + Less information inequality in the capital market due to active application of the AFM's real-time supervision with respect to the publication of inside information. + Increased awareness among employees in the public domain who may have access to inside information, also due to the publication 'inside information at institutions in the public domain'. + The AFM's publication of transparency notifications has made price-relevant information available via the AFM's notification registers. | <ul style="list-style-type: none"> + Issuers are more aware of the transparency rules and are ensuring that these are properly complied with. + Reports from banks and investment firms of potential market abuse to the AFM have become more frequent. + The better quality of the transaction data has improved the input for the AFM's detection models. |





Theme: 'Chain responsibility in the changing market situation'

The Netherlands has a good reputation with respect to the operation of the capital markets. An attractive capital market is essential for a properly functioning economy. Stricter regulations, the complexity of trading, the speed of trading and the fragmentation of trading locations have, however, put pressure on the ability of enterprises to control their business conduct. This means it is possible that trading locations are less able to make a good contribution to the objective of this theme and the efficient operation of the capital markets. By encouraging an increase in the level of maturity, the AFM aims to ensure that the financial markets in the Netherlands remain competitive in relation to those of other European countries.

“An attractive capital market is essential for a properly functioning economy.”

The AFM wishes to see all the players in the chain, from order to settlement (trading platforms, securities traders, brokers, clearing and settlement institutions), fulfilling their responsibility for fair and controlled trading. The chain operates effectively if market parties:

- + prevent disruptions to trading;
- + trade with integrity;
- + facilitate fair price formation and access for users.

Activities and results

Degree of maturity of chain players

This is the first year in which the AFM has focused on this theme. The starting point in 2016 was to establish the level of maturity of the market parties. Maturity means that institutions take greater responsibility for

matters such as the internal control of their activities. For the institutions subject to regular supervision, the insights gained from this supervision were included. In addition, there have been a number of projects that provided additional insight into the degree of maturity of the parties forming part of the trading chain. Examples of these projects are 'Incident Management' and 'Crowd-funding' (see below). The 'Best Execution' project also looked at the interaction of market parties in relation to the obligation of brokers to execute client orders at the lowest possible cost. The project revealed how professional clients include (buy-side) information on best execution in their selection of a broker. The results will be included in the supervisory strategy of the AFM under MiFID II in 2017.

Improvements in preventing disruptions to trading achieved

In 2015 the AFM implemented the 'Compliance with ESMA Guidelines for an Automated Trading Environment' project. This first measurement provided much insight into the status of market parties in relation to 'preventing disruptions to trading'. Several institutions were reviewed last year to establish whether they had made the necessary improvements. This turned out to be the case. In 2016, these institutions took further steps to increase their maturity level.

The 'Incident Management' project also gave a boost to the maturity of the trading chain. We reviewed 13 institutions in relation to their motivation to learn from errors and shortcomings and pursue continuous improvement on their own initiative. This concerned both internal risk management and the corporate culture. The institutions concerned were informed of our findings. In some cases, improvements to internal procedures were needed. These were implemented in 2016 and 2017.



Based on the regular supervision of the capital markets infrastructure, three institutions started or completed projects designed to improve their controls of operational risk. These projects support the functioning of the trading chain. The settlement of securities transactions is an important item of attention here. Dutch securities are settled by Euroclear Nederland. In 2016 these activities were linked to the European settlements platform (T2S) under the responsibility of the European Central Bank. T2S removes barriers to the delivery of securities within Europe. Dutch investors also benefit, since many settlement firms are affiliated with T2S and the settlement process has thus become more efficient. Together

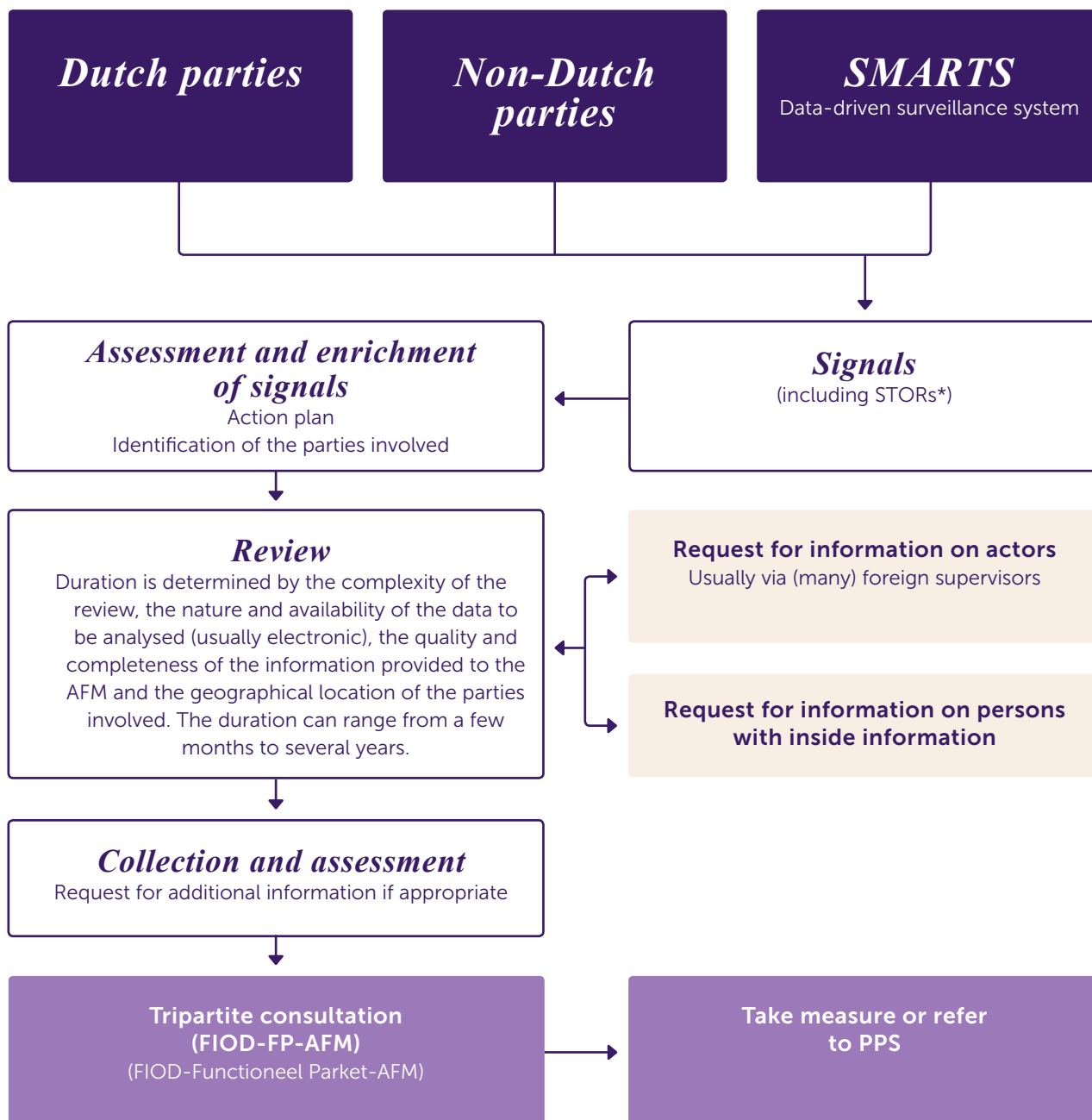
with other supervisors and on the basis of its supervision of Euroclear, the AFM contributed to a smooth transition by assessing the changes at Euroclear during this process.

Improved notifications of market abuse

The increasing number of useful notifications of suspicions of market abuse (STORs) continued in 2016, reaching nearly 200. The stricter requirements under the Market Abuse Regulation (MAR), which has been in force since July 2016, should encourage a further increase in the number of notifications. By reporting market abuse to the AFM on their own initiative, market parties show that they accept responsibility for fair trading.



How investigations of market abuse are conducted by the AFM?



*STOR= Suspicious Transaction and Order Report mandatory reporting by financial institutions in case of suspicion of market abuse



More integrity in trading behaviour

The AFM identified fewer cases of manipulation in the trading of Dutch shares in 2016 than in 2015. Our detection systems focus on unusual movements in prices and liquidity as well as forms of manipulation. We are continually alert to new indications of manipulation or undesirable trading behaviour identified by our detection systems. The AFM prefers prevention by means of immediate intervention as soon as unusual trading practices become visible. We have developed our own data-analysis models and we exchange expertise with our fellow supervisors in other countries. A new automated system was also purchased for the real-time supervision of trading on the stock exchange in 2016.

“We are continually alert to new indications of manipulation or undesirable trading behaviour.”

2016 saw the publication of the results of a review in 2015 of the strategies used by high frequency traders (HFT). The [conclusion](#) was that the strategies assessed in the review were derived from traditional earnings models such as market making and arbitrage. The review was prompted to some extent by research into similar trading strategies in the United States, which did not exclude the possibility that these strategies were manipulating the market.

Improvements to the crowd-funding sector
Crowd-funding is a new way of raising funds. The AFM assessed the degree of transparency in the crowd-funding sector in 2016, and [published guidance](#) for the provision of information on defaults. The study also looked at the extent to which consumers understand the risks of crowd-funding and how crowd-funding should

be recognised in legislation and regulation. This will ensure that more information is available to investors and consumers on which they can base their decisions.

Support to market parties in the preparation for MiFID II

MiFID II comes into effect on 3 January 2018. The new regulation sets stricter requirements with respect to matters such as transparency and disruption-free trading. Proper and timely compliance by all market parties contributes to the objectives of the theme ‘Chain responsibility’. The AFM has supported institutions in their preparation for the MiFID II project, by providing more clarity regarding the rules, answering questions and removing specific obstacles.

Results and effects for our stakeholders

- + Market parties have improved their control of their business conduct.
- + Transparency has increased in the crowd-funding sector.
- + More useful notifications of suspicions of market abuse.
- + Fewer cases of manipulation identified in the trading of Dutch shares.
- + Market parties have been supported in the timely preparation for the obligations under MiFID II.

How is supervision conducted?

The AFM uses a mixture of formal and informal measures in its supervision. In the first year of the ‘Chain responsibility’ theme, the emphasis has been on informal influence. We want market parties to demonstrate their maturity by meeting their own responsibilities with respect to fair and controlled trading. We therefore encourage positive developments initiated by these parties themselves. We also provide clarity to the market regarding our expectations in relation to relevant regulation, for example in the areas of MiFID II and crowd-funding.





International cooperation

The AFM participates in a large number of ESMA working groups, and chairs some of these groups. This is how we influence the development of European regulation from the perspective of supporting the interests of market parties in the Netherlands. We cooperate closely with our fellow supervisors in supervisory associations for the supervision of markets and clearing and settlement institutions. These associations ensure more efficient supervision of the institutions in view of the cross-border nature of the services they provide. In these cooperative associations, the AFM protects the interests of the market in the Netherlands. We also exchange knowledge and expertise, for instance in the field of EMIR and TRS data.

Effects within 3 to 5 years

The theme has two intended effects:

1. The chain for each financial instrument should continuously operate at a high level of quality and reliability;
2. The parties in the chain take responsibility for their actions, are intrinsically motivated and proactively contribute to the quality of the trading chain.

A number of market parties with significant roles in the trading chain improved their internal controls of their business conduct in 2016. Partly through exercising influence by means of a project-driven approach such as 'Incident management' and partly through our normal supervision of the trading infrastructure. The crowd-funding platforms have also made progress on increasing transparency. The increase in more useful notifications of suspicions of market abuse shows that market parties are increasingly taking responsibility for contributing towards ethical trading.

Regular supervision: activities and results

Better investor protection due to prospectus test

The AFM protected more investors against inadequate information by testing more prospectuses and taking actions based on its findings. 290 prospectuses were tested for completeness and comprehensibility in 2016 (17% more than in 2015). In 32 cases we formally stated that the prospectus was below standards in important respects and ultimately 13 applications were definitively rejected.

The protection of retail investors in the secondary bond market was also increased. Together with Euronext Amsterdam, the AFM agreed that bonds with a nominal value of € 100,000 or more would only be available for purchase by professional investors from now on.

Prevention of unauthorised influence through advertising

Many retail investors base their decisions on brochures, advertisements and websites. The AFM has accordingly adjusted its supervisory strategy by assessing advertising at the same time as it assesses prospectuses. We apply insights from behavioural economics for this purpose. In 2016 we prevented numerous cases of unauthorised influence through advertising: we had comments regarding the content and/or the design of one or more advertising materials with respect to all the offering parties.

Better compliance with transaction reporting obligations

Compliance with the transaction reporting obligations improved in 2016. This was achieved mainly through stricter enforcement on our part. This led to a number of cases being referred to the fine officer.



Market parties prepared for Market Abuse Regulation

The European Market Abuse Regulation (MAR) came into effect in 2016. This concerns new and to some extent stricter regulation with respect to market abuse. The AFM has assisted market parties in preparing for the regulations and clarifying its expectations as the market supervisor. At European level, we contributed to Q&As and guidelines with respect to the MAR. We have had a new Market Surveillance Tool for real-time supervision since 2016.

More careful handling of publication of inside information

The integrity of market players and the care they exercise with respect to inside information are determining factors for confidence in the capital markets. As a result of our efforts, the information inequality in the Dutch capital market was reduced in 2016. For instance, the AFM published a brochure to assist issuing institutions in the drafting and dissemination of press releases. Awareness was moreover increased among employees at institutions such as courts and antitrust authorities that they could be in possession of inside information in relation to listed companies as a result of their work, also by means of the publication of the brochure *'Inside information at institutions in the public domain'*. The AFM has discussed practical situations with these organisations on the basis of this brochure. The publication of the brochure has led to a number of parties changing their internal codes of conduct and procedures in relation to inside information.

Sparring partner for parties in the Dutch bond market

Close contact with the market and confidence in the market are essential for supervision of bond trading in the

Netherlands, since bonds are mostly traded outside trading platforms. For this reason, we organised a round table consultation with buy and sell-side parties, supervisors (the British FCA, DNB and the AFM) and a representative of the European Commission to discuss the risks of potential market abuse.

Price-relevant information via the AFM's notification registers

The AFM monitors and publishes notifications of positions held by investors in listed companies and notifications from executive and supervisory directors of the transactions they effect in their own company's shares. This means that price-relevant information becomes available to investors as quickly as possible. In addition, the AFM supervises the timely notification of positions and has taken appropriate action with respect to failure to submit notifications on a timely basis.

Results for our stakeholders

- + Potential investors are protected against unauthorised advertising.
- + The number of timely notifications of transactions by investment firms has improved, and compliance with the transaction reporting obligations has also improved as a result.
- + Market parties have been supported in the timely preparation for new regulation (MAR).
- + Due to extra guidance to listed companies, the information inequality in the capital market has been reduced.
- + Employees in the public domain who could be in possession of inside information have become more aware of this.
- + Price-relevant information is quickly available to investors as a result of the AFM's notification registers.





How is supervision conducted?

In its regular supervision, the AFM uses informal influence, formal measures and enforcement. In the first instance, we concentrate on informing and explaining our expectations of all market parties in relation to regulations. This makes market parties more inclined to comply. We make an extra effort when the regulations are new or have changed. The round tables,

“As a result of our efforts, the information inequality in the Dutch capital market was reduced in 2016.”

the guidance to listed companies and the guidance to employees at financial institutions are examples of our informal influence. In case of serious violations and also in cases where parties have previously been reminded of the rules – and certainly when guidance has been published on the matter – the AFM will move more quickly to enforcement.

Enforcement

The AFM reviewed more parties with respect to trading conduct and also reminded more market parties of the rules governing market abuse in 2016

than it did in 2015. More formal requests for information and instructive letters on compliance with standards were sent out for breaches of the transaction reporting obligations. On-site audits were also carried out at two institutions. A number of institutions have made changes to their internal organisations as a result of these letters.

During the reporting year, five cases were referred to the fine officer and the Public Prosecution Service. In addition, there were three interruptions or suspensions of trading in individual securities and one incremental order for penalty payments was imposed on an issuing institution.

International cooperation

The regular supervision of matters such as market abuse and prospectuses is based on European regulation. International cooperation with fellow supervisors occurs for example when the offering or trade in securities crosses borders. Knowledge is also exchanged on a regular basis. We actively contribute to the interpretation or revision of regulations at European level through our participation in ESMA groups.

Table 5 Occupation in fte

| Supervision of the Capital Markets | Actual | Budget 2016 | Difference |
|---|--------|-------------|------------|
| Average total workforce (including temporary hires; in FTE) | 62 | 60 | 2 (3%) |
| Average workforce employees (in FTE) | 61 | 60 | 1 (2%) |





Lending, Savings and Retail Investors

Low interest rates, internationalisation and technological developments have among other things led to the digitalisation of financial products and services and innovative service concepts (including marketing concepts). In addition, the social development away from a collective system to more individual responsibility has significantly affected the vulnerability of consumers. Financial income planning is becoming increasingly important. All these developments affect the products and services offered by financial enterprises, and consumers are facing increasingly difficult financial challenges.

Complex challenges

For vulnerable consumer groups, these challenges are certainly complex. Everyone wants to make the right financial decisions, but not everyone is fully aware of the consequences. Entering into a loan without proper consideration or failing to understand all the implications of a mortgage can lead to long-term financial difficulties. A loan at a low interest rate may appear to be attractive. But when interest rates rise, there is a risk that consumers will no longer be able to meet their (monthly) obligations or will only be able to pay the interest on the loan.

Good financial planning

Good financial planning is thus becoming increasingly important in this changing world. It is therefore our objective to ensure that vulnerable customer groups are provided with comprehensible products that are suitable for them and with an appropriate service in order to prevent foreseeable problems. Through our focus on the financial problems of vulnerable consumer groups, we hope to contribute to

the financial prosperity of the Netherlands. Our focus here is on consumers with financial problems ensuing from excessive borrowing through mortgages or consumer loans.

The search for yield

The low level of interest rates in combination with the trend towards greater individual responsibility also affects investors. They take on more risk in their search for better returns. The AFM is following these developments closely. What do these new service concepts and products entail? What are the risks, but also what opportunities do these service concepts and products present? How is the duty of care safeguarded? And, most of all: how can we ensure that the market is fair and transparent? We want to encourage financial enterprises to offer reliable and transparent investment products to customer groups.

Besides our current focus on these specific groups, we are also keeping an eye on future developments. With forward-looking supervision, the AFM strives to prevent financial disasters and work on further restoration of confidence in the financial sector. This approach is part of our ambition to be a ground-breaking supervisor in 2022. In addition to its regular supervision, focused on continuing supervision of information, supervision of financial products and the product development process, the AFM's supervision is also theme-driven. The themes we focus on are as follows:

- + The service provided to non-professional investors is appropriate.
- + Homeowners in difficulty with their mortgages are offered an appropriate solution.
- + SME customers are offered good service for their funding requirements.





Table 6 Result for Lending, Savings and Retail Investors (1 of 3)

| Objective | Result | Contribution to intended effect 3-5 years (see Agenda) |
|---|---|--|
| <p>Thematic supervision The service provided to non-professional investors with a significant accumulation objective is appropriate.</p> | <p>Input provided to the Ministry of Finance for a ban on the advertising of speculative investment products has led to the AFM's view being incorporated in the draft advertising ban.</p> <p>Insight into the current quality of investment services from the report on the Quality of Investment Services in 2015.</p> <p>Recommendations in the report on the Quality of Investment Services in 2015 are enabling market parties to improve the quality of their investment services.</p> <p>Intervention at three market parties by means of an instructive conversation on compliance with standards has ensured that investment customers receive a portfolio that is appropriate to the risk they are prepared to take.</p> <p>More clarity with regard the statutory flexibility for innovative service concepts.</p> <p>The position of investors using securities accounts in the event that one of these accounts fails has improved. This means that the funds or financial instruments belonging to the investors will be excluded from the inventory of a bankrupt securities account.</p> | <p>The advertising ban helps to prevent speculative products being offered to vulnerable groups.</p> <p>The quality of the assessment of the customer profile by investment firms has improved in comparison to previous years. The level of quality is average (a score of 3 on a scale of 1-5) and is thus barely adequate. The most important item for consideration is the assessment of risk appetite.</p> <p>The guideline to investment firms contributes to innovative and appropriate services being provided to investors.</p> <p>Better investor protection in case a securities account fails.</p> |
| <p>Homeowners in difficulty with their mortgages are offered an appropriate solution.</p> | <p>On the initiative of the AFM, the mortgage providers have identified customers with a high-risk interest-only mortgage.</p> <p>The AFM has provided guidance to providers with regard to offering solutions to customers with investment-linked mortgages with inadequate returns.</p> | <p>An action plan has been drawn up on the basis of the overview of high-risk customers. These plans contribute to the objective, which is to prevent a situation in which homeowners get into unexpected difficulties when repaying their mortgage over the long term.</p> |
| <p>SME customers are offered good service for their funding requirements.</p> | <p>Review of provision of pre-contractual information on loans to SME clients of ABN AMRO, Rabobank and ING.</p> | <p>Safeguards for the quality of information provided by banks has improved. In addition, information prior to entering into a contract is more easily accessible, more balanced and more comprehensible for SME customers.</p> |





Table 6 Result for Lending, Savings and Retail Investors (2 of 3)

| Objective | Result | Contribution to intended effect 3-5 years (see Agenda) |
|--|---|--|
| | <p>The supervisory strategy for services to businesses has been revised to analyse which customers for business products and services are vulnerable, which products and services require attention and what powers the AFM possesses. The main changes are:</p> <ul style="list-style-type: none"> + A more integrated approach to supervision of the business market whereby risks in that market are monitored and supervisory and other expertise is expanded. + Focus on supervisory activities in the fields of pensions, insurance and investment services; + No new activities will be started with respect to supervision of areas in which it has no powers (such as corporate loan products) and the AFM will follow the initiatives from the market to give a more central priority to business customers in the lending process (including default management). | <p>More clarity for the business market and parties on which the AFM focuses. The supervisory activities of the AFM are thus focused in areas in which there are issues in relation to pensions, insurance and asset accumulation.</p> <p>The risks associated with lending are in the first instance addressed by the sector. This will provide (small) business owners with more clarity regarding the degree of protection they can expect in relation to the business services and products they purchase.</p> |
| Regular supervision | | |
| <p>Financial enterprises develop and offer fair, safe and affordable products.</p> | <p>The AFM has made various efforts to ensure that financial enterprises develop or market fair, safe and affordable products. These have contributed to:</p> <ul style="list-style-type: none"> + Increased knowledge among market parties of the rules governing the product approval and review process (or 'PARP'). + Market parties are improving their product development processes as a result of PARP reviews at banks and AIFM licensees. + Providers are no longer offering misleading products in the form of 0% car finance. + Providers have ceased to offer certain financial products with leverage of more than 50. + Consumer credit without commission in combination with a mortgage with no after-sales service is no longer available. | <p>Market parties are taking more account of the interests of customers as a result of the improvements to product development processes. PARP supervision is contributing to the prevention of product-related scandals.</p> <ul style="list-style-type: none"> + A more critical view of product development is enabling providers to identify and change undesirable product features. + Consumers are not tempted by 'free' loans whereby the fee for the loan is hidden in the costs of the car and its accessories. + Investors cannot invest in certain high-risk products with leverage of more than 50 whereby there is little prospect of making a profit. + Paying a commission is the only way that consumers can purchase after-sales service for a consumer loan. The exclusion of the mandatory commission-free loan means that consumers always have the option of purchasing after-sales service. |





Table 6 Result for Lending, Savings and Retail Investors (3 of 3)

| Objective | Result | Contribution to intended effect 3-5 years (see Agenda) |
|---|---|---|
| <p>Consumers can rely on responsible lending in the telecommunications sector.</p> | <p>Five telecommunications providers with their own networks have obtained their own licences to offer loans.</p> <p>The AFM has set transitional periods for telecommunications providers within which they have to comply with the regulations for information provision and responsible lending. The telecommunications providers are adjusting their working practices and information provision accordingly in order to offer loans responsibly and provide information that is correct, clear and not misleading.</p> | <p>The aim is to protect consumers against excessive borrowing in the form of telephone loans. The issuing of licences is a first step in this area.</p> |
| <p>Better protection of consumers in collection procedures in the financial sector.</p> | <p>Clarity for providers of consumer credit regarding the statutory requirements with the Guideline for Consumers and Collection Procedures. This will mean that providers give a more central priority to the interests of customers in collection procedures.</p> <p>The campaign "Incasso? Betaal, maar alleen als het klopt!" ("Collection? Pay, but only if it's correct!") (in collaboration with ACM) has meant that consumers are better informed and able to make better choices in a collection procedure.</p> | <p>The AFM wishes to ensure that the interests of customers are also given central priority in cases of payments in arrears. The guideline sets out the right direction in these cases. The market is now more aware of what is expected.</p> |





Theme: 'The service provided to non-professional investors with a significant accumulation objective is appropriate'

The AFM strongly supports appropriate services to investors, especially to non-professional investors. In the Agenda, this theme is still titled 'services to small investors are appropriate'. We have replaced the term 'small investor' with 'non-professional investor', as this is a better description of this group. The intended effects of the theme have also been reformulated in order to clarify the targets. The theme concerns advice and asset management by investment firms as well as execution-only services.

Suitable products for suitable customers

To achieve this principal objective, the AFM encourages financial enterprises to offer appropriate product solutions to the various customer groups. An increasing number of investors are using execution-only services. This means that the design of the digital decision environment in which these investors operate is increasingly important (for example, the operation of the suitability test). The AFM accordingly strongly recommends that the digital decision environment for execution-only investors should help them to invest more effectively.

"We encourage financial enterprises to offer appropriate product solutions to the various customer groups."

Central priority for the customer

The AFM also wishes to see providers of advice and asset management giving central priority to the customer's goals by

providing good support with respect to the consideration of risk and return, enabling better assessment of whether the risks of an investment portfolio correspond to the customer's risk appetite. The customer's risk appetite is all the more important given the current low level of interest rates. Returns that until a few years ago could be achieved with virtually no risk now involve substantial risk. Providers are thus encouraged to make more positive use of behavioural insights in their services and not to use traps to abuse investing customers.

Activities and results

The quality of investment services will increase

The individual feedback to investment firms regarding the findings of a case review in 2015 was completed in the first quarter of 2016. The aim of this review was to obtain insight into the progress achieved regarding the quality of investment advice and asset management in the Netherlands. The AFM intervened in relation to three asset managers whose assessments of the customer situation and translation of the customer profile into an appropriate investment portfolio were inadequate. This led to an improvement in their customer assessment procedures. The information now obtained is more specific and more relevant to the customer's situation. This means that recommendations and the asset management are more appropriate to the customer's situation. One example of this is that the investment portfolios correspond better to customers' risk appetites as a result of the changes to the customer assessment.

The findings of this thematic review have been published in the Report on the Quality of Investment Services 2015, in which we cite practical examples of how important customer data such as the risk appetite can be established. The report has also been





presented to sector organisations. The publication enables market parties to achieve the required improvement in quality with the help of practical examples that show how a customer profile should be properly assessed.

More effective suitability test in review

An increasing number of investors are choosing to invest on an execution-only basis and make their own investment decisions. Currently, more than 60% of investors invest independently. The only protection that these investors have is the passing of a suitability test prior to being offered the execution-only service. This test consists of questions to establish knowledge and experience, linked with a warning. Insights from behavioural science and our own research, including interviews with investors, show that the application of the test is not currently sufficiently effective. A review was thus initiated in 2016 to establish the possibilities for improving the suitability test for independent investors. Together with market parties, the AFM is studying the effect of a more in-depth test of knowledge on the behaviour of independent investors. This review will be completed in early 2017.

Ban on advertising of harmful investment products

Harmful investment products such as binary options and certain CfDs (contracts for differences) involve a disproportionate level of risk of losses and even residual debt for the average investor. A review conducted by the French supervisor in 2014 showed that on average 89% of investors lost money on CfDs and that the average loss incurred was € 10,887. A review by the UK supervisor also revealed that around 82% of investors had suffered losses. There is no reason to believe that the results would be substantially different for Dutch investors. These speculative investment products are frequently marketed aggressively via

the execution-only channel. The AFM strongly supports a ban on the advertising of these products. The Minister of Finance stated that he wished to introduce such an advertising ban in cooperation with the AFM in September 2016. The aim is for the ban to take effect in mid-2017.

The information from the product reviews in 2013 and 2015 [\[6\]](#) and the further analysis of the Dutch market and international initiatives regarding CfDs in 2016 will be used as input for the advertising ban.

In addition, the AFM is actively participating in an ESMA working group that is working on these products. This working group shares analyses and discusses how supervision of these products within Europe can be harmonised. The AFM supports a European policy for speculative products such as binary options and CfDs. Together with other European supervisors, the AFM has supported the supervisor in Cyprus in its review of providers offering binary options and CfDs from Cyprus. The Cypriot supervisor has now imposed various enforcement measures as a result of this review.

Guideline for appropriate innovative services

The arrival of innovative service concepts creates opportunities, but also new risks, including risks relating to conduct, especially because these services are targeted at non-professional investors. The AFM wants to see that these innovative services offered to investors are appropriate. The 'Qualification of Innovative Service Provision' report was accordingly published in August 2016. This report gives guidance to investment firms to encourage innovation in their investment services. The report also clearly defines the division between investment advice and execution only. There is also guidance provided to individual parties starting an automated or semi-automated service or planning to do so.





Securities account

As a result of new European regulations and national developments, the AFM carried out a review of the separation of assets by means of securities accounts in 2015. This review showed that there was a lack of clarity regarding the application of the Capital Requirements Directive and the Capital Requirements Regulation (CRD IV and CRR) and the investor compensation system (ICS). It also emerged that there is an alternative to the securities account that in some cases

“The arrival of innovative service concepts creates opportunities, but also new risks, including risks relating to conduct.”

offers investors greater protection, namely custody in accordance with the Securities (Bank Giro Transactions) Act (Wet giraal effectenverkeer, or ‘Wge’). In the Further Regulations on the Supervision of the Conduct of Financial Undertakings (Nadere regeling gedragstoezicht financial ondernemingen, or ‘Nrgfo’), which regulates the separation of assets for securities accounts, this better alternative is not yet offered to investment firms without a banking licence.

The findings of this review are reason to amend the Nrgfo. A consultation process regarding the proposed changes to the rules for the separation of assets at investment firms without a banking licence was held at the beginning of 2016. The reactions to this consultation led to amendments and a second round of consultation in mid-2016. The final amendments were published on 23 December 2016, and came into effect on 1 February 2017. Among other things, the new Nrgfo removes the uncertainty regarding the application of the Capital Requirements Directive and the Capital Requirements Regulation (CRD IV and CRR) and the investor compensation system. In addition, investment

firms without a banking licence will soon be able to use the Wge to fulfil the requirements regarding the separation of assets. This improves the protection of investors holding financial instruments and funds at an investment firm that does not have a banking licence.

Results for our stakeholders

- + Insight into the current level of quality of customer inventory at investment firms. Quality has improved, but is not yet at the desired level (score 4 on a scale of 1-5). The AFM has provided practical tips to investment firms to enable them to achieve the necessary improvement, in particular with respect to assessing a customer’s risk appetite.
- + Thanks to input from the AFM, the Ministry of Finance has made progress on the ban on advertising of speculative investment products.
- + Investment firms have been given more clarification regarding the legal possibilities for the development of innovative service concepts.
- + Changes to the rules for the separation of assets at securities accounts have improved the position of investors in case a bank or an investment firm fails

How is supervision conducted?

As far as possible, we exercise influence in an informal manner. We exercise formal influence through enforcement where necessary. Informal influence can be exercised in various forms. We support parties in their efforts to comply properly with current and future regulation through newsletters, specific web pages, lectures and dialogue. Since many shortcomings or violations are the result of inadequate knowledge, in most cases informing an institution that it is falling short or in violation is sufficient. If a company fails to take action quickly enough, the AFM will impose formal measures. The combination of formal and





informal influence is applied for instance to improving the quality of investment services. Legislation or regulation is supplemented in situations where it turns out to be inadequate, for example in the case of securities accounts.

Enforcement

In our review of the quality of investment services, 8 of the 20 investment firms reviewed achieved an inadequate score for the quality of their customer inventory procedures (in other words, a score of less than 3.0 on a scale of 1-5). The AFM intervened at the underperforming investment firms in this group by holding two instructive conversations on compliance with standards and issuing two instructive letters on compliance with standards with respect to the quality of the customer assessment procedure. As a result of this, the investment firms in question have improved their working practices by making changes to their customer assessment procedures. They will also update their customer information on a regular basis from now on, enabling them to tailor their advice or management to the customer's current situation and construct a more appropriate portfolio.

International cooperation

The AFM has worked closely with its fellow European supervisors to obtain insight into the regulation of speculative investment products in other European countries. We have obtained valuable information as a result of this cooperation that has been included in our input to the Ministry of Finance for the formulation and scope of a ban on the advertising of binary options and CfDs.

Effects within 3 to 5 years

The theme has three intended effects:

1. The digital decision environment for execution-only investors will enable investors to invest more effectively.

2. More concepts using the insights of behavioural science in a positive manner will be deployed.
3. Improvement in the quality of investment advice and asset management so that the customer's goals are the central consideration by means of focusing on targeted solutions for various customer groups and support with respect to the consideration of risk and return.

In 2016, investment firms have obtained insight into the quality of their customer assessment procedures, in particular with respect to risk appetite. The AFM has offered practical tips for improvement in this area. Investment firms can thus provide better support to customers in their consideration of risk and return.

Theme: 'Homeowners in difficulty with their mortgages are offered an appropriate solution'

The AFM wants to see providers and advisers giving central priority to their customers' interests in their service for accumulating capital to repay their mortgages. Our own research in 2015 shows that 200,000 mortgages with an investment component will provide significantly less than the amount originally intended. We also estimate there are 1.1 million mortgages that are completely interest-only. Since there is no repayment for such mortgages, consumers may encounter problems at the end of the term of their interest-only mortgage if there is no money to repay them. The service must accordingly include more attention to after-sales service. The AFM urges providers and advisers to identify risks at an earlier stage. They should make the customer aware of the situation and offer solutions in order to mitigate the risks.





Activities and results

Action plan for interest-only mortgages

Homeowners with a fully or partially interest-only mortgage may have made inadequate provision for repaying the mortgage at the end of its term. They may not have enough money to continue to pay the monthly instalments if the contract expires, they reach retirement age or they can no longer deduct the mortgage instalments from their tax. The AFM has given two instructions to the four providers with the largest interest-only mortgage portfolios: identify customers at risk in the existing portfolio and formulate an action plan to help these vulnerable customers. These providers submitted both their analyses and their action plans in 2016. The parties are making progress with the solutions discussed, but they have to go further. The AFM is monitoring progress with monthly updates. In addition, the AFM is exploring whether there are new ways to approach customers and offer assistance.

“In 2016, we reached the point that the four largest mortgage providers have identified potentially vulnerable customers.”

Help in repairing investment-linked mortgages

Many consumers with investment-linked mortgages are not accumulating as much capital as they expected. As a result, they will not be able to repay their mortgages at the end of the term, or at least not in full. The AFM has explained in letters to the six largest providers of investment-linked mortgages how they can assist customers at risk while continuing to observe the ban on inducements. These six providers received feedback on the experiments carried out in 2016 in the third quarter of the year. The AFM has continued with experiments with two providers since October 2016.

Providers repair savings-based mortgages

As a result of inadequate administrative processes for savings-based and other mortgages, it may be that when their linked insurance matures customers receive a capital sum that is not what was originally agreed. The AFM has pointed this out to the Dutch Association of Insurers and the Dutch Banking Association. Both these organisations have promised that providers will strive to rectify the differences before 1 January 2017. Solutions will be sought for individual problems (such as a higher premium).

Results for our stakeholders

- + Market parties have accepted their responsibility for the repair of savings-based mortgages.
- + Providers of investment-linked and interest-only mortgages have identified customers at risk in their portfolios and formulated an action plan to assist them.

Effects within 3 to 5 years

The theme has three intended effects:

1. Homeowners do not get into (foreseeable) difficulties regarding their mortgage repayments.
2. Consumers that are not accumulating enough capital for their mortgages are aware of the risks.
3. Providers, advisers and intermediaries make their customers aware of the risks they are exposed to.

One achievement in 2016 is that the four largest mortgage providers have identified their customers that may be at risk. As a result, they can take targeted action with respect to the customers most at risk.





Theme: 'SME customers are offered good service for their funding requirements'

The AFM wishes to see that banks give central priority to the interests of their small business customers in their loan products and services. This requires clear provision of information and appropriate distribution of the loan products. Regarding after-sales service, interest rates and spreads must be justifiable and must be communicated clearly and in a timely manner. Customers with payment problems or an interest-rate derivative linked to their business finance must also be offered a suitable solution. Finally, the AFM takes a critical view of alternative forms of finance such as factoring and leasing.

Activities and results

Better information on lending

There was a review of the provision of pre-contractual information on loans to SME clients of ABN AMRO, Rabobank and ING in 2016. This review follows the dashboard review of information provision in 2014-2015. The main findings:

- + Safeguards for the quality of information provided by banks have improved.
- + In addition, information prior to entering into a contract is more easily accessible, more balanced and more comprehensible for SME customers.

Changes to supervision of the business market

Partly as a result of the interest-rate derivatives issue, the AFM has reviewed its strategy for the supervision of the services provided to businesses. This has updated the overview of the risks in the business market, which has also been evaluated by external stakeholders and various experts. The overview shows that small SMEs are vulnerable due to their dependence on

credit, which they can obtain from only a limited number of banks. The pre-contractual information provided with loan products is also inadequate with respect to costs and interest-rate structures, and terms and conditions are complex (for instance in case of default management). In addition, alternative forms of finance are on the increase, such as stacked funding, prepayment of invoices (factoring) and leasing. The risks to small businesses may be significant, since it is not clear who has the overall steering function. In insurance and pensions, the vulnerabilities lie mainly in the fields of pensions and occupational disability. The main changes in our supervision taking account of the scope of our powers are:

- + We have chosen a more integrated approach to supervision of business services, including increasing our understanding of and monitoring of risks in the business market;
- + Strengthening and expanding our supervisory expertise with respect to business services;
- + Focus on performance of supervisory activities in areas including pensions, insurance and investment services;
- + No new activities initiated for supervision of areas in which the AFM has no powers (such as business loan products). The review of default management promised to the market will be completed in 2017.

Protection of self-employed persons and SMEs

The Ministry of Finance is conducting a consultation on the 'Effectiveness and desirable degree of protection for self-employed persons and SMEs with respect to financial products and services'. In our response, we noted that self-regulation is taking a more central role in the lending process, including default management. The development of this code has to be





evaluated within three years. We have also recommended that the Kifid (Financial Services Complaints Board) service should be made available to small business customers.

Results for our stakeholders

- + Safeguards for the quality of information provided by banks have improved. In addition, information prior to entering into a contract is more easily accessible, more balanced and more comprehensible for SME customers. SME owners are thus in a better position to make well-considered choices when purchasing financial products.
- + More clarity for the business market and parties on which the AFM focuses. The supervisory activities of the AFM are thus focused in areas in which there are issues in relation to pensions, insurance and asset accumulation. The risks associated with lending are in the first instance addressed by the sector. This will provide (small) business owners with more clarity regarding the degree of protection they can expect in relation to the business services and products they purchase.

How is supervision conducted?

- + The review of the information provided to SME customers is carried out by means of a dashboard module. The findings of the review of the provision of pre-contractual information and areas of improvement have been discussed with all parties concerned. The findings have also been confirmed in writing.
- + The review of the supervisory strategy with respect to business services takes the form of an exploratory review involving stakeholders and experts. The findings have been communicated to the Business Services Committee of the Dutch Banking Association.

Effects within 3 to 5 years

The initiative from the sector, also in response to our findings with respect to the risks in relation to finance, will lead to better protection for SME customers. The sector itself will take the initiative in improving the protection for SME customers. In addition, better insight into market developments in combination with a more focused approach to the supervision of pensions, insurance and investment services will contribute to customers being able to obtain a more appropriate service.

Regular supervision: activities and results

Responsible lending in the telecommunications sector

There has been intense discussion with the telecommunications sector regarding telephone loans in 2016. As a result of this, the providers applied for licences in June 2016. Under the Financial Supervision Act, a data and minute plan may not include a loan.

Many of the intermediaries in telephone loans can make use of an exemption from the obligation to obtain a licence. This exemption is subject to certain conditions. The AFM drafted an information sheet for these intermediaries in September 2016, explaining among other things when the exemption applies. An informative meeting for these intermediaries was also held on 3 October 2016. Separate interviews were held with the seven largest intermediaries and (written) questions were answered. We expect this to enable the telecommunications providers to provide clear information to consumers.

Better protection of consumers in collection procedures in the financial sector

A review by the Dutch Authority for Consumers and Markets (ACM) showed that many collection agencies behave abusively





towards consumers with payments in arrears, many of whom are vulnerable. They exert heavy pressure and charge excessive costs and incorrect claims. The AFM and the ACM collectively developed a supervisory strategy to provide better protection to consumers and make them more resilient in 2016. The ACM launched its campaign 'Incasso? Betaal, maar alleen als het klopt!' ('Collection? Pay, but only if it's correct!') in November. In parallel, the AFM placed [the guideline](#) [☒](#) 'Consumers and collection procedures - The responsibilities of providers of consumer credit in case of arrears' on its website. This reminds credit providers of their responsibilities in relation to collection issues and explains how they should deal with customers. In cooperation with the ACM, this will lead to better protection for consumers subject to collection procedures. The major banks and credit providers have been requested to test the principles of their own business practices against the principles of the guideline. We also requested these parties to formulate plans for improvement. The AFM will analyse the results and plans submitted in 2017.

“There has been intense discussion with the telecommunications sector regarding telephone loans in 2016.”

Improvement to the product development and review process

Since 2013, the AFM has been supervising the quality of product development processes at financial enterprises and the products arising from these processes. To prevent product-related scandals, providers must have a PARP (Product Approval and Review Process) that takes a balanced account of the interests of the customer. They must be able to demonstrate that their products are the result of this.

The AFM carried out various reviews of the quality of PARPs in 2016, including a review of the design and implementation of the PARP at various banks. The findings have been shared with the banks in question. Apart from one exception, the design of the PARP at the banks reviewed was adequate. The banks are addressing the shortcomings identified.

Another review assessed compliance with the PARP norm by AIFM licensees who focus on non-professional investors. This identified some problem areas. The results have been shared with the parties concerned and the AFM has taken subsequent measures against parties where necessary.

Undesirable products on the market

The AFM completed its review of PARPs with respect to car finance in 2015. Our call for change has had an effect: 0% car finance has no longer been offered since September 2016. These 0% car loans were misleading, since the actual costs of the loan are in most cases included in the price of the car. Consumers were thus unnecessarily tempted to take out a loan for the purchase of a car.

The AFM has been reviewing investment products with high leverage since 2013. Leverage increases the effect of price movements on the product and therefore its risk. The review ultimately led to no more products with leverage of higher than 50 being offered in 2016. Investors are thus no longer exposed to the most risky leverage products.

Our supervision has also led to commission-free consumer credit in combination with mortgages being removed from the market. Since commission is the only permitted form of remuneration for consumer credit, consumers cannot





purchase an after-sales service in the case of consumer credit with no commission. Certainly in the potentially serious situation that consumer credit is taken out in combination with a mortgage, it is important that consumers have the option of purchasing after-sales service for consumer credit.

Results for our stakeholders

- + The reviews conducted give the AFM insight into the extent to which various market parties are complying or failing to comply with the PARP norm. This insight enables the AFM to allocate its supervisory resource where these are most needed.
- + The market has a better understanding of the interpretation of the PARP norm.
- + The customer's interests are better safeguarded in the product development processes of market parties. This ultimately leads to products that are in the interests of customers and that meet the criteria of cost-effectiveness, usefulness, safety and comprehensibility.

More information on index huggers and index trackers (ETFs)

The AFM carried out a review of potential index huggers in 2016. Index huggers are investment funds that present themselves as actively managed but in fact follow a particular benchmark. A report was published with findings and recommendations for providers of actively management investment funds in May 2016. Managers of potential index huggers received feedback individually. As a result, fund managers are providing more information on the basis of which retail investors and investment advisers can better assess the added value of a fund. A number of (potential) index huggers established in the Netherlands have now been closed or included in other funds. The AFM also carried out a review of actively managed ETFs (Exchange Traded Funds) and

ETFs on an alternative index. An assessment framework for investment advisers and asset managers was published in August 2016. This framework assists in the understanding of these products and can therefore be a useful tool in the structuring of investment portfolios.

Legislation and regulation

Most of the legislation and regulation governing investment and investor protection is the result of European regulations and directives. The introduction of the Market in Financial Instruments Directive (MiFID II) and the Packaged Retail Investment and Insurance-based Investment Products Regulation (PRIIPs) will strengthen this. The AFM actively participates in working groups of the European Securities and Markets Authority (ESMA). The following results were achieved in 2016:

MiFID II

- + The aim of MiFID II is a fair, transparent, efficient and integrated financial market. At ESMA level (working group level 3) we influence the interpretation of the rules. This contributes to better consumer protection and a level playing field. Among other things, the AFM is co-secretary on the issues of product governance (for which a consultation process for guidelines is currently ongoing) and costs. We also present the AFM's supervisory methodology in presentations and workshops at European level.
- + In view of the coming into effect of MiFID II on 3 January 2018 (implementation 2017), in 2016 the AFM reviewed the consequences of MiFID II for market parties and the implications for the AFM's supervision.
- + Market parties have been informed with respect to the coming of MiFID II, the most important changes, the challenges and any obstacles to its implementation. Well-attended workshops were





organised for this in 2016. From the feedback received, we believe that this initiative was appreciated. We will devote further attention to this in 2017, as MiFID II will take effect in 2018.

PRIIPs

- + The AFM strives to increase investor protection by better provision of information on products in the form of a Key Information Document (KID). This includes essential information for investors, such as the costs, the risks and the expected returns.
- + After completion of the activities at level II regulation (the Regulatory Technical Standards, RTS) in early 2016, the AFM has also been actively involved in the level 3 working group. We provided relevant input and ensured that our views on costs, as argued with respect to MiFID II, are also included in PRIIPs.
- + The AFM has contributed to the response of the ESAs to the European Commission on the changed RTS.
- + The Ministry of Finance has been advised on the amendment of the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (BGfo). Among other things, this advice concerned the application of the Financial Information Leaflet when the PRIIPs regulation takes effect, and changes to the fine categories in the Wft due to the introduction of PRIIPs.
- + The AFM is preparing the necessary amendments to the Further Regulations on the Supervision of the Conduct by Financial Undertakings (Nrgfo). These are expected to be opened for consultation in the first quarter of 2017.
- + Market parties will be actively informed regarding the new legislation and regulation. A special website has been set up providing information on PRIIPs, with a dedicated e-mail address for

questions. We will also be distributing newsletters and organising seminars.

Results for our stakeholders

- + The market has been given greater clarity regarding MiFID II.
- + The AFM is making the increasing regulatory pressure more manageable.
- + The new regulation is improving investor protection.

Enforcement of supervision of information provision

Provision of unclear and misleading information

Consumers need correct, comprehensible and balanced information when making financial decisions. This helps to prevent disappointments and ensure that consumers' expectations are met when making purchases. The AFM monitors the market continually with the aim of identifying shortcomings as quickly as possible. As a result of the low level of interest rates, extra attention was devoted to advertisements for products that consumers could see as alternatives to savings, for instance recreational real estate, in 2016. Some of these offers are made outside the scope of our supervision. The AFM considers it important that consumers are fully aware that these propositions are subject to less or even no supervision. This can be achieved by inclusion of a statement of exemption.

A European savings account via online intermediary platforms is a new alternative to savings. The AFM has identified the risks of these accounts and published a newsletter on the matter in April 2016.

73 signals of misleading or otherwise unclear information were dealt with in 2016, whereby we urged various providers of investment, credit and savings products





to cease providing misleading, unclear and incomplete information.

It is important to act quickly against violations of standards because of the visibility of the information provided, for example in advertising. Violations are quickly identified and assessed because the provision of information is accessible to everyone. This does not usually involve lengthy review procedures in advance. Market parties can then cease violations relatively easily by ceasing to provide information or by adding certain information. Informal influence is thus a good way of responding to these signals, for example with interventions by telephone. This usually works quickly and effectively.

In the past two years, we have had 180,000 advertisements from illegal providers of consumer credit removed from online platforms.

As an alternative the AFM issues instructive letters on compliance with standards in which the company is made aware of the violation(s) and requested to state the measures it will take in writing. In 2016, 52 instructive letters on compliance with standards and were issued and one fine was imposed with respect to unclear and misleading advertising (incorrect statement of returns). The AFM also intervened with respect to three products, which led to the product or its advertising campaign being changed or no longer offered.

A review of the quality of interim (during the term) provision of information with respect to insurance products was also carried out in 2016. The quality of the interim information was improved in cooperation with an industry organisation, thus enabling consumers to make a better assessment of their current insurance products.

Table 7 occupation in fte

| Supervision of Lending, Savings and Retail Investing | Actual | Budget 2016 | Difference |
|---|--------|-------------|------------|
| Average total workforce (including temporary hires; in FTE) | 39 | 40 | -1 (-3%) |
| Average workforce employees (in FTE) | 39 | 39 | - (-) |





The interest-rate derivatives case

The banks have been reassessing interest-rate derivatives case files since 2014. In December 2015, the AFM concluded that the banks had not given sufficiently central priority to their customers' interests in the conduct of their reassessment, meaning that customers were not being offered appropriate solutions at that time.

The AFM then looked for a solution to the identified shortcomings that would appropriately address the situation of customers with interest-rate derivatives. This involved several in-depth discussions with the directors of the banks concerned. This led to all the banks committing themselves to the formulation of a uniform compensation framework. In its letter of 29 February 2016, the AFM advised the Minister of Finance to arrange for a uniform compensation framework to be formulated by a committee of independent experts ('the Derivatives Committee').

The approach to the problem mainly consists of the following elements:

- + The appointment of the Derivatives Committee, which would establish a uniform compensation framework in consultation with the banks. This compensation framework was established on 19 December 2016.
- + The compensation framework prescribes the actions banks have to take in specific situations. In addition, direct measures are put in place to prevent future losses. It is important that the compensation framework is uniform. This ensures that all the banks deal with the reassessment of interest-rate derivative case files and compensate customers with potential losses in the same way. Case files dealt with previously have to be reassessed.

- + The banks are primarily responsible for the correct implementation of the compensation framework. It is important that the banks implement the compensation framework with a high level of both care and expediency.
- + The banks report to the AFM on their implementation.
- + The appointment of external assessors who check the work by the banks. The AFM has set strict requirements regarding the selection of the external assessors by the banks in order to ensure that they are both expert and independent. The external assessors will report to the AFM on the quality of the work by the banks.
- + The AFM's supervision of the project that consists of supervision of the action plans of the bank and the external assessors, and also carrying out checks of customer case files.
- + The AFM's monitoring process begins after the banks have calculated a proposal for compensation for customers or groups of customers, the proposal has been approved by the external assessor and has been sent to the customer. The banks then correct any errors identified by the AFM.

The AFM worked with the Derivatives Committee on the pilot phase for the compensation framework in the final months of 2016. The pilot phase concerned the formulation of action plans by both the banks and the external assessors. In the first months of 2017, the AFM will make its most recent comments on the action plans of the banks and the external assessors.

With the publication of the compensation framework for interest-rate derivatives on 19 December 2016 in which ABN AMRO, ING, van Lanschot bankiers, Rabobank, SNS and Deutsche Bank are participants, the AFM has decided to withdraw the fine





imposed on ABN AMRO. This fine of € 750,000 was imposed in October 2015 for violation of duty of care in the provision of investment services to non-professional SMEs. The formulation of the compensation framework since the imposition of the fine means that the circumstances have significantly changed. The AFM no longer considers imposition of this fine on ABN AMRO to be appropriate. The compensation framework aims to offer a solution to the vast majority of the customers concerned,

“It was decided to conduct an independent review of the shortcomings in the AFM’s checks of the reassessments.”

including for losses as a result of failure to comply with the duty of care. The AFM has explicitly taken account of the fact that this issue involves highly unusual circumstances.

After mistakes in 2015, stronger and renewed supervision

In December 2015 the AFM also identified failures in its own checks of these reassessments. After this had occurred, the AFM immediately implemented a number of measures to bring about improvements in the interest-rate derivatives project. A single director was made responsible for clear direction from the Executive Board, who took charge of a special task force in December 2015. Additional capacity and knowledge was made available and expertise was hired in.

In addition, the Supervisory Council of the AFM decided in January 2016 to conduct an independent review of the shortcomings in the AFM’s checks of the reassessments. This review was carried out by the external research agency Alvarez & Marsal (A&M). A&M concluded that a combination of several factors had led to the shortcomings in these checks.

Furthermore, the AFM had not recognised the increasing complexity of the file in good time.

The report stated five lessons to be learned. These relate to the need for more structural monitoring of the risks of the project, more attention to the choice of the right people in view of the complexity of the project, stricter project governance, better quality monitoring, and improving the escalation procedure and mutual communication, so that signals would be dealt with more quickly.

These lessons were reason to implement improvements which closely correspond to the changes already introduced at the AFM to further strengthen and improve its supervision.





Insurance and Pensions

Insurers are facing challenging market conditions. Low interest rates are pressuring the earnings models of traditional life insurers. Intense competition and increasing cost awareness among customers are reducing margins at non-life insurers. There are very few new individual life insurances being concluded. The resolution of problems associated with investment-linked insurances concluded in the past also still requires attention, not only for the insurers but also for intermediaries.

In addition, we are seeing new players in the market for group life insurance such as the general pension funds, and insurers are having to deal with new legislation and regulation. The introduction of Solvency II affects the essence of the earnings model of insurers. The Premium Schemes (Improvements) Act (Wet verbeterde premieregeling) gives customers the possibility of continuing to invest after their retirement date, but also imposes additional obligations on insurers with respect to the provision of information and duty of care. New rules governing professional competence are setting higher requirements for insurers.

Technological progress is another important challenge in the market. This is giving insurers opportunities to develop customised products for their customers and improve their services, but at the same time is introducing fundamental questions, for example with respect to solidarity and the insurability of certain risks. Access to insurance for certain groups, such as the self-employed, is also an issue.

The changing situation in the market and in society is also putting our pension system under pressure. The current system needs to be renewed. Interest rates are low, we are living longer and the days when we spent our whole working lives with one employer are long gone. This means that the average Dutch person cannot be sure about what will happen when they retire. What happens to their contributions? On what basis are their contributions invested? Are they really saving enough for their retirement?

The AFM wants to prevent vulnerable customer groups from getting into difficulties. It also strongly supports appropriate advice, comprehensible products and appropriate services. The AFM also strives to ensure that consumers - both now and in the future - do not get into difficulties as a result of ill-considered financial decisions due to the changes in the market and the new requirements. The AFM accordingly supervises both conduct and information provision and monitors the retail market by means of the Customer Interests Dashboard and an ongoing series of exploratory reviews.

Our normal supervision in 2016 also included additional attention to the top 10 risks 'Arrival of new players leads to new risks with respect to conduct' and 'Old problem products at insurers and incentives for new problems'.

The top 10 risk 'Consumers receive comprehensible and efficient pension products' has been assigned a thematic approach. The focus here was on improving information on pensions and on defined contribution schemes operated by insurers.

A contribution was also made to the retail-wide objectives with respect to the Customer Interests Dashboard and encouraging innovation in the interests of customers.





Table 8 Result Insurance and Pensions

| Objective | Result | Contribution to effect 3-5 years (see Agenda) |
|---|---|--|
| <p>Thematic supervision Pension consumers are offered comprehensible and efficient pension products that meet their needs.</p> | <ul style="list-style-type: none"> + The reviews of the financial structure and information provided by pension funds and the commutation information provided by premium pension institutions and insurers have led to an improvement in the quality of the information on commutation and the likelihood of indexation and curtailments. + Our Expiring Pension Capital review has led to the 2016 Uniform Pension Overviews (UPOs) for members of defined contribution schemes providing more realistic estimates of the expected pension. + The Guideline for the Premium Schemes (Improvements) Act helps pension providers to meet the new requirements introduced by this Act with respect to information provision and the duty of care. + The insurers have developed a plan for enabling members of non-accruing defined benefit schemes to make a conscious choice as to whether to continue with this product. + Our position paper made an active contribution to the discussion of the new pension system. | <p>Our reviews contributed to improving the accuracy and comprehensibility of pension information and mitigating the risks associated with defined contribution schemes.</p> |
| <p>Regular supervision Insurance Limiting problems for consumers with investment-linked insurance.</p> <p>Improving the professional competence of advisers</p> | <ul style="list-style-type: none"> + We have established that the insurers are actively approaching customers with an investment-linked insurance with a view to improving their situation in accordance with the statutory target figures. With our review of the quality of activation by insurers, we also urged them to devote more attention to the quality of rebalancing advice being given by their intermediaries. + We have provided clear information to advisers as to what professional competence requirements they must meet in various circumstances. | |
| <p>Regular supervision Other Promoting a central priority for the customer's interests supports the development of innovative forms of service provision.</p> <p>Continually encouraging the banks and insurers to give a central priority to the customer's interests in their product offerings and service provision.</p> | <ul style="list-style-type: none"> + The testing of innovative forms of service provision to consumers led to changes or withdrawal of the concept in three cases. + A new measurement in the context of the Customer Interests Dashboard shows that we have been successful in our efforts to urge the banks and insurers to improve their information provision and product offerings in most respects. | |





Theme: 'Consumers are offered comprehensible and efficient pension products'

Consumers are increasingly having to take responsibility for their own financial retirement planning. Some of them are not able to do this or do not give this matter sufficient consideration. This calls for increased awareness and more propensity to take action. Otherwise they are exposed to the risk that their pensions will be less than they need and less than they expect. The AFM considers it important that consumers receive correct, clear and balanced information on pensions. It is also important that consumers are given comprehensible and efficient pension products that meet their needs.

Activities and results

The quality of pension information can and must improve

Pension funds can and must provide clearer information to scheme members regarding the likelihood of indexation or curtailment of their pensions in the medium to long term. This is shown by the 'Financial Structure & Information' review that the AFM carried out of 137 pension funds in cooperation with DNB in 2016. Only 1 out of 8 funds provided correct and clear information on both indexation and curtailment. In particular, the information on curtailment can be improved. Only 1 out of 5 funds do this correctly and clearly. The review also showed that the majority of pension funds want to provide good information to their members, but do not always know how to achieve this. The advice we gave with our feedback will enable the sector to make improvements in this respect.

The information from pension providers on optional features in case of commutation

and the associated advantages and disadvantages can also be improved. The AFM carried out a review of 7 pension insurers and 3 premium pension institutions in June 2016. This showed that the information on commutation provided by these pension providers could be improved. Improving the information provided is important, since consumers can only make well-considered decisions regarding the commutation of their pensions on the basis of clear and balanced information.

The AFM also stressed the importance of clear and comprehensible communication on pensions in various policy and legislation processes. For instance, we advised the Ministry of Social Affairs and Employment on the new models for the Uniform Pension Overview (UPO). We also published a [position paper](#) in relation to the debate on a new pension system, in which we emphasised the importance in our view of each scheme member being assigned a personal pension account. We think that such a personal account will make it clearer for the scheme member to see what they are accruing in pension. It also allows for the accrual of pension to be better suited to the member's personal situation. We also consider a good balance between freedom of choice and protection for the scheme member to be important.

Information on pension is important to give consumers an idea of what they are saving. However, this is not enough to get them to take an active approach to their retirement. Consumers also have to monitor whether they are accruing enough pension or whether they need to take additional measures. In 2016, we accordingly insisted that an overall financial overview should be created for consumers including all their financial data, such as savings, mortgages, insurances and pension savings. We also argued for a regular financial check (a





financial 'MoT test'). Several market parties are now taking this idea on board. The AFM will return to this issue in 2017.

Closer supervision of defined contribution schemes

The number of defined contribution schemes is increasing. In these schemes, the employer pays a previously set contribution that after deduction of costs is invested in an individual savings account. The scheme member bears the risk that the investment returns will not be as expected. As part of its thematic objective 'consumers are offered comprehensible and efficient pension products', the AFM will further intensify its supervision of defined contribution schemes. One of the main ideas behind this more intensive supervision is that the AFM believes in a new pension system with personal pension accounts for all scheme members. For this reason, the AFM considers it important that pension providers that already maintain individual accounts give central priority to the interests of scheme members in all ways possible.

“The UPOs that will be issued for 2016 will thus present a more realistic picture of the pension income that scheme members may expect to receive.”

More realistic estimate of pension income

As part of the 'Expiring Pension Capital' review in 2016, we investigated the reasons why the pension income on the retirement date was regularly less than the amount stated in the UPO. The review findings have prompted insurers to remove the factors causing these differences in the information they provide to their scheme members. The UPOs that will be issued for 2016 will thus present a more realistic picture of the pension income that scheme members may expect to receive.

Significant differences between life-cycles

We also looked at how the insurers interpret life-cycle investing in their defined contribution schemes. Life-cycle investing means that the investment risk is reduced as scheme members approach retirement. The aim was to establish the extent to which the insurers are including the interests and the characteristics of the scheme members in the design of their life-cycles. This exploratory review showed that there are significant differences between life-cycles. To give employers appropriate advice, it is important that pension advisers take account of these differences.

Action plan for non-accruing policies

The AFM also entered into a dialogue with insurers regarding defined contribution schemes in which risk premiums are deducted from the initial investment or the accrual. These deductions can mean that scheme members do not accrue any pension. The insurers have formulated an action plan to encourage scheme members to make a conscious choice as to whether to continue their risk cover and/or their policy. We are monitoring progress by establishing how many scheme members have been approached and when, and how their situation will be improved.

The Premium Schemes (Improvements) Act

The AFM formulated its supervision of the Premium Schemes (Improvements) Act (Wet verbeterde premieregeling, or 'Wvp') in the second half of 2016. This Act came into effect on 1 September and offers scheme members the option of continuing to invest after their retirement date. After exploratory discussions with the sector, a guideline was published to assist pension providers to meet the new requirements relating to information and the duty of care. Supervision in relation to the Wvp will be further formulated in 2017.





Results for our stakeholders

- + Pension funds are urged to improve the information they provide on the likelihood of curtailment or indexation.
- + Consumers are given a more realistic estimate of their pension income and will be given better support when taking financial decisions.
- + The insurers will obtain insight into the number of scheme members in defined contribution schemes that do not accrue pension due to deduction of risk premiums. They will prompt these scheme members to make a conscious choice as to whether to continue with the product.
- + The guideline for the Premium Schemes (Improvements) Act assists pension providers to comply with the new regulations.

How is supervision conducted?

The AFM concentrated on a number of sector-wide reviews in 2016. By looking especially for cooperation with DNB, pension providers and policymakers, and at the same time investing in thorough analysis, we exposed the product features and information that need to be improved.

Enforcement

The AFM issued or held 87 instructive letters or conversations on compliance with standards in 2016 in cases where the pension provider was not or not yet in compliance with the statutory rules. These concerned various obligations, ranging from the provision of correct, clear and balanced information to timely issuance of UPOs and the ban on inducements. No more serious measures were necessary. A deliberate decision, since the pension sector is facing a relatively new statutory framework. The Pension Communications Act (Wet pensioencommunicatie) came into effect in 2015 (with some elements not taking effect

until 2016), while the Premium Schemes (Improvements) Act (Wet verbeterde premieregeling) dates from September 2016.

Effects within 3 to 5 years

The theme has two intended effects:

1. Institutions provide their scheme members with comprehensible and balanced information on their pension scheme and/or pension product;
2. Pension products meet the needs of scheme members. The contribution should result in the highest possible pension benefit while avoiding irresponsible risks.

Work was done on improving information on pensions in 2016. With the 'Financial Structure & Information' review, we obtained a good understanding of the extent to which pension funds issue correct, clear and balanced communication on the likelihood of curtailment. While some funds do well in this area, there is room for improvement in each of these respects. The 'Expiring Pension Capital' review also made an active contribution to limiting disappointment for scheme members.

The AFM focused more actively than in previous years on defined contribution schemes provided by insurers in 2016. This led to insurers making an effort to get scheme members with non-accruing policies to make a conscious choice as to whether to continue with the scheme and/or the risk cover. We also obtained greater insight into the features of defined contribution schemes that may lead to disappointment for scheme members.





“The AFM concentrated on a number of sector-wide reviews in 2016.”

Regular supervision: activities and results

Testing of innovative service concepts

The AFM published its Qualification of Innovative Service Provision guideline in August 2016. This was needed to provide guidance to parties developing these new service concepts as to how to apply the statutory framework. We assessed 26 innovative service concepts in retail services during 2016. The aim of these assessments is to ensure that the customer's interests are given a sufficiently central priority in innovation. We took corrective action in relation to risks for customers in three cases. These concepts were either amended or withdrawn. In the opinion of the AFM, the other 23 service concepts adequately served the interests of customers.

Continuing attention to after-sales for investment-linked insurances

Consumers with an investment-linked insurance may get into financial difficulties due to disappointing investment returns. For this reason, the AFM devoted much attention to the after-sales service offered by insurers to customers with an investment-linked insurance. We checked on three occasions to establish whether the insurers were actively (in line with the statutory target figures) approaching a sufficient number of customers with a view to improving their situation. This turned out to be the case.

In addition, the Customer Interests Dashboard is used to review the quality of after-sales and establish how the insurers are managing this process. This revealed that there is room for improvement. Only one insurer was aware of the quality of restorative advice given by the intermediary, and not all the restorative recommenda-

tions made by the insurers themselves with respect to pension-linked policies are yet up to standard. The findings have been shared with the insurers and the AFM is closely monitoring whether the insurers are actually implementing these findings.

Lastly, we included the target figures for approaching customers with 'other' forms of investment-linked insurance in the Further Regulation on the Supervision of the Conduct by Financial Undertakings (Nadere regeling gedragstoezicht financial ondernemingen, or 'Nrgfo'). Based on these target figures, the insurers know when they should have approached customers with an investment-linked insurance not related to a pension or a mortgage.

End of transitional period for new professional competence requirements

The new professional competence requirements for financial services providers have been in force since 1 January 2014. The transitional period expired on 1 January 2017. This led to 99 applications for an exemption, 31 of which were still being processed at the end of December 2016. An application for an exemption may only be granted in case of what are called 'distressing circumstances'.

In early 2016 the AFM checked 62 companies to establish whether they were meeting the diploma obligation (this concerned companies making use of the shortened transitional arrangement); 82 per cent had all the diplomas in place, and further checks were made at the other 18 per cent. This led to instructions on compliance with standards but no enforcement, since there was no intentional violation of a statutory provision.

Banks and insurers give central priority to customer interests

The Customer Interests Dashboard 2015/2016 was published in November

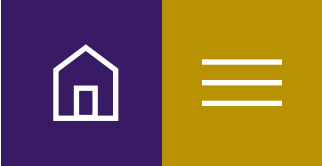




2016. We use the Customer Interests Dashboard as a tool to show the extent to which banks and insurers are giving their customers' interests central priority in their services and product offerings. The results showed an improvement in certain respects compared to the previous year. This was the case for instance for the quality of investment advice and the clarity of the information provided. Further improvement is needed on the aspects Investment-Linked Insurances and Consumer Credit. The AFM is consulting with the sector in order to identify the elements where banks and insurers can take ownership themselves of elements of the Customer Interests Dashboard.

Results for our stakeholders

- + We tested 26 innovations in retail services. Our main consideration was to establish whether the innovations were in the customer's interests and whether the new concepts would lead to a result that is appropriate to the customer's situation and needs. Adjustments were made where necessary.
- + The settlement of the investment-linked insurances issue was furthered by review of the quality of after-sales and monitoring of progress in the activation of consumers with an investment-linked insurance.
- + Advisers have been given additional clarity regarding the professional competence requirements. These requirements contribute to better advice being given to customers. The clarity provided enables advisers to improve their advice.
- + We used the Customer Interests Dashboard to measure the extent to which banks and insurers are giving central priority to the customer's interests in their product offerings and provision of information, and urged them to implement improvements where needed.



How is supervision conducted?

The AFM has used a mix of formal and informal influence. One instructive letter on compliance with standards was issued with respect to after-sales in investment-linked insurance because the restorative recommendations made by one insurer could not be reconstructed due to inadequate record-keeping. The disciplinary complaint the AFM made against SRLEV NV (Reaal) in 2015 was upheld by the Financial Services (Insurance) Disciplinary Board (Tuchtraad Financiële Dienstverlening (Assurantieën) in 2016. This led to a warning being issued to SRLEV by the Insurers Association (Verbond van Verzekeraars). The reason for the complaint was the observation by the AFM that SRLEV had significantly failed to meet its own targets with respect to finding solutions for customers with non-accruing investment-linked insurance as at 31 December 2014. The AFM issued two instructive letters on compliance with standards and four warning letters to ensure the ban on inducements is complied with and that there is no undesirable direction towards a financial product that does not correspond to the characteristics and needs of the consumer. Four warning interviews were also conducted in the light of the ban on inducements. Two warning interviews were conducted with providers of consumer credit in the context of the Consumer Credit Dashboard module. The reason for these interviews was the provision of unbalanced

information in the first case and the lack of an adequate procedure for avoiding excessive borrowing in the second.

International cooperation

In both the International Association of Insurance Supervisors (IAIS) and the European Insurance and Occupational Pensions Authority (EIOPA), the AFM made an active contribution to supervisory convergence in 2016.

Our participation in the Market Conduct Working Group of IAIS led to the ‘application paper on approaches to supervising the conduct of intermediaries’. The report includes examples of cases that need to be taken into account in the supervision of advisers and intermediaries. Various supervisory methodologies are also described. Our participation led to inclusion in this paper of a call for international attention to the removal of conflicts of interest due to commission-related remuneration.

In the Committee on Consumer Protection and Financial Innovation of EIOPA, the AFM contributed to the formulation of the technical advice of EIOPA to the European Commission on the European Directive on Insurance Distribution. This directive changes the current Dutch legislation on matters including the product development process and the provision of information.

Table 9 occupation in fte

| Supervision of Insurance and Pensions | Actual | Budget 2016 | Difference |
|---|--------|-------------|------------|
| Average total workforce (including temporary hires; in FTE) | 37 | 40 | -3 (-8%) |
| Average workforce employees (in FTE) | 37 | 39 | -2 (-5%) |





Quality of Auditing and Reporting

Listed companies are expected to comply with regulation and public expectations. Investors, interested citizens, politicians and, of course, supervisory agencies. A growing and critical group of stakeholders expects good corporate governance and clear and reliable reporting of performance and conduct. This is the essence of good corporate governance.

“A growing and critical group of stakeholders expects good corporate governance and clear and reliable reporting of performance and conduct. This is the essence of good corporate governance.”

The external auditor fulfils an important role in testing that the reporting presented by companies is reliable and balanced. Incidents in the past have damaged confidence in auditors. The accountancy sector still has to work hard on restoring justified confidence in the opinions of auditors as included in their audit statements.

The AFM considers good quality auditing and reporting to be essential. We encourage and motivate the sector and challenge it to work effectively on improving the quality of its governance and management structure, behaviour and culture. This can finally lead to a restoration of confidence in auditors and audit firms. Our supervision is effective when investors and other stakeholders can rely on the financial and non-financial information in annual reports and the opinion of the auditor with respect to that information.

It is important to follow current developments in order for supervision to remain effective. The accountancy sector is also facing technological developments in the areas of data analytics, data-enabled auditing, big data and blockchain technologies. These developments affect the work of auditors and therefore also our supervision.

The AFM elaborated the top 10 risk ‘the business model of auditors’ in its theme of ‘Improving the quality of statutory audits’. This theme was chosen due to the risk that audit firms will not sufficiently improve the quality of their statutory audits and that they cannot ensure that improvements are consistent and permanent. Regular supervision also of course continues to be carried out in addition to the elaboration of the top 10 risk.





Table 10 Quality of Auditing and Reporting

| Objective | Result | Contribution to effect 3-5 years (see Agenda) |
|--|--|--|
| <p><i>Thematic supervision</i> There is a significant need for improvement in the quality of the statutory audits performed by PIE audit firms.</p> | <p>The results in 2016 are as follows (publication of the findings of the quality reviews and the progress of the changes is expected in Q2 2017):</p> <ul style="list-style-type: none"> + The reviews of the selected statutory audits at the Big 4 audit firms for the 2014 and 2015 financial years have been completed. Provisional conclusions have been shared and restorative measures have been initiated at the audit firms (to the extent relevant). + The Monitoring Review of the implementation of all the changes shows that virtually all the PIE audit firms reviewed have implemented the improvements and necessary changes in structure. The reviews of the implementation and embedding of the changes have led to insight for the audit firms regarding the progress of implementation and embedding. This insight has been gained through oral feedback of our findings and observations. | <p>The PIE audit firms are investing in the quality of statutory audits. Implementation and embedding of the necessary changes and improvements is occurring on the basis of the AFM's recommendations and the sector report 'In the public interest'.</p> |
| <p><i>Regular supervision</i> Improvement Annual reporting</p> <p>Increased awareness in relation to corruption in the sector</p> <p>More intense supervision of inadequately performing non-PIE audit firms</p> | <ul style="list-style-type: none"> + More attention to integrated annual reporting at listed companies + Actual changes to the annual reporting of listed companies due to interventions by the AFM. + Awareness at the Big 4 firms of corruption risks is increasing due to the testing of actual consultations with experts at the audit firms and feedback of our observations. + Inadequately performing 'red' non-PIE firms subject to more intense supervision. | |





Theme: 'Improved quality of statutory audits by PIE audit firms'

The AFM is maintaining pressure on the sector in an effort to bring about a significant improvement in the quality of statutory audits. It is important and necessary that investors, pension scheme members and consumers can have confidence that the audit opinion is accurate and fully substantiated.

“Fundamental changes are needed to improve the quality of statutory audits and ensure that these improvements are permanent.”

Two thirds of all statutory audits in the Netherlands are performed by the PIE audit firms. The AFM accordingly focused specifically on this group in 2016, with particular attention to what are known as the Big 4 audit firms (Deloitte, EY, KPMG and PwC). Fundamental changes are needed to improve the quality of statutory audits and ensure that these improvements are permanent.

This was already demonstrated at the end of 2014 by among other things the sector report 'In the public interest', the AFM report on its first measurement of the quality of audits performed by the Big 4 firms and the AFM Dashboard 2015 report. The Dashboard 2015 report focused on the progress of changes and the implementation of improvements. However, intense supervision is still necessary. This was emphasised in early November 2016 by the report from the Accountancy Monitoring Committee on progress in the change process.

We expect the change process undertaken to boost quality. But it is still not clear whether this will be sufficient, whether it will happen quickly enough and whether it will be lasting.

Activities and results

The AFM carried out a second measurement of the quality of statutory audits performed within its 'Regular supervision of the Big 4' project. The review concerned the statutory audits in 2015 and 2016 (for the 2014 and 2015 financial years). The findings give the four audit firms information on where they are performing adequately and where they need to improve. In addition, we reviewed the introduction and embedding of the quality of the change measures at PIE audit firms as part of the 'Monitoring 2016' project. The AFM encourages, motivates and urges the PIE audit firms to make progress with respect to the quality improvements that are needed. These include the functioning of the management, aspects of conduct and culture and internal supervision (the supervisory board). The review findings of both projects are expected to be published in the second quarter of 2017.

Results for our stakeholders

- + Audit firms have obtained insight into the progress and pace of their change processes and the quality measurements of their statutory audits.
- + As a result of the findings of the quality assessments, the Big 4 audit firms are aware of where the quality of the statutory audits reviewed falls short and where they are performing satisfactorily. They can thus learn lessons for their audits in the current and future financial years.





How is supervision conducted?

The AFM tests the quality of the statutory audits. In addition, we report on the progress of change processes in the areas of governance, management, conduct and culture in a dashboard.

We use various ways of influence: organising meetings with CEOs, oral communication of the findings of reviews in addition to the issuance of individual review reports, holding discussions with executive and supervisory directors, the publication of scores for each audit firm by means of a dashboard, imposing fines, other enforcement measures and holding instructive conversations or issuing instructive letters on compliance with standards.

Enforcement

Four fines were imposed in March 2016 on each of the four largest audit firms for violation of their duty of care. These fines were imposed as a result of the reviews of the quality of statutory audits on which a report was issued in September 2014.

International cooperation Audit

The AFM has been involved from the beginning in the International Forum of Independent Audit Regulators (IFIAR) and is an active member of IFIAR, the global partnership of supervisors of audit firms. Through IFIAR, we exert influence on the world's six largest audit firms in order to improve the quality of statutory audits, including in the Netherlands. Our findings with respect to inconsistent quality in the Netherlands are fully consistent with findings in other jurisdictions. IFIAR has discussed with these audit firms that for the next four years an effort will be made to reduce the number of statutory audits with findings by at least 25 per cent. The findings of the AFM's reviews of statutory audits are included in this agreement.

The AFM is also providing the chair of the Monitoring Group in the person of our director Gerben Everts. The Monitoring Group supervises the functioning of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standard Board for Accountants (IESBA). Discussions in the Monitoring Group in 2016 have led to changes to the way in which the global audit standards are formulated. In future, there will be greater attention to checks and balances in the process and more influence from other stakeholders than just the audit firms. This should result in high quality standards, room for innovation and the direct application of these standards worldwide.

Effects within 3 to 5 years

The theme has two intended effects:

1. Only a limited number of the statutory audits performed by PIE audit firms are of inadequate quality.
2. In 2018 the PIE audit firms will have implemented all the measures of the NBA (the Netherlands Institute of Chartered Accountants) and the recommendations of the AFM in the report on the Big 4.

Results have already been achieved in 2016: the PIE audit firms are investing in the quality of statutory audits. This is evidenced by the increase in internal quality review programmes, training of employees, optimisation of customer portfolios per external auditor and changes to the assessment and remuneration criteria with increased weight being assigned to quality. Investment is also being made in programmes for change to conduct and culture, with a focus on strengthening a quality-oriented culture. We cannot as yet give any statement regarding the quality of statutory audits at the Big 4 audit firms, since the regular supervision






of these firms (second measurement) will be completed in 2017. In the transparency reports published by the Big 4 audit firms in the autumn of 2016, the firms themselves state that improving quality will be difficult and will take time.

Regular supervision: activities and results

More attention to integrated reporting

The AFM carried out three thematic reviews in 2016 focusing on the annual reporting of a selected group of listed companies. The reviews concerned integrated reporting, the risk paragraph and the length and quality of disclosures in annual reports. The aim was to raise awareness of these themes, so that they will become and remain agenda items for companies. We also want to encourage companies to make further progress. The reviews show that companies are devoting more attention to integrated reporting, but that further improvement can be made, for instance as regards comparability. The risk paragraph also lacks a sensitivity analysis in many cases. A third conclusion is that companies are addressing the length and quality of disclosures in different ways. The results were published on 18 November 2016 in the [theme report In Balance 2016](#) .

Awareness of risks of corruption is increasing

We followed up on the thematic review Investigation of Corruption at the Big 4 audit firms in 2016. This assessed whether the professional consultation procedure for corruption risks in statutory audits had operated satisfactorily. The organisations reviewed were informed individually of the results. The follow-up review has raised awareness of corruption. As a result, we are seeing more attention devoted to the risks of corruption at certain parties. Nevertheless, awareness in the sector could still be improved. This is also the conclusion of the

first report by the Accountancy Monitoring Committee. The AFM continues to devote attention to questions in this respect.

Approach to non-PIE firms qualified as 'red'

The NBA and SRA (the organisation of Cooperating Registered Accountants and Accountant-Administration Consultants) referred 23 audit firms for investigation by the AFM in 2015/2016. These firms, referred to as 'red non-PIE firms', were classified as inadequate for a second time in the tests carried out by the NBA and SRA. Supervisory interviews were held with 19 audit firms in 2016. The AFM will investigate a further 4 audit firms in 2017. An accelerated test by the SRA or NBA has also been announced with respect to 4 other audit firms. One audit firm requested that its licence should be withdrawn after the announcement that it would be interviewed by the AFM. A second firm stated during the supervisory interview that it would have its licence withdrawn after completion of its statutory audits for the 2015 financial year. Its request for withdrawal of its licence has now been received. The other non-PIE audit firms that failed to achieve a satisfactory result in the quality test will face enforcement measures if they do not show improvements in the short term.

Decline in the number of non-PIE audit firms

The AFM granted 6 licences in 2016, in one case involving a change of legal form of an existing licensee. 32 licences were withdrawn at the request of the licensees: 6 licensees were taken over or merged, 10 ceased their operations, 8 do not perform statutory audits or have never done so, 1 was declared bankrupt, 2 stated that they wished their licence to be withdrawn after the announcement that they would be interviewed or during the interview itself and 3 returned their licences due to qualification





as inadequate in the NBA test. The other 2 withdrawals were for other reasons. The number of non-PIE audit firms in the AFM register declined in 2016, from 347 on 1 January 2016 to 321 on 31 December 2016.

Results for our stakeholders

- + The supervision of reporting promotes financial and other information that is relevant, reliable, comparable, comprehensible, timely and verifiable. This boosts confidence in the capital markets and reduces the costs of capital for businesses.
- + By investigating signals and incidents, and the supervisory actions at the non-PIE firms qualified as 'inadequate' and referred for investigation, audit firms are encouraged to improve the quality of their statutory audits.

“The reviews show that companies are devoting more attention to integrated reporting, but that further improvement can be made.”

How is supervision conducted?

The AFM influences the reporting by companies by means of thematic and desktop reviews. Thematic reviews are carried out to bring certain reporting issues to the attention of preparers and audit firms, with the aim of exerting preventive influence. Desktop reviews may lead to the imposition of an enforcement measure ('notifications' and 'recommendations') and are more focused on formal influence.

In its investigation of signals and incidents with respect to the quality of statutory audits and compliance with legislation and regulation, the AFM focuses on the way in which the audit firm addresses and investigates these signals and incidents, and on the causes that underlie these signals and incidents. We use a mix of formal and informal influence. The AFM expects audit firms to carry out root cause analyses with the aim of improving their quality controls and learning lessons for the future. The adequate follow-up of incidents by audit firms and especially the timely notification of incidents continue to be items of attention. Audit firms are called to account in this respect and we mention this aspect explicitly in our written communication. 44 preliminary investigations were initiated on the basis of incident notifications and signals in 2016; 25 of these were completed in 2016.

Enforcement

Formal letters ('notifications') were sent to 5 companies instructing them to change one or more aspects in their financial reporting for 2014 or 2015 in 2016; 2 of these 5 companies were instructed by the AFM to issue a press release (a 'recommendation') to inform investors regarding a necessary change to their financial reporting. The AFM additionally assessed the follow-up in





response to 5 notifications and 5 informal agreements. In 90 per cent of these cases, adequate changes were made to the financial reporting for 2015. 3 incident investigations dating from previous years were completed in the reporting year. A disciplinary complaint was submitted in one case, while another incident investigation was completed with an instructive letter on compliance with standards. In the third incident review, a final decision still has to be made regarding a formal measure.

International cooperation Reporting

The AFM is represented in the European Enforcers Coordination Sessions (EECS) of the ESMA. The supervisory forum has been set up to promote consistent enforcement of the application of IFRS in the European Economic Area (EEA). The AFM submitted a number of its supervisory cases to the EECS in 2016.

Table 11 occupation in fte

| Supervision of Auditors and Reporting | Actual | Budget 2016 | Difference |
|---|--------|-------------|------------|
| Average total workforce (including temporary hires; in FTE) | 49 | 50 | -1 (-2%) |
| Average workforce employees (in FTE) | 48 | 49 | -1 (-2%) |





Market Integrity & Enforcement

The financial sector is constantly developing. In these changing times, consumers must be able to continue to trust in reliable products and services, transparency and the provision of comprehensive information.

“The AFM strives to reduce harmful conduct and criminality in the financial markets.”

This confidence is damaged if the interests of consumers are seriously affected by the conduct of market parties. For example, the misleading of investors or the offering of (irresponsible) loans to consumers that are very vulnerable financially. Confidence can also be damaged by the involvement of financial services providers or investment firms in criminality, such as money laundering.

The AFM accordingly strives to reduce harmful conduct and criminality in the financial markets. This increases confidence in the financial markets, protects consumers and contributes to a fair and level playing field for market parties.

In this respect, the AFM focuses on licensees and their (co-)policymakers, on parties with an exemption and on illegal parties. In addition to our enforcement actions, we try to influence parties informally by increasing their awareness with respect to risks and regulation.

In 2016, Market Integrity and Enforcement devoted specific attention to two of the top 10 risks; ‘Implicit excessive lending’ and ‘Risk-return consideration’. This is reflected in a thematic approach to unethical earnings models and irresponsible lending.





Table 12 Result for Market Integrity and Enforcement

| Objective | Result | Contribution to effect 3-5 years (see Agenda) |
|---|--|---|
| <p>Thematic supervision Dealing with unethical earnings models</p> | <ul style="list-style-type: none"> + <i>Effective action against unethical borrowers</i> 5 orders for incremental penalty payments imposed due to inadequate cooperation with investigations. + 2 fines imposed for failure to comply with the obligation to publish a prospectus. + 1 fine imposed for failure to provide full essential information to consumers. + 1 referral to the PPS due to suspicion of investment fraud. + 20 letters with information or instructions on compliance with standards issued. Two thirds of the parties involved subsequently brought their working practices in line with regulation (for example by including a statement of exemption in the offering material). + <i>Warnings of boiler rooms</i> 22 boiler rooms were placed on the public warning list. 783 consumers were warned in writing that they were on the call lists of boiler rooms. + <i>Continued attention to investment firms</i> One order for incremental penalty payments and one fine were imposed to motivate investment firms to improve their business practices. One investment firm has improved its business practices. Another investment firm has withdrawn from the market after its licence was withdrawn in connection with an investigation. In addition, 3 instructive letters on compliance with standards were sent in connection with improvements to the business practices of the investment firms concerned. + <i>Transfer of investment-linked insurances</i> 5 formal measures were imposed to bring a permanent and final end to harmful conduct relating to the transfer of insurance policies with excessive charges to funds that are not transparent. | <p>Consumers and investors are more aware of unethical earnings models.</p> <p>Unethical borrowers have ceased their misconduct.</p> <p>There is a more level playing field between investment firms.</p> |
| <p>Irresponsible lending has been dealt with</p> | <ul style="list-style-type: none"> + <i>Curbing pay-day loans</i> Most of the providers of pay-day loans have ceased this activity, partly due to the imposition of six orders for incremental penalty payments. + <i>'Locked up' consumer credit</i> The lending sector has been urged to make changes to the loan conditions for thousands of consumers, who as a result now have a prospect of being able to repay their loans. + <i>Hire purchase</i> Providers have made or announced changes to their product ranges, acceptance procedures or their (digital) decision environment. | <p>Behaviour that leads to the prevention of irresponsible lending (actual or implied).</p> <p>Loan products appropriate to the customer's situation.</p> |





Table 12 Result for Market Integrity and Enforcement

| Objective | Result |
|--|---|
| <p>Regular supervision Promoting ethical conduct by Wft licensees</p> | <ul style="list-style-type: none"> + 6 licences were withdrawn at the request of the companies concerned during investigations. For instance, this concerned investigations into the failure to provide services for which consumers had paid, or involvement of licensees in police investigations. + 1 licence for a financial services provider was withdrawn by the AFM. This provider had borrowed substantial sums from consumers with irresponsibly high risk for those consumers. + 3 orders for incremental penalty payments were imposed due to inadequate cooperation with our investigations. + 23 informative and instructive letters on compliance with standards were sent to licensees to warn and inform the parties concerned in relation to matters such as the integrity of their business conduct, and the reporting of incidents and criminal records to the AFM. + 1 licence was withdrawn at the request of the company concerned during an investigation of various irregularities. |
| <p>Promoting the integrity of audit firms</p> | <ul style="list-style-type: none"> + 3 instructive conversations on compliance with standards were held, including in relation to the handling of internal irregularities at an audit firm. |
| <p>Dealing with unlicensed parties</p> | <ul style="list-style-type: none"> + 1 instruction was sent to an illegal investment institution. + 1 order for incremental penalty payments was imposed on an illegal adviser due to their refusal to cooperate with the investigation. The publication of this order for incremental penalty payments led to multiple signals regarding the working practices of this illegal adviser. + 1 fine was imposed on an illegal authorised agent of an insurer, who shortly afterwards applied for bankruptcy. + 22 persons and companies were warned with respect to the possibility that they were operating without a licence in areas such as insurance or mortgage brokerage. + 4 qualifications of Wft violations were referred to the PPS and/or the police in support of ongoing criminal investigations. + 'Good practices' were published for compliance with the Wwft in relation to the thematic review of investment firms in 2015. In addition, we informed 223 'AIFM-light' managers regarding regulations and risks relevant to their specific situations. This can assist these companies to meet their obligations under the Wwft, and mitigate the risks of activities such as money laundering. |
| <p>Prevention and combating money laundering (compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wet ter voorkoming van witwassen en financieren van terrorisme, or 'Wwft').</p> | <ul style="list-style-type: none"> + 'Good practices' were published for compliance with the Wwft in relation to the thematic review of investment firms in 2015. In addition, we informed 223 'AIFM-light' managers regarding regulations and risks relevant to their specific situations. This can assist these companies to meet their obligations under the Wwft, and mitigate the risks of activities such as money laundering. |
| <p>Combating abuses in funeral insurance</p> | <ul style="list-style-type: none"> + Abuses were addressed with 2 fines for violations of the ban on inducements in relation to intermediation in funeral insurance. (The violation ceased at that point). |



Theme: 'Unethical earnings models will be dealt with'

As a result of the low level of interest rates, consumers have become vulnerable to offers of high returns. There is a possibility that consumers will take inappropriate investment decisions or take risks that are not suitable to their risk profile. Unethical parties are looking to take advantage of this, hoping to make money quickly and easily at the expense of consumers, investors and SME owners. The AFM deals with unethical earnings models.

Activities and results

Effective action against unethical borrowers

The AFM investigated misconduct by illegal and exempt parties that raise money from consumers in 2016. The number of signals relating to unethical borrowers remained high at 510. Signals may be included in ongoing investigations on the basis of a risk-driven approach and some signals are referred to the FEC partners. Signals

“The number of signals relating to unethical borrowers remained high at 510.”

are also received that do not indicate a violation. In 2016, the AFM imposed five orders for incremental penalty payments on parties due to their failure to cooperate adequately with the investigations. Three fines were also imposed and one case was referred to the PPS. 20 informative and instructive letters on compliance with standards were sent and interviews held with market parties, including institutions offering securities without a statement of exemption or institutions that may be obliged to obtain a licence. Two thirds of the parties concerned have changed their practices in line with regulation. Follow-up measures will be taken with respect to the remaining parties.

Boiler rooms on the radar

Boiler rooms are fraudulent persons and organisations using unscrupulous sales-people to approach potential investors by telephone with a 'fantastic investment opportunity'. Usually this concerns valueless or fake shares. Cold calling of consumers with offers to buy or sell shares is forbidden in the Netherlands. The AFM uses warning lists to warn people about boiler rooms. 22 fraudsters were placed on the warning list in 2016. The AFM has also obtained two 'call lists' in use by boiler rooms from the Fiscal Intelligence and Investigation Service (FIOD). The AFM wrote to all 783 consumers on these two call lists at the end of May and in August to warn them that they may be approached (or approached again) by fraudsters.

Continued attention to investment firms

As in 2015, the AFM focused on investment firms in 2016. A risk inventory revealed that there were still too many investment firms guilty of (serious) breaches of integrity, such as violations of the standards for business conduct. Investigations were carried out at seven parties which led to two formal measures and three instructive letters on compliance with standards. This approach had the desired effect: the companies concerned have improved their business conduct or left the market. This is a positive development, but additional effort is still needed.

Abuses in the transfer of investment-linked insurances

The problems associated with the switching of investment-linked insurance into alternative, tax-efficient asset accumulation products again required much attention in early 2016. In 2014, the AFM called upon consumers to obtain advice on how to restore their situation. Unfortunately, some of this advice was provided by institutions





that did not act in the interests of the consumers. The AFM imposed five formal measures on various parties and also carried out a number of informal interventions.

Results for our stakeholders

The investigations and supervisory measures contribute to a fair and sustainable financial market. This means an improved information position for consumers and investors, removal of illegal and exempt parties that commit abuses, achievement of a level playing field and better service provision.

How is supervision conducted?

The AFM uses a mix of formal (orders, fines and reports to the PPS) and informal (instructive letters on compliance with standards and warning letters to consumers) measures. In some cases, informal influence is preferred for reasons of efficiency and effectiveness. The approach to fraudulent boiler rooms is a good example. Hundreds of Dutch citizens were warned by a letter that they were on a boiler room's call list in the second quarter of 2016.

International cooperation

The AFM regularly exchanged information with other European supervisors in relation to its investigations of investment firms and unethical borrowers

Effects within 3 to 5 years

The theme has four intended effects:

- + Market parties with unfair earnings models will be dealt with.
- + Mis-selling and product pushing or the misleading of consumers, investors and/or SMEs in the investment market will be reduced.
- + Consumers are offered appropriate advice when switching an insurance product to a capital accumulation product.

- + The number of consumers with undesirable capital accumulation products will be reduced or limited.

Consumers and investors became more aware of unethical earnings models in 2016. The AFM issued information and warnings, also by means of publication of formal measures imposed on illegal and unethical exempted parties. This has also led to unethical borrowers ceasing their misconduct.

A risk analysis of investment firms that violate legal requirements on a regular basis shows that the market is in better shape in this respect than it was in 2014 and that the services provided to consumers and investors may have improved. There is also more of a level playing field between investment firms. However, there are still investment firms that are guilty of breaches of integrity. The AFM will accordingly focus on these firms in 2017 as well.

Theme: 'Irresponsible lending will be dealt with'

Debt is a serious and growing problem in the Netherlands. One in six Dutch households are exposed to the risk of debt problems, their debts are already problematic or they are in a debt assistance procedure. Some of this problematic debt is due to irresponsible lending. The statutory norms for consumer credit, such as conscious and responsible lending, avoidance of 'push behaviour' (encouraging consumers to take out loans without consideration of whether this is in their interest) and combating excessive charges should turn the tide. The AFM urges market parties not to lend irresponsibly and will act against unethical parties.





Activities and results

Further progress in cleaning up the pay-day loans market

The AFM focused on the (often international) evasive constructions used by parties offering pay-day loans. These are loans with very short maturities and a relatively low principal. These providers are for example not sufficiently transparent regarding additional charges, consumers are charged usurious rates, Credit Registration Agency (BKR) checks are not carried out and rules governing advertising are not complied with. All these factors contribute to excessive lending to consumers who are extremely vulnerable financially. Six orders for incremental penalty payments were imposed (three of which were imposed on the person actually in charge) to compel providers to provide information. The majority of the parties offering pay-day loans ceased their activities under pressure from the AFM in 2016. The investigations still ongoing are expected to be completed in the first half of 2017.

“The majority of the parties offering pay-day loans ceased their activities under pressure from the AFM in 2016.”

Fewer consumers ‘locked up’ in consumer loans

In the past, various market parties sold loans to consumers on a large scale whereby the consumers concerned had little or no obligation to repay for a lengthy period. The result was that after this period expired, many of them had to pay such high monthly costs that there was a danger that they would get into difficulties. These consumers could not move to a different lender because (by the current standards) they had borrowed excessively.

The AFM urged the lending sector to reduce the number of consumers ‘locked up’ in a consumer loan in 2016. This was effective. The loans to many thousands of consumers have been changed, offering them the prospect of a debt-free future. Loans were for example converted into products with a higher repayment component (in combination with a lower interest rate or not). Various lenders have also implemented generic measures in response to urging by the AFM. Interest rates have for instance been reduced for groups of existing customers (that are comparable to those offered to new consumers). The problem has, however, not yet been solved for all consumers. In 2017 the AFM will continue to work hard on a solution for consumers in such a situation.

Hire purchase market under scrutiny

Parties such as car dealers, mail order companies and electronics companies offer consumers the option of hire purchase. There are signals from the market indicating excessive borrowing and an undesirable clustering of these loans, misleading of customers, inappropriate product ranges and ‘product pushing’. The AFM completed a wide-ranging exploratory review of the market for hire purchase in early 2016. Five supervisory reviews were initiated on the basis of the findings. The ultimate goal is that activities that do not constitute ‘conscious and responsible lending’ will cease. A number of providers have now implemented or announced changes to their product offering, acceptance procedure or (digital) decision environment. The AFM will continue its ongoing investigations in 2017.





Results for our stakeholders

The investigations and supervisory measures will (over time) contribute to reducing the debt problem in the Netherlands and achieving a fairer market for consumer credit.

How is supervision conducted?

The AFM took formal measures (orders for incremental penalty payments) where necessary when dealing with evasive constructions by parties offering pay-day loans. Partly as a result of hits, most of the parties offering pay-day loans in the Dutch market have ceased their illegal activities. The results in relation to problems with 'locked up' consumers and hire purchases have so far been achieved without the direct application of formal measures. In its ongoing investigations, the AFM will use formal enforcement in cases where parties do not adequately recognise the urgency of the situation and/or fail to adequately meet their statutory obligations.

International cooperation

We cooperate with other European supervisors in our approach to handling evasive constructions by pay-day loan providers. This international cooperation has made a strong contribution to understanding the international constructions that these providers use.

Effects within 3 to 5 years

The theme has four intended effects:

1. Behaviour by market parties that leads to the prevention of irresponsible lending (actual or implied).
2. Different standards applying to lending (NVB, NTO, VFN) will be harmonised.
3. Credit products offered or recommended are appropriate to the customer's situation.

4. Products or constructions that meet the same demand as consumer credit but are not treated as such by law are either subject to supervision or have been removed from the market.

Good progress was made in 2016 in the realisation of the effects 'Behaviour by market parties that leads to the prevention of irresponsible lending (actual or implied)' and 'Credit products offered or recommended are appropriate to the customer's situation'. The pay-day loan market has virtually been cleaned up. The two enforcement measures (so far) published will have a preventive and precautionary effect on new players and consumers. Several credit providers have adjusted the loans of many thousands of consumers. These people now have a prospect of a debt-free future. Hire purchase providers have also made or announced changes. These changes contribute to the prevention of excessive borrowing and more appropriate loan products.

The supervisory efforts will be continued and completed in 2017. The activities designed to achieve the other two effects will commence in 2017.





Regular supervision: activities and results

Integrity checks at Wft licensees

The AFM takes action against (serious) violations of integrity by parties licensed pursuant to the Wft (the Dutch Financial Supervision Act). The focus is on ethical business conduct and properness. Examples of violations of integrity include: involvement in intentional damage and extreme lack of care in the treatment of customers, money laundering, fraud, embezzlement, forgery of documents, bankruptcy fraud and serious tax offences.

“The AFM carried out seven integrity checks at audit firms.”

In 2016 the AFM carried out 36 investigations of Wft licensees in connection with ethical business conduct and/or the properness of (co-)policymakers. One licence was withdrawn by the AFM and six licences were withdrawn at the request of the company concerned. Three orders for incremental penalty payments were imposed (two of which were published). A total of 16 instructive letters and 7 informative letters on compliance with standards were sent. Interviews with the Wft licensees concerned were conducted in advance of this.

Integrity checks at audit firms

In order to deal effectively with serious violations of integrity at audit firms, the AFM further analysed signals relating to such violations in 2016 and assessed the associated risks. This concerns for example possible involvement in tax fraud, corruption, money laundering, forgery of documents by (co-)policymakers, external auditors and/or other employees. This analysis contributed to our ongoing risk-driven supervision, since we have obtained greater insight into the problem and its scale.

The AFM carried out seven integrity checks at audit firms. One organisation returned its licence pursuant to the Audit Firms (Supervision) Act (Wet toezicht accountants-organisaties, or 'Wta'). Three investigations were completed with an instructive conversation on compliance with standards. The other three investigations are still ongoing.

Action against parties operating without the necessary licence

The AFM acts against parties operating without the necessary licence, or which are suspected of doing so. In 2016 there was one instruction, one order for incremental penalty payments and one fine imposed on parties in connection with violation of the licence obligation. In addition, the AFM cooperated with the police in criminal investigations into the provision of services for which a licence is mandatory. In this context, four qualifications of Wft violations were referred to the PPS and/or the police in support of ongoing criminal investigations. We also contacted 22 institutions which we suspected were carrying out activities for which a licence is mandatory on a limited scale. These institutions were first approached by telephone and subsequently given a written warning. These warnings support any future enforcement action. We also requested the parties concerned to change their activities (if applicable) and/or apply for a licence. Over three quarters of the parties concerned took measures immediately, for instance by clarifying the information on their websites. A number of these parties turned out not to be in violation.

Prevention and combating of money laundering

Money laundering harms the integrity of the financial system. The AFM has an important role in the prevention and combating of this problem, in particular as one of the supervisory agencies for





compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wet ter voorkoming van witwassen en financieren van terrorisme, or 'Wwft'). The findings of the thematic review of investment firms in 2015 were published this year. This included good practices for compliance with the Wwft. As a result of the 'Panama Papers', we informed institutions by letter regarding off-shore structures and the Wwft. 2016 also saw the start of a thematic review of 'AIFM-light' managers of collective investment schemes in the form of a generic invitation to 223 institutions (for the Wwft and also partly the Sanctions Act 1977). The managers in question were given specific information regarding relevant regulations and risks on the basis of their responses. Lastly, we carried out risk and signal-driven supervisory investigations on the basis of the Wwft, some of which are still ongoing. In some cases this led to instructions on compliance with standards due to insufficiently in-depth customer assessment in the case of complex constructions involving legal entities, or inadequate recording of the findings of the customer assessment.

Fewer abuses in funeral insurance

The AFM has devoted additional attention to the funeral insurance business in recent years. Partly due to pressure from the saturated funeral insurance market and the ban on inducements, the sector has made improvements to its business conduct so that compliance with legislation and regulation has improved. Abuses have been reduced. Providers are now less focused on new production, and the number of signals of 'product pushing' has declined. The AFM carried out a further review of violations in 2016, some of which are now complete. Two fines were imposed for violations of the ban on inducements.

Results for our stakeholders

- + The integrity checks and supervisory measures contribute to a fair and sustainable financial market. This provides a more level playing field and increases confidence in the financial sector.
- + The publications, the thematic review and the supervisory investigations contribute to awareness among market parties of matters such as the risks of money laundering and to compliance with the Wwft. This increases the systemic integrity of the financial sector.





How is supervision conducted?

A mix of formal and informal measures is used for dealing with violations of integrity by licensees and with market parties that have not obtained a licence. In less serious cases, informal influence is preferred for reasons of efficiency and effectiveness. Informal influence is used especially to increase market awareness and knowledge of the risks of money laundering and the Wwft regulations. For instance, 223 'AIFM-light' managers of collective investment schemes were provided with specific information on the relevant regulation and risks to improve compliance with the Wwft and the Sanctions Act.

International cooperation

Dealing with international activities or corporate structures may require international exchange of information with supervisory and criminal-law institutions. The integrity checks of licensees involved one transfer of a case to a foreign supervisor. Information was also provided to the Belgian Public Prosecution Service regarding an illegal party that was involved with a former licensee.

Table 13 occupation in fte

| Supervision of Market Integrity & Enforcement | Actual | Budget 2016 | Difference |
|---|--------|-------------|------------|
| Average total workforce (including temporary hires; in FTE) | 40 | 43 | -3 (-7%) |
| Average workforce employees (in FTE) | 40 | 43 | -3 (-7%) |





Assetmanagement

In terms of size, asset management forms the largest part of the financial sector in the Netherlands. The role of asset management is growing, and becoming more international and more complex. At the same time, asset management has an increasingly important role in meeting the financial requirements of businesses and the accumulation of capital by private citizens.

“Companies deciding to delegate operations may lose some of their direct overview of their business operation.”

This complexity entails risks. For example, the quality of business operation can be adversely affected if the expected or predicted return can only be achieved by reducing costs. Companies may also decide to delegate operations whereby they may lose some of their direct overview of their business operation.

At the same time, today's low level of interest rates means that investors are once again searching for returns. This development can create an imbalance in the relationship between investor and manager; more investors are searching for yield, and the opportunities for this become more limited as a result. This may mean that investors become less critical with

respect to managers, and thus offer less of a counterweight. This in turn can lead to a less critical counterweight from investors with respect to the propositions and/or business operation of managers.

The increased importance of asset management also raises the question of whether the shift towards more market-driven funding instead of bank funding is leading to a shift in risks to stability.

In order to effectively supervise this area, the AFM designated asset management (AM) as a specific area of attention in 2016. The AFM closely monitors that asset management parties take careful account of the interests of investors.

We also supervise asset managers and assess whether they are sufficiently professional in order to fulfil their role expertly and with integrity. The AFM also strives to ensure that the AM market functions effectively.

As an extension of the ongoing attention to licensing, fund notifications, testing of (co-) policymakers and supervisory officers and international activities, additional attention was devoted to the top 10 risk 'Growth of asset management is leading to new conduct and systemic risks' in 2016. We have formulated our supervisory strategy for this area of attention. With this, the AFM aims to achieve a situation in which the existing players meet the set requirements in order to adequately serve the interests of investors.



Table 14 Result Assetmanagement

| Objective | Result | Contribution to effect 3-5 years (see Agenda) |
|---|---|---|
| <p>Thematic supervision All the players in the asset management market are professional enough to adequately serve the interests of investors.</p> | <p>The top 10 risk 'Growth of asset management is leading to new conduct and systemic risks' has been strategically elaborated. The inventory of risks and potential solutions is increasing the professionalism of the market. This should lead to adequate protection of the interests of investors.</p> <p>The AFM has carried out an initial review of the possibilities for data-driven supervision in order to closely monitor the potential risks and stability risks that could be associated with the growth of asset management.</p> <p>Provision and exchange of information with market parties and their advisers regarding the new requirements under MiFID II. This has contributed to market parties being able to comply with these new requirements.</p> | <p>Asset management parties are aware of the requirements they must meet in order to properly fulfil their roles and adequately serve the interests of investors.</p> <p>Individual asset management parties are professional and ensure that their organisations and processes are up to standard.</p> <p>Companies that do not manage to bring their business operations in line with the statutory requirements will leave the market.</p> |
| <p>Regular supervision Supervision of existing licensees</p> <p>Licensing</p> <p>Notifications and changes</p> <p>Tests of persons</p> | <p>Greater clarity for market parties regarding what is expected of them in order to meet the requirements applying to them.</p> <p>In the case of parties that can no longer meet these requirements, the AFM has ensured that they can no longer expand or carry out their activities.</p> <p>With its licensing procedure, the AFM ensures that only parties with a sufficiently robust and professional structure can enter in the AM market with a licence.</p> <p>With its assessment of fund and other notifications and changes, the AFM ensures that a manager can only offer those funds and implement changes that meet the set requirements. These requirements are intended to ensure that the interests of investors are adequately served.</p> <p>The testing of policymakers contributes to executive and supervisory directors of companies subject to supervision considered to be proper and suitable for their positions.</p> | <p>Asset management parties are aware of the requirements they must meet in order to properly fulfil their roles and adequately serve the interests of investors.</p> <p>There are no licensed asset management parties in the market that do not meet the requirements that apply to them.</p> <p>Confidence in the asset management market is increased.</p> <p>A level playing field for asset management parties is achieved.</p> |





'Asset management parties have their houses in order'

Due to the low level of interest rates, investors are looking for other ways to achieve standard or higher returns: the 'search for yield'. This entails additional risks. The supervision of asset management is thus becoming increasingly important. It is thus essential that also the existing players in the AM market, from managers and depositaries to investment firms, are sufficiently professional and meet the stricter statutory requirements in order to be able to adequately serve the interests of

"The supervision of asset management is becoming increasingly important."

investors. An important group of existing players has so far not been included in this stricter test due to a legal conversion of their licences, a process known as 'grandfathering'. The AFM accordingly decided to take an overall thematic approach to its supervision of these asset management parties in 2016. It has formulated a theme and will actively review whether existing asset management parties are up to standard. Firstly, this will achieve a level playing field, and secondly it will ensure that all market parties are sufficiently professional to be able to fulfil their roles adequately.

Activities and results

Focus on the asset management market

The first six months of this theme (May-December 2016) involved an inventory of the asset management market in the Netherlands. We focused mainly on parties with an Alternative Investment Fund Manager (AIFM) licence. For the inventory

of the market, we use an internal risk map. The AFM has also carried out an initial review of the possibilities for data-driven supervision in order to closely monitor the potential stability risks associated with the growth of asset management. The AFM had already reviewed several parties to establish the extent to which they had their houses in order as part of its normal supervision in 2016. The findings showed that not all parties had adequately met the conditions. Measures were implemented as a result of the findings, including rejection of fund notifications and withdrawal or limitation of licences. For the institutions subject to regular supervision, the insights gained from this thematic review were included.

The Markets in Financial Instruments Directive II (MiFID II)

MiFID II comes into effect on 3 January 2018, and will introduce new obligations for market parties. In addition, newcomers to the market will be subject to supervision by the AFM. The AFM carried out extensive preparatory work in 2016, both on substance (interpretations) and form, in order to be able to process the licence applications it expects to receive in 2017. These included discussions with market parties and their advisers and a round table organised by market parties in order to assess whether the market was ready for MiFID II and where the challenges still lie. Market parties are thus better prepared for what will be expected of them under the new regulation. The AFM has also been able to include the insights it obtained in the formulation of its supervisory strategy for MiFID II.





Results for our stakeholders

With this chosen theme, we ensure that there will be a level playing field for all market players as they will be subject to the same standard. This is already the case in our ongoing supervision with all new parties and also existing players that report to the AFM as part of our regular supervision. In the case of parties identified by the AFM as not or no longer meeting the standard, we have ensured that they can no longer expand or continue their activities. This is done in order to prevent these parties from continuing to cause harm to investors.

How is supervision conducted?

Our internal risk map is formulated on the basis of data-driven supervision as well as our regular supervision. Most of the reviews in 2016 were part of our normal supervision. Based on licence applications, fund and other notifications and signals, the AFM has carried out reviews of parties to assess whether they meet the statutory requirements and are therefore up to standard. This kind of supervisory information provides input for the risk map. The risk map will be refined on the basis of further exploratory and other reviews in 2017.

Enforcement

Two licence applications were rejected in 2016 because the applicant in question did not meet the requirements. In two cases, the AFM withdrew the licence or imposed limitations because the parties in question were no longer able to adequately perform their roles.

International perspective

The International Monetary Fund (IMF) carries out its Financial Sector Assessment Program (FSAP) in the Netherlands (and other countries) every five years. The aim of the program is to review the resilience

and stability of the Dutch financial system, among other things. The IMF team also assessed the activities of the AFM with respect to asset management as part of its FSAP in 2016. The provisional findings show that we made the right choices in our supervisory strategy.

Effects within 3 to 5 years

The theme has four intended effects:

1. Asset management parties are aware of the requirements they must meet in order to properly fulfil their roles and adequately serve the interests of investors.
2. Individual asset management parties are professional and their organisations and processes are up to standard.
3. Companies that do not manage to bring their business operations in line with the statutory requirements will leave the market.
4. The AFM has good understanding of the risks relating to the structure and exposure of asset management parties and the shifts in these risks, and is able to substantiate these insights independently. This enables a certain degree of anticipatory risk analysis.

In 2016, asset managers took steps to improve their business practices. Licence applications were refused in some cases, or parties withdrew their applications on their own initiative. This means that there are no licensed managers of investment funds entering the market that do not have their houses in order. Measures were taken against parties that in practice do not meet the legislative and regulatory requirements on the basis of their structure and conduct. This means they can no longer carry out or expand their activities.





Regular supervision: activities and results

Supervision of existing licensees

Complaints, notifications and identified violations of legislation and regulation are important risk indicators in the supervision of existing licensees. The AFM assesses these signals on a risk-driven basis and applies various tools to obtain further detail when serious signals are received. These include consultations, requests for information and investigations. The AFM took enforcement action on a couple of occasions (see also the section on enforcement). In other cases, the company made changes after constructive discussion or was able to show that there were no shortcomings.

“Experience shows that a sufficiently thorough entry check is an important factor in preventing serious supervisory effort being required at a later date for this element of the structure of asset management parties.”

An important element in the AFM’s ongoing supervision is relationship management with larger AIFMs (in terms of assets under management) and depositaries. Where necessary, this is done in cooperation with DNB. We organise presentations and panel discussions at seminars to inform market parties regarding the focus of our supervision. This presents a good and regularly occurring opportunity for a constructive dialogue with the market.

Licensing

11 licences were granted to new investment firms and one licence to a provider of investment properties in 2016. An extension of the licence was granted to four existing licensees. 12 applications from crowd-funding platforms were approved. One application has since been withdrawn by the applicant. In our assessment of a

licence or exemption application, we look at the structure of the management and the business conduct, the business model, the services provided to customers and how potential conflicts of interest are addressed. The AFM discusses these matters with the applicants so that they can make any changes necessary to meet the licence requirements. A licence is only granted after thorough checks. Experience shows that a sufficiently thorough entry check is an important factor in preventing serious supervisory effort being required at a later date for this element of the structure of asset management parties. This can mean that processing times for the issue of a licence are somewhat longer, but it ensures that the companies’ organisations are more robust and professional. Seven managers of alternative collective investment schemes obtained a licence from the AFM in 2016. Funds and depositaries were also assessed.

Notifications and changes

In addition to licence applications, the AFM also receives submissions of new funds and sub-funds from licensed managers and notifications of various important changes. These include notifications of a change of depositary, delegation of key tasks and changes to the conditions or notification of closure of funds or sub-funds. The notifications are assessed by the AFM and, if there are no issues arising, entered in the registers of the AFM. We assessed and processed 91 notifications of funds, including the depositaries, and 73 important changes in 2016. 67 managers were also registered as exempt AIFM managers, 37 new fund notifications from exempt managers were processed and 13 funds were deregistered. Five of these were assessed under the European Venture Capital Fund regime. In addition, there is a large and regular flow of various passports and notifications (more than 200 in total) that are sent and received from within and outside Europe.





Tests of persons

In addition to the tests of policymakers as part of the processing of licence applications, the AFM also assesses policymakers registered at existing licensees. The testing of policymakers contributes to executive and supervisory directors of companies subject to supervision considered to be proper and suitable for their positions. Over 190 persons (from investment firms subject to supervision) were assessed in 2016. The vast majority were approved, while five notifications were withdrawn. In addition, the existing policymakers at crowd-funding parties that intermediate in loans to SMEs had to be tested again in connection with changed regulation. Originally, only a test for properness was required for these parties. The changed regulation requires also a test for suitability. In some cases, this additional test meant that a change was needed in the group of policymakers.

Results for our stakeholders

- + New players in the asset management market have their processes and services sufficiently in order; existing market parties are encouraged to keep their organisation in order.
- + The activities of the AFM promote confidence in the market for asset management and contribute to a level playing field for all parties.

How is supervision conducted?

In its regular supervision, the AFM used informal influence as far as possible and enforcement when necessary. With newsletters, presentations at seminars, panel discussions and other contact moments we provide clarity to market parties as to how to comply with the requirements properly. More formal influence follows if needed. Usually, in the first instance in the form of a dialogue, since many shortcomings or violations are due to insufficient knowledge. If dialogue fails to have any effect or if

the company does not take action with sufficient urgency, we use formal measures to achieve the desired result. In extreme cases, withdrawal of the licence is necessary to prevent the company from causing further harm to customers and investors.

Most licence and exemption applications require changes to the original application. These include changes in the management structure, the governance, a controlled and ethical business operation, hierarchical and functional separation between risk management tasks and portfolio management, an appropriate remuneration policy, the independence of the depositary, dealing with conflicts of interest and fund and offering documentation. In all these cases, informal influence is used. Sometimes an applicant acknowledges the added value of this process. "The AFM has forced us to put our processes in order and become more professional." This means that only parties with a sufficiently professional and robust organisation enter the market.

Enforcement

- + Measures were taken against 13 companies in 2016, consisting of one warning, seven instructive letters on compliance with standards, three instructions and one withdrawal of a licence. There was also one case in which it was decided to appoint a Wft receiver. Several of the instructive letters on compliance with standards concerned violations in relation to the appointment of policymakers. The other measures concerned deficiencies in the business operation.
- + Four licence applications for managers of collective investment schemes were rejected and/or withdrawn by the applicants during the application process because they were not able to meet the requirements. Two licences were withdrawn at the request of the manager concerned. In two cases, the AFM





withdrew licences or imposed additional limitations on the types of assets a manager may manage.

- + Two sub-funds or funds of licensed managers were rejected because they did not clearly enough meet the requirements. The AFM thus prevented new funds being offered that are not in the interests of investors.

International cooperation

An active contribution to new regulation at European level was made in 2016, including the ESMA recommendations to the European Commission on third-country policy and loan origination funds, the revised European Long Term Investment Funds Regulation, AIFMD reporting and guidelines for remuneration rules for Undertakings for the Collective Investment of Transferable Securities (UCITS). The AFM emphasised the views and interests of the Netherlands (such as the interests of our pension funds).

The AFM participated in the ESRB Expert Group on Investment Fund Liquidity and Leverage (EGIF) in 2016. Participation in this working group is part of the strategic focus on the stability risks in relation to asset management and thus contributes to the aims of the AM division and the AFM’s mandate with respect to financial stability from a capital markets perspective.

Through this working group, influence can be exercised on policy recommendations by the ESRB in relation to stability risks.

Valuation of real estate and the role of valuers

Together with DNB, the AFM has devoted continuing attention to the valuation of real estate, ranging from housing to large-scale investment real estate. Valuers must be independent, autonomous and professional in order to be able to arrive at a realistic opinion of market value. The AFM contributed to the self-regulation of valuers (the Dutch Register of Property Valuers (Nederlands Register Vastgoed Taxateurs, or NRVT). The NRVT has been in operation since 1 January 2016. Despite the relatively short history, the AFM expects to see an acceleration in the operation of this self-regulation, in ongoing supervision and expertise requirements (testing and attainment targets), resulting in a practical and effective self-regulating resource in this sector. The AFM can only continue to take a positive view of this self-regulation if it demonstrably works.

Table 15 occupation in fte

| Supervision of Asset Management | Actual | Budget 2016 | Difference |
|---|--------|-------------|------------|
| Average total workforce (including temporary hires; in FTE) | 27 | 25 | 2 (8%) |
| Average workforce employees (in FTE) | 26 | 25 | 1 (4%) |





Testing of persons

A sustainable, fair and transparent financial sector depends among other things on suitable and proper executive and supervisory directors. The integrity and suitability of the persons and companies operating in the financial markets is thus essential for public confidence in these markets and the companies that operate in these markets. There can be no doubts regarding the properness and suitability of persons who (solely or collectively) determine policy and the persons who supervise policy and the general state of affairs at financial firms.

Persons who determine policy either solely or collectively must be proper and suitable for the performance of their tasks. Persons joining a financial enterprise are tested by the AFM and/or De Nederlandsche Bank for properness and suitability.

“Persons who determine policy either solely or collectively must be proper and suitable for the performance of their tasks.”

DNB and AFM carry out approximately 2,000 of such tests every year, with a positive assessment in 95 per cent of cases. There are also between 10 and 20 repeat tests each year whereby existing directors are tested again.

AFM and DNB appointed an independent external committee in 2016 to review the design and operation of the testing of executive and supervisory directors in the financial sector. The committee is chaired by Professor Annetje Ottow and also includes Professor Janka Stoker and Jan Hommen. The findings of this review were published on 13 December 2016. The Ottow Committee described the performance by the supervisors in their task of testing directors as ‘adequate’. There is widespread support in the financial sector for the aims and importance of testing executive and supervisory directors. Good testing is seen as an important means of increasing the sector’s ability to learn.

The report puts forward various proposals for changes and improvements to the testing process. DNB and the AFM have accepted these recommendations and taken measures to implement the improvements.





Innovation & Fintech

The AFM notes that financial markets and financial enterprises are undergoing drastic changes as a result of technological developments. The far-reaching digitalisation of products and services with the aid of technology-driven innovations is leading to new players and new earnings models. The huge increase in the availability of data in combination with techniques to convert these data into usable information also means that more complex functions are now being automated. This applies for instance to investment analysis and the provision of investment advice, the assessment of credit and loss risks, and the sale and distribution of financial products and services.

“The far-reaching digitalisation of products and services with the aid of technology-driven innovations is leading to new players and new earnings models.”

The rapid innovation in the financial sector involves both positive and negative effects. Customers benefit from a more accessible and more customised offering of products and services at lower prices for consumers and investors. At the same time, innovations also entail risks that harm the customer's interests. For instance, misleading online sales tactics based on search history and other online information designed to take advantage of the limited rationality of consumers. This could for example involve tempting them to take impulsive decisions for products that are simply harmful to users.

The AFM has been running its Innovation & Fintech programme in response to these developments since 2016. The mission of the programme is to accommodate technological innovation in the financial sector, as long as this innovation contributes to sustainable financial prosperity in the Netherlands. For instance, by ensuring that parties can find us easily and by removing unnecessary barriers together. The programme also will ensure that the risks relating to these innovations are addressed. The mission has four associated targets:

1. Supporting innovative players by pointing out problems and helping to remove unnecessary barriers.
2. Creating an overview of innovative and fintech concepts and their impact on the sector and the AFM.
3. Adapting the statutory framework and interpretations in cases where legislation and regulation forms an unnecessary barrier.
4. Preparing the AFM organisation for the fast-moving market conditions.





Table 16 Results from Innovation & Fintech

| Objective | Result |
|--|---|
| Supporting innovative players by pointing out problems and helping to remove unnecessary barriers. | <p>114 market parties have been supported via the InnovationHub for their innovative market concepts. Market parties are thus able to obtain an indication at an early stage of whether their concept falls under supervision, and if so, what type of supervisory regulation may apply.</p> <p>Formation of 'Specific Approach to Innovation', or regulatory sandbox. As long as they meet the requirements, parties with an innovative concept can use the sandbox to test their concept for a certain period.</p> |
| Creating an overview of innovative and fintech concepts and their impact on the sector and the AFM. | The launch of the Innovation & Fintech programme involves additional investment in knowledge and insight in order to support innovation in the right way and distinguish between innovations that promote sustainable financial prosperity and those that do not. |
| Adapting the statutory framework and interpretations in cases where legislation and regulation forms an unnecessary barrier. | Our discussions with both existing players and newcomers removed uncertainties regarding (perceived) interpretations of supervision of legislation and provided comfort to parties regarding use of the room present in many sections of legislation. This was in many cases accompanied by emphasising the importance of sections of legislation with respect to the product development process as a guiding principle for acting in the interests of consumers and investors. |
| Preparing the AFM organisation for the fast-moving market conditions. | In addition to relating supervision to questions received via the InnovationHub, a great deal of knowledge is gathered on fintech issues and related areas. A number of very knowledge-intensive issues have been identified and the impact on AFM supervision and cooperation with other supervisors has been developed on this basis. Examples are: Blockchain (Distributed Ledger Technology), artificial intelligence, Payment Services Directive II, data protection, online marketing techniques and duty of care in the digital environment. |

Activities and results

Supporting innovative players by reducing unnecessary barriers: InnovationHub and Specific Approach to Innovation (regulatory sandbox)

The AFM (and DNB) want to make room for positive innovations from market parties. We launched two initiatives for this in 2016: the InnovationHub and the regulatory sandbox. The principle for both these initiatives is that innovation is essential for a healthy market economy. Continuous renewal enables businesses to continue to meet the needs of consumers.

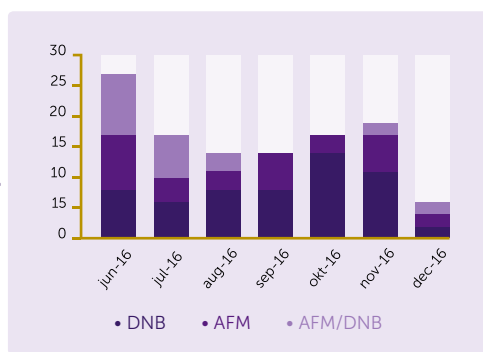
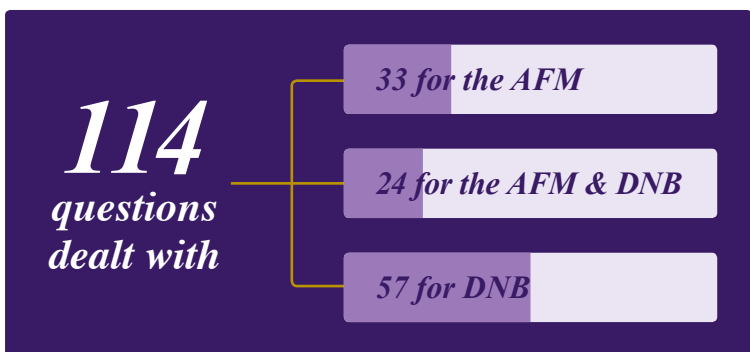
InnovationHub

The aim of the InnovationHub is to enable companies bringing or intending to bring an innovative service or product to the market and that have questions regarding regulation to have straightforward access to the supervisors. Market parties are thus able to obtain an indication at an early stage of whether their concept falls under supervision, and if so, what type of supervisory regulation may apply. This greatly assists the further development of the concept. The supervisor also benefits, since the InnovationHub is a means of



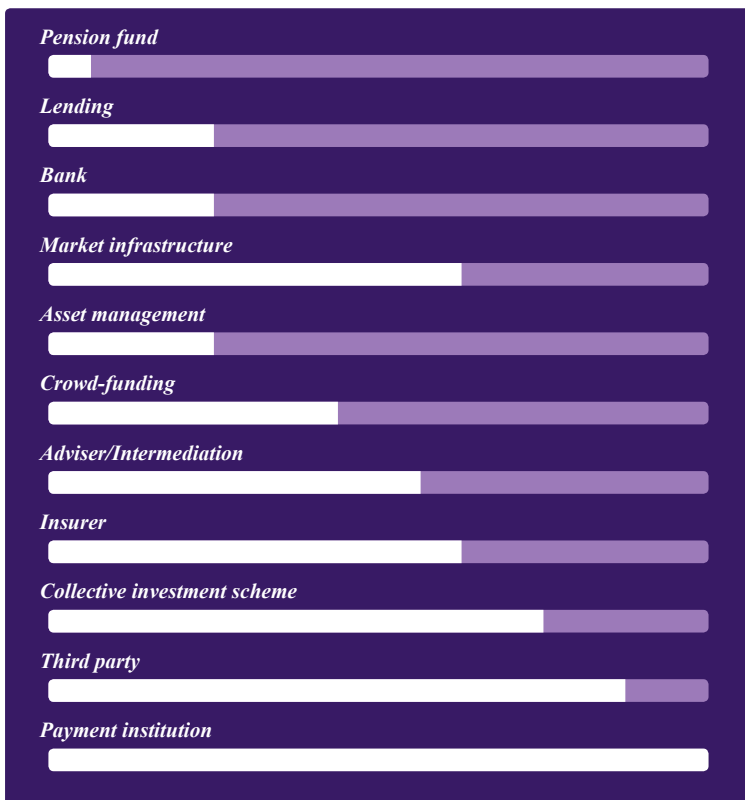
obtaining good insight into innovations in its area of supervision. These insights enable the supervisor to renew its supervision as necessary and identify unnecessary problems in legislation and regulation at an early stage.

Since the launch of the InnovationHub, support has been provided to 114 market parties, 86% of which are not subject to regulation. This support ranges from a single conversation to clarify existing regulation to



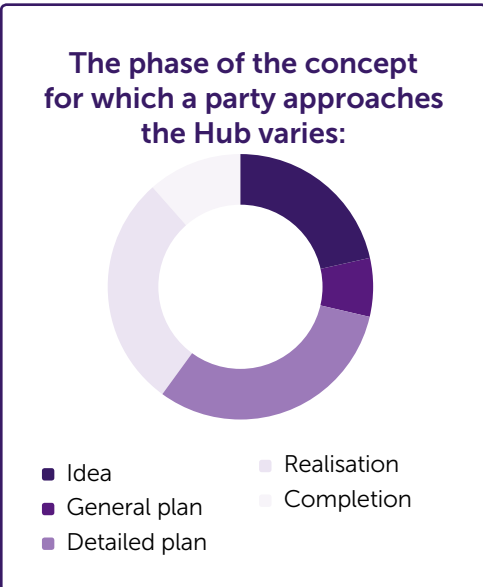
Who is approaching the InnovationHub?

Most of the questions originate from the following sectors:



For these parties:

- 14% are subject to supervision
- 86% are not (or not yet) regulated





intensive processes to understand a complex concept and find an adequate application of legislation and regulation.

More than three quarters of the questions concerned market access and licensing policy, whereby innovations in payments services (partly in relation to the new payment directive PSD2) and blockchain technology were the major themes.

In their initial feedback, market parties indicate that they experience the InnovationHub and its objectives as helpful; the Hub is low-threshold and is a single access point for the AFM and DNB. Despite the above, there are still some parties wishing to access the market and having to comply with the requirements of the Wft that see barriers or do not agree with the views of the supervisor.

“In general, people are pleased to see that the AFM shows it appreciates innovation.”

Specific Approach to Innovation (regulatory sandbox)

In addition to the launch of the InnovationHub, the AFM and DNB produced a discussion document to invite the market to consider a range of possibilities for changes to supervision that could contribute to responsible innovation in the financial sector. The result of this was the presentation of the Specific Approach to Innovation (regulatory sandbox) at the end of 2016. The aim of the regulatory sandbox is to ensure that companies can bring innovative financial products, services or business models to the market without unnecessary restrictions. In its assessment of innovative concepts, the AFM initially considers the underlying intention of regulation. If the innovative initiative corresponds to this, the AFM will use the statutory flexibility it has to offer a specific approach to supervision in order to remove

restrictions. This approach is not new, it is an expression of how the AFM deals with innovation.

Although as yet no actual sandbox case has been dealt with (since the sandbox was introduced in December 2016 and parties have been able to apply for this since 1 January 2017), market parties generally have taken a positive view of this initiative. In general, people are pleased to see that the AFM shows it appreciates innovation. Parties are also interested in the activities of the AFM in this area. We can see this from the requests from institutions, organisers of conferences, seminars and research programmes to explain the InnovationHub and the regulatory sandbox. The same applies to our fellow supervisors in the Netherlands and abroad, who are also interested in learning from the experience gained by the AFM. The AFM is one of the leaders in this field at European level.

Insight into the impact of innovative & fintech concepts

Only with adequate knowledge and up-to-date insights can the AFM support innovation in the right way and distinguish between innovations that promote sustainable financial prosperity and those that do not. Apart from our efforts in the context of the InnovationHub, we invested in structural accumulation and retention of state-of-the-art knowledge in 2016. Through a clear connection with the world around us, we have formulated an accurate picture of both the opportunities and the threats posed by technological and other innovation in the financial sector. This connection consists of regular weekly contacts with (among others) market parties, fellow supervisors in the Netherlands and abroad, sector organisations and discussions with specialists in areas including digital marketing, big data, machine learning and privacy legislation. We





have then shared these insights proactively with the market through ground-breaking seminars on innovation and fintech.

We have contributed to raising the internal level of knowledge through lectures on digital marketing, the increasing importance of privacy legislation in the financial domain,

“the AFM has brought the issue of the increasing use of customer data in the financial domain to the attention of the politicians.”

aspects of machine learning and organising a master class on the use of algorithms. Thought leaders have been selected to participate in an advisory committee at board level for a more structural inflow of knowledge with respect to market developments relating to technology. The aim is to arrange meetings a couple of times a year to discuss developments that are relevant to the AFM’s supervisory strategy.

Removing problems for desirable innovations

The AFM wants to support desirable innovations by removing obstacles. In 2016, we concentrated on the problems that we can influence directly. These include marketing and sales on the basis of state-of-the-art online service provision and the interpretation of the duty of care with respect to investment services and loans in a digital environment. We will focus on these issues in more detail in 2017, and share our insights in external publications.

Advice on legislation and regulation

The regulation of fintech requires the same approach as the regulation of technology in other sectors, and requires an approach that is different from that normally used for the financial markets. This was the message from the AFM to all the relevant institutions (Ministry of Finance, European Commission, International Organization of Securities Commissions (IOSCO), Financial Stability Board (FSB), European Supervisory Agencies (ESAs) and the media) in 2016. Specific issues were elaborated in the AFM legislation letter. The Commission has initiated a cross-directorate programme on fintech; a number of politicians have raised the issue in the Netherlands. In the interests of the end users, there should be no gaps in the supervision of fintech-related concepts, since the existing legislation and regulation does not fully correspond to this new reality. For these reasons, the AFM has brought the issue of the increasing use of customer data in the financial domain and therefore the need for closer cooperation with the Dutch Data Protection Authority (Autoriteit Persoonsgegevens, or ‘AP’) to the attention of the politicians. In practical terms, the AFM has expressed its desire to be able to share supervisory information with the AP in this context to the legislature.





Results for our stakeholders

- + Innovations that are in the interests of consumers and investors will be less hindered by supervision. We have achieved this through reducing barriers in communication, increasing our knowledge level and improving our cooperation with DNB, the AP and the Dutch Authority for Consumers and Markets (ACM). Market parties working on innovations that do not contribute to the sustainable financial prosperity of consumers and investors will be made aware of our objections at an early stage and we will not offer any (further) support or access to the regulatory sandbox
- + The legislature has been advised with respect to regulation that is hindering desirable innovations.

How is supervision conducted?

The AFM uses only informal influence in its Innovation & Fintech programme.

- + At macro level, we share our insights into new technological developments internally and externally.
- + At meso level, we have significantly boosted the cooperation with DNB with respect to supporting innovation. The collectively developed InnovationHub and the vision of the role and exercise of supervision are concrete results of this.
- + At micro level, we have interpretations of regulation in individual cases (InnovationHub, Sandbox)

International cooperation

Innovative and fintech developments are not limited to national borders. To acquire and share knowledge, the AFM participated in European and global forums, including the European Supervisory Agencies (ESAs), the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB). This provides much information on relevant and knowledge-intensive aspects such as new payment services, blockchain, artificial intelligence and alternative forms of finance. Participation in these international organisations is particularly important because policy initiatives and new regulation are often created at these levels.

The AFM also conducts bilateral discussions with fellow supervisors that are leaders in innovation and fintech (US, UK, Australia, Singapore, Canada and recently also China). Their experiences and initiatives formed part of the inspiration for the development of the InnovationHub and the Sandbox.





Priority 2

Strengthening supervision through investment in technology and methodology

Technological developments affect the AFM as well as the financial sector. The availability, analysis and application of data enable us to operate with increasing effectiveness. New insights into the behaviour of consumers, investors and cultural changes also strengthen supervision.

The AFM set up its Expertise Centre in 2016 in order to invest in further knowledge accumulation and sharing in this area. The Expertise Centre promotes technological and methodological renewal within the organisation. It is also where supervisory expertise that is relatively new to the AFM is given room to grow. The Expertise Centre accordingly contributes to better supervision. In its first year, the division focused on three priorities: consumer and investor behaviour, conduct and culture and data-driven supervision.

Consumer and investor behaviour

Behavioural studies have shown that consumers and investors frequently do not act rationally. Greater knowledge and understanding of behaviour helps to identify risks and design measures that are effective. The AFM is accordingly increasingly making use of insights from

the behavioural sciences [\[E\]](#). Here we work closely with universities, financial enterprises and other stakeholders.

Activities and results

Approach to subconscious influence in relation to consumer credit

A review was carried out in 2016 in cooperation with the National Institute for Family Finance Information (Nationaal Instituut voor Budgetvoorlichting, or 'Nibud') and the Dutch Finance Houses Association (Vereniging van financie-ringsondernemingen in Nederland, or 'VFN') of how consumer credit products are offered in the market and how this 'decision environment' influences the behaviour of consumers without them being aware of it. The findings are presented in the report '*Consumer behaviour in the consumer credit market*' [\[E\]](#). This publication urges all providers of and intermediaries in consumer credit to improve their decision environments.





The AFM also carries out behavioural science experiments. For instance, the effect of the warning message in the online sales environment of a provider of consumer credit on consumer behaviour was measured. The review *'Beware! Borrowing money costs money; a review of the effectiveness of this warning in loan advertisements'*. [\[link\]](#) showed that the warning 'Beware! Borrowing money costs money' had no direct effect on online borrowing. The Ministry of Finance will review the aims and the credit warning message on the basis of the review findings.

Effect of visual material in investment brochures tested

Another behavioural science experiment involved the presentation of various versions of investment brochures to members of the AFM Consumer Panel. The analyses showed that the respondents were prepared to invest nearly 1,100 euros more when brochures with pictures of a happy family are used than when brochures presenting a similar offer with neutral pictures are used. Brochures containing pictures with emotional appeal also held attention for longer.

“On the basis of insights from behavioural science, it is not (or not yet) clear how freedom of choice can be embedded safely in the system”

Review of freedom of choice and responsible continuation of investment after retirement

Decisions on pension are usually for the long term. In May 2016, the AFM published a position paper [\[link\]](#) arguing for a more appropriate pension for scheme members, with some degree of freedom of choice. On the basis of insights from behavioural

science, it is not (or not yet) clear how freedom of choice can be embedded 'safely' in the system and thus take sufficient account of the limited rationality of consumers when making decisions. This will be further studied in 2017.

The Premium Schemes (Improvements) Act (Wet verbeterde premieregeling) was introduced in September 2016. This new Act gives scheme members the option of continuing to invest after they retire. The AFM wishes to support them as far as possible. Together with market parties, we are working on a good and comparable representation of information so that scheme members can make well-considered choices.

Experiments for promising interventions in mortgages

There are too many consumers in the Netherlands with an interest-only or an investment-linked mortgage. They need to take action to avoid financial problems in the future. Providers were requested to test various approaches in 2016. These have so far not been successful enough. Together with a select group of providers, the Expertise Centre is currently engaged in experimentation of more promising interventions. The results will be published in 2017.

Risks of crowd-funding are underestimated

Crowd-funding is rapidly increasing. We have reviewed the extent to which the provisions introduced on 1 April 2016 have contributed to consumer protection in cooperation with crowd-funding platforms. This produced items of attention for a subsequent review. It would appear that investors underestimate the risks of crowd-funding. The AFM will put forward recommendations in the spring of 2017.





Behaviour and culture

The AFM strongly supports an organisational culture at financial markets parties and sectors in which fair and transparent provision of services is encouraged. Research shows that problems in the behaviour and culture of an organisation are a forerunner of abuses. In addition, changes to the corporate culture are usually needed to achieve improvements in business conduct and services provision. Although behaviour and culture is a ‘hot topic’ at both supervisors and financial institutions, there is as yet very little in the way of a practical and applicable methodology available. The AFM is willing to take the lead in this respect so that others will also take up this theme. The Expertise Centre is developing instruments and methodologies in order to gain better and timelier insight into undesirable behaviour at financial enterprises. In addition, we are carrying out structural research into the organisational culture at enterprises falling under our supervision, in order to improve our insight and thereby take appropriate measures.

“The Expertise Centre is developing instruments and methodologies in order to gain better and timelier insight into undesirable behaviour at financial enterprises.”

Activities and results

Investing in expanding knowledge

2016 featured an expansion and deepening of our available expertise. The AFM engaged new experts and developed various new methodologies. We also started a permanent cooperation with the Utrecht University. This means we can benefit from academic knowledge that can be applied in practice. A doctoral candidate has also begun a review of biases at supervisory agencies.

Customer interests and organisational culture

The culture of an organisation and the behaviour of its employees largely determine the quality of products and service provision. We reviewed the role of customer interests in the culture and behaviour of five insurers in 2016. This gave us greater insight into supervisory risks and limitations. The AFM gave these five institutions a clear reflection and monitored how they followed up our recommendations. A follow-up review was carried out. This encourages financial enterprises to take the next step towards fair and careful service provision.

Decision-making in management teams

A thematic review of decision-making in management teams was initiated in 2016. Using a new supervisory methodology, we reviewed five medium-sized banks to establish the degree of care they applied in their decision-making. The aim was to establish the desirable and undesirable factors (or biases) that influence decision-making and the effects of this on the weight given to the customer’s interests. The review is now in the final phase. The findings will be published in mid-2017.

Culture of errors in the trading chain

One example of the new methodology is the review of the culture of errors in the trading chain. In cooperation with Efficient Capital Markets, we reviewed 13 institutions to establish how employees value the risk culture and the manner in which errors and incidents are dealt with. The review showed that learning from incidents is an area of development across the market and that the situation may be very different depending on the institution concerned. The organisations concerned have received individual feedback and we are working on an external publication. The methodology developed is based on academic insights and has proved to be valid and reliable. The methodology will be published at a later date.





Results for our stakeholders

The financial institutions reviewed receive recommendations as to how to improve their organisation and reduce limitations. The AFM gives presentations to relevant stakeholders in order to disseminate these lessons more widely. We also make our review methodologies available.

How is supervision conducted?

We use informal influence based on our reviews of behaviour and culture. In order to be effective, it is essential that the institution identifies with the situation and itself understands that it urgently needs to take action. The AFM accordingly strives to inform organisations as far as possible and involve them in its review.

International cooperation

The AFM has assisted several foreign supervisors in starting supervision of behaviour and culture. For instance, we have shared our knowledge of our methodologies with the supervisory agency in Australia. We also produced a discussion note for the Business Conduct Round Table, in which conduct supervisors from various countries discuss ideas, experiences and dilemmas. From the discussions in the international forum, it would seem that the AFM is among the leaders in this area of expertise.





Data-driven supervision

Financial markets increasingly operate on the basis of data and automated processes. As a supervisor, we can make use of the data that are available. The Expertise Centre will give further shape to our ambition of becoming a data-driven supervisor. Where possible, we will do this in concert with DNB.

Activities and results

Data-driven supervision given form and substance

The AFM set up its 'Spot-on' data-driven supervision programme as part of the Expertise Centre in early 2016. The programme aims to improve the organisation's data management ability and analytical skills. The past year mainly concerned putting the necessary preconditions in place. The Expertise Centre now has an analytical environment in which issues requiring analysis from other divisions can be supported with hardware and software. A uniform analytical process has also been described, enabling proper documentation of the results. This increases reliability and replicability.

These preconditions were put in place largely due to two specific projects:

- + The Asset Management division has made a first step in the development of data-driven supervision. Analysis of the data requested for the Alternative Investment Fund Directive (AIFMD) has led to a quantitative representation of the firms subject to supervision in the market. Good cooperation with DNB – in both supervision and data management – is required for this and has been initiated.
- + A second project enables us to compare the annual market monitor data for advisers and intermediaries over the years. This means we can monitor trends and developments and identify potential risks on the basis of an overall market picture.

In addition to developing our internal analytical resources, cooperation with other supervisors is an important theme. After all, bundling our strengths by making data sources and the use of analytical techniques available can increase our efficiency and effectiveness. An example of this is the cooperation of the Market Supervisors Board in the Data Intelligence subgroup. It is now possible to visualise the interrelationships of directors and businesses, meaning that risky situations are more visible.



Priority 3

Increasing the effectiveness, efficiency and adaptability of the internal organisation

To be able to react in an alert manner to the challenges that the AFM has to deal with, changes are needed to our internal organisation as well. We accordingly invested in increasing the effectiveness, efficiency and adaptability of our organisation and staff in 2016.

There were three central areas of development: strengthening the management, making our operation more professional, and reporting.

The refinement and design of the governance model focuses on the further development of leadership among our people. Leadership means firstly the ability to manage based on results and discipline, and secondly self-reflection, a sense of responsibility and perseverance. Certainly in times of change, it is important that management shows a good example. The business operation of the AFM supports and facilitates supervision and the long-term objectives of the Agenda for 2016-2018. It is the foundation on which our organisation stands and upon which we can build further. We see discipline as the key word here, especially with respect to cost control. The focus in 2016 was on the professionalism of the IT organisation, the efficiency of processes and the development of our employees. We will continue this in 2017.

In relation to reporting, our public mandate and our contact with stakeholders are of great importance for a supervisor like the AFM. In 2016, we worked on increasing mutual understanding, continuity and focus in our contacts with market parties and stronger direction from the management.

Responsibility has been accepted for improvements to the organisation on the basis of the conclusions in the report by the external research agency Alvarez & Marsal, which carried out a review of shortcomings in the AFM's tests of the reassessments of interest-rate derivatives by banks. The report stated five lessons to be learned. These relate to the need for more structural monitoring of the risks of the project, more attention to the choice of the right people in view of the complexity of the project, stricter project governance, better quality monitoring, and improving the escalation procedure and mutual communication, so that signals would be dealt with more quickly.





These lessons were reason to implement a number of improvements, which closely correspond to the changes already introduced at the AFM to further strengthen and improve its supervision. Based on the lessons from the review, the AFM is implementing improvements to working practices at the AFM. Some of these measures were already implemented or initiated in 2016 as part of our strategy. Based on the report, we will review the risk profile of projects on a quarterly basis in 2017. The progress of high-risk cases is regularly discussed by the Board. We are working steadily towards a culture of meaningful debate, cooperation and learning from each other. The management is expressing this and it is part of the AFM Working Practices.

Significant progress on increasing the effectiveness, efficiency and adaptability of the internal organisation in 2016. We are on course to achieve the targets we formulated in our Agenda for 2016-2018.

Strengthening the management

Governance model

We invested in the further definition and design of the governance model of the AFM. Besides the redesign of the supervisory organisation and the uniformisation of management, tasks and responsibilities have been reconsidered and explicitly assigned. For instance, the supervision of asset management has been concentrated in a single division and a division has been formed that specifically focuses on relationship management with the largest market parties. Quality safeguards have also been increased through the creation of the Quality Assurance function.

Leadership programme

A leadership programme has been developed on the basis of our leadership vision. Senior and middle management participated in this programme in 2016, which focused on result-oriented leadership and personal leadership in the context of strengthening the management. The leadership programme is a mix of peer supervision and training in management skills, with the aim that people will work each day in accordance with the AFM Working Practices. A leadership project will also be started for employees in 2017.

The AFM Working Practices

The AFM Working Practices sets clear frameworks to ensure that we cooperate more as a single professional organisation. These frameworks show how we cooperate with each other and our stakeholders on a daily basis. The working practices involve three approaches that overlap and strengthen each other:

1. Quick response management
2. Continuous process improvement
3. A culture focused on achieving a common goal, open communication, giving and receiving feedback, cooperation and learning (from each other).

In the first instance, divisions are intensively supported by a coach and a developed 4-month implementation plan with various sessions in order to become familiar with the working practices. The divisions then apply the working practices themselves with regular attention to the positive improvements offered by the working practices. Two pilot projects were organised in 2016 with positive results. The working practices will be phased in at the other divisions in 2017.





Making our operation more professional

Information Technology

In 2016, a start was made on increasing the professionalism of the IT organisation and the AFM increased its defences against the more serious digital threats. The Information Provision Master Plan contains details of improvements to the IT services that are needed for supervision and supervisory support. This is based on three pillars: improving the infrastructure, simplification of the application landscape and improving IT processes. This means that control of the IT processes will improve, reliability will increase and costs will be better controlled. Due to the complexity involved, it was unfortunately not possible to realise the first release of the Master Plan in 2016. This will be phased in in 2017.

Process improvement

We started increasing our attention to process improvement in 2016. Where possible we will simplify our operational processes, combine strengths and avoid duplication. The designation of projects as high-risk, meaning that subsequently they will be regularly discussed according to a fixed format with the project owner and the management, is another example of improvements in quality assurance. Continuous improvement of processes within teams is an element of the AFM Working Practices, meaning that this will be an item of attention for all teams. Work has also been done on improving the three AFM pillars and a number of employees have followed courses on Lean Six Sigma methodologies. This will continue in 2017.

A cost framework for 2017-2020 was created for the AFM in 2016. The AFM is bound by the amount of the ceiling in this cost framework when setting its budget. One element of this entails an efficiency target of 1.75% for 2017 that rises in total to

7% in 2020. The AFM will pursue this target in the coming years.

Employee development

Attracting and retaining talented employees is of great importance for the AFM, as is the continuous development of our employees in order to get the best out of them. We invest in the knowledge and competences of our employees and attract new experts with diverse backgrounds (data analysts, behavioural economists and psychologists). As a result of the pick-up in the labour market and the internal reorganisation, employee turnover rose from 11.21% to 12.39% in 2016. Absenteeism was in line with other comparable organisations at 4.24%.

The Ottow Committee

A sustainable, fair and transparent financial sector depends among other things on suitable and proper executive and supervisory directors. The integrity and suitability of the persons and companies operating in the financial markets is thus essential for public confidence in these markets and the companies that operate in these markets. There can be no doubts regarding the properness and suitability of persons who (solely or collectively) determine policy and the persons who supervise policy and the general state of affairs at financial firms.

Persons who determine policy either solely or collectively must be proper and suitable for the performance of their tasks. Persons joining a financial enterprise are tested by the AFM and/or De Nederlandsche Bank for properness and suitability.

On the instructions of the AFM and DNB, the independent external Ottow Committee reviewed whether the current design of the tests of executive and supervisory directors for suitability and properness and the ensuing working practices of the AFM and DNB provides for adequate fulfilment of the statutory duties set. The Ottow





Committee is chaired by Professor Annetje Ottow and also includes Professor Janka Stoker and Jan Hommen. The findings of this review were published on 13 December 2016. The Ottow Committee described the performance by the supervisors in their task of testing directors as 'adequate'.

Good testing

There is widespread support in the financial sector for the aims and importance of testing executive and supervisory directors. Good testing is seen as an important means of increasing the sector's ability to learn. The report puts forward various proposals for changes and improvements to the testing process. DNB and the AFM have accepted these recommendations and taken measures to implement the improvements.

“Good testing is seen as an important means of increasing the sector’s ability to learn.”

Reporting

Our contacts with stakeholders now feature greater continuity and focus, partly by clearer assignment of the responsibilities for contacts with stakeholders within the organisation, as well as the organising of round tables, Consument&Panel, Adviserend Panel, etc. More focused direction from the management will be realised through the courses mentioned above and by more intensive internal reporting. Continuing attention will be paid to offering the outside

world insight into our activities. There are fixed moments established in our external communication, such as for the agenda, the annual report and an end-of-year interview. And for open and transparent communication on matters such as the Alvarez & Marsal report (on the interest-rate derivatives issue) and the findings of the Ottow Committee (the testing of persons).

Two pilot studies were initiated with performance management and quick response management in 2016, and a management dashboard has been developed that will be applied with effect from 2017. This could also be a basis for offering greater insight to our external stakeholders.

As part of the IMF Financial Sector Assessment Program (FSAP), important elements of our supervision such as the EKM supervision of the market infrastructure, the supervision of auditors and the structure of AM supervision in 2016 were given very positive assessments with much appreciation for the state of affairs and the quality of our employees.

Other

The AFM has extended the lease for its current offices on Vijzelgracht on conditions that lead to lower costs from 2018. A review was also conducted of the future administration of our pension scheme. This resulted in a tender procedure among general pension funds (APFs) with the aim of transferring the administration of the scheme and liquidation of the AFM Pension Fund.





“Is the AFM sufficiently alert regarding the use of customer data?”

*Mat Teuwen, organisational adviser,
member of the AFM Consument&Panel*

‘The AFM is operating in a financial world that is rapidly changing. As a supervisor, I would expect it to have a clear view of all developments in the market, to know where it wants to go, to make good decisions and implement them effectively. Does it do this? If I look at the Agenda 2016-2018, I would say yes. The report sets out a multi-year vision based on the major trends, actors and risks. The AFM focuses exactly on the problem areas.

One of the risks cited by the AFM is the arrival of new and innovative companies. These ‘fintechs’ use big data and knowledge of consumer behaviour. Using customer data as the basis for an earnings model is an obvious choice. The AFM makes room for new arrivals, but monitors them. And rightly so. This specific focus on fintech is a source of concern in my opinion. Because the existing banks are not sitting still. The enormous amount of information they have on their customers and their payment behaviour in combination with knowledge from behavioural science gives them a hugely powerful resource. What are they doing with this? Are they going to make money out of my data and is this in my interest? I hope the AFM is looking closely at this.’





03 Organisation and management



'A turbulent year' is how the Supervisory Board describes 2016. Many changes in the financial sector, and also in society at large. There are also high expectations with respect to supervision in 2017. The range of tasks performed by the AFM will be further expanded in the coming years.

→ **109**
Report of the
Supervisory Board

→ **115**
Composition of
supervisory council
and executive board

→ **123**
Governance at the AFM



Report of the Supervisory Board

2016 was a turbulent year, for the AFM, for the financial sector and for society as a whole. In June 2016, a small majority in the United Kingdom (UK) voted for Brexit. The British pound fell sharply in value and prices in the capital markets also experienced a brief but sharp dip.

In November, the result of the US presidential election also led to a brief period of volatility in the financial markets. The developments in technology and the markets continued unabated in the financial sector in 2016.

The Supervisory Board supports the three priorities in the Agenda 2016 – 2018 of 1) reducing undesirable risks in society, 2) strengthening supervision by investing in technology and methodology and 3) increasing the effectiveness, efficiency and adaptability of the organisation. The external review of the internal causes of the shortcomings at the AFM in relation to the interest-rate derivatives issue was carried out in 2016. In addition, the external Ottow Committee carried out an independent review of the current design of the tests

of executive and supervisory directors for suitability and properness. Both these reviews will lead to improvements being implemented at the AFM.

Expectations with respect to supervision are once again high in 2017. The AFM's duties will be further expanded in the coming years, among other things due to MiFID II. This will once again require an enormous effort. It is thus essential that we attract and retain high-quality employees. The Supervisory Board is very aware that the organisation's ability to expand is not unlimited and will continuously discuss the best possible use of time, money and resources with the Executive Board and relevant stakeholders so that conduct supervision in the Netherlands can continue to be exercised at a high level.



Activities – supervision in 2016

The activities of the Supervisory Board are based on the priorities and intended effects of the AFM's supervision. The Supervisory Board strives to play a monitoring and advisory role in achieving the AFM's ambitious target of being a demonstrably ground-breaking supervisor by 2022. The Supervisory Board uses other sources of information besides its meetings and regular discussions with the Executive Board. For example, the Supervisory Board has discussions with division heads and employees in the organisation and various stakeholders in the sector.

Priority 1: Reducing undesirable risks for society

At each meeting, the Supervisory Board discusses relevant developments in the market and potential risks. Specific supervisory issues are also discussed in depth with the Supervisory Board. Issues discussed in 2016 included the supervision of auditors, high frequency trading and the supervision of products and product development processes. The Supervisory Board is thus informed on the state of affairs, the approach followed, the dilemmas and risks involved and discusses these matters with the Executive Board. The Board is also informed by the Executive Board at every meeting with respect to progress on establishing the compensation framework for interest-rate derivatives by the Derivatives Committee.

Priority 2: Strengthening supervision through investment in technology and methodology


Strengthening supervision by investing in technology and methodology is an important priority for the AFM. The Supervisory Board has been kept informed in detail regarding the Spot On programme introduced by the AFM in this context. Keeping up with and

anticipating all the developments in this area is a major challenge for the AFM.

Priority 3: Increasing the effectiveness, efficiency and adaptability of the internal organisation

In 2016, the Supervisory Board discussed numerous issues with the Executive Board in the context of the priority of increasing the organisation's effectiveness, efficiency and adaptability. The Supervisory Board endorses the analysis of the Executive Board that the AFM's business operation requires major improvements. An update on the status of the Multi-Year Agenda is presented at each meeting. The design of uniform AFM working practices (in the pilot phase) and the leadership model are important initial milestones that have been achieved. Much attention has been devoted to strengthening the governance cycle. It will take several years before all the desired improvements in areas such as information technology, information security and internal direction and control can be implemented. The appointment of a COO at the end of 2015 was an important step in allocating the necessary management attention to the business operation of the AFM. The Supervisory Board will continue to critically monitor progress on the improvements that have been initiated for the internal organisation.

External report from Alvarez & Marsal

For the Supervisory Board, a major issue in the first half of 2016 was the external review conducted by Alvarez & Marsal on the instructions of the Supervisory Board into the internal causes for the shortcomings by the AFM in the interest-rate derivatives case file. The report shows that it was mainly a concurrence of *various causes*  that led to the shortcomings in the tests of the banks' reassessments of interest-rate derivatives conducted by the AFM. This concurrence of





factors was not sufficiently recognised, so that appropriate measures were not taken in time and the AFM did not carry out its role with sufficient effectiveness. The report also cites a number of lessons to be learned. These relate to the need for more structural monitoring of the risks of the project, more attention to the choice of the right people in view of the complexity of the project, stricter project governance, better quality monitoring, and improving the escalation procedure and mutual communication, so that signals would be dealt with more quickly. The Internal Audit Service (IAS) has carried out an analysis of other ongoing projects. On this basis, Alvarez & Marsal concluded that none of these projects featured the same combination of risk factors and that they had no reason to believe that the concurrence of causes featured in the interest-rate derivatives case was a structural phenomenon at the AFM. The Supervisory Board has discussed the findings of the review and the analysis by the IAD of other projects in detail with the Executive Board. This included special attention to the quality assurance that is allocated to a number of high-risk projects, as well as the increased management attention that these projects receive. The Supervisory Board believes that the report contains useful recommendations for further refinement of the improvement drive initiated by the Executive Board. The Supervisory Board accordingly supports the Executive Board of the AFM in this respect. For all employees, the conclusions of the report should contribute to continuous learning and making improvements in their daily activities in order to collectively further strengthen and innovate our supervision. Progress on implementing the recommendations of Alvarez & Marsal will be discussed regularly with the Supervisory Board.

The Ottow Committee – tests of directors

On the instructions of the AFM and DNB, the independent Ottow Committee reviewed whether the current design of the tests of executive and supervisory directors for suitability and properness and the ensuing working practices of the AFM and DNB provide for adequate fulfilment of the statutory duties set. The Committee interviewed a number of members of the Supervisory Board. The Supervisory Board is regularly updated by the Executive Board with respect to progress. The report was delivered at the end of December. The Ottow Committee described the performance by the supervisors in their task of testing directors as 'adequate'. There is widespread support in the financial sector for the aims and importance of testing executive and supervisory directors. Good testing is seen as an important means of increasing the sector's ability to learn. The report puts forward various proposals for changes and improvements to the testing process. The Supervisory Board supports the Committee's conclusions and has confidence that the improvements to be implemented by the AFM will lead to further optimisation of the testing procedure.

Other issues

The Supervisory Board was informed on several occasions with respect to the discussions of the Executive Board with the Ministry of Finance on the cost framework for 2017–2020. Each meeting reviews the register of additional activities with the compliance officer in attendance. The Supervisory Board also assessed various additional activities on the basis of the applicable test framework.

The Supervisory Board has approved the Corporate Governance Code matrix. This states the provisions of the Corporate Governance Code that will be applied and





those that are not applicable due to the fact that the AFM is a non-departmental public body (NDPB) in the form of a foundation. Other items discussed according to the annual agenda were the legislative letter, the communication vision, the regular legal reports and the international strategy.

Departures and appointments of executive directors and members of the Supervisory Board

The Minister of Finance agreed to the proposal from the Supervisory Board that the number of executive directors under the articles of association of the AFM should be reduced from four to three.

This streamlining of the Executive Board is part of the changes introduced since 2015 to simplify the organisation and further refine its governance model. Gerben Everts was reappointed as an executive director for a term of four years on 1 November 2016. Harman Korte stepped down from the Executive Board on 1 November 2016. He will continue to work for the AFM until 1 May 2017, focusing on a number of non-confidential supervisory projects. The Supervisory Board highly appreciates Harman's 16 years of full commitment to the organisation. Under his leadership, important developments were introduced with respect to the supervision of pensions. His years of knowledge and experience in areas including legal affairs, enforcement and P&O have made a significant contribution to the AFM.

Willemijn van Dolen was appointed as a member of the Supervisory Board on 1 September 2016. This fills the vacancy created by the departure of Annemarie van Gaal on 1 January 2016. Willemijn is Professor of Marketing at the University of Amsterdam. Her knowledge and

expertise in the field of big data, fintech and consumer behaviour will greatly benefit the Supervisory Board.

Bart Koolstra temporarily stepped down as a member of the Supervisory Board at his own request on 26 February 2017 in connection with a specific audit file in which he was involved as a partner of PwC. He has temporarily stepped down in order to avoid any appearance of a conflict of interest during the handling of this file. The Supervisory Board respects this decision.

Permanent education and obtaining information

The Supervisory Board organised three team sessions in 2016, partly led by an external consultant. As a relatively new team, the Supervisory Board invested in team forming during these sessions and devoted much attention to formulating the Supervisory Board's vision with respect to supervision. Ultimately, these sessions resulted in the Supervisory Board formulating working practices in which issues such as vision, tasks, roles and responsibilities have been identified. These working practices will be discussed with the Executive Board in 2017. An introductory programme was designed for the new member Willemijn van Dolen. The programme focused on the issues of data-driven supervision, the Expertise Centre and conduct & culture, in line with the responsibilities for which Van Dolen was recruited.

In the context of permanent education, the Supervisory Board focused last year on increasing its knowledge of all the technological developments and their impact on the AFM, including the issue of crowd-funding. Internal and external speakers contributed to this. This issue will continue to be high on the Supervisory Board's agenda in the coming years.





Members of the Supervisory Board also attend consultative meetings with the Works Council twice a year. The Supervisory Board also meets with the Ministry of Finance twice a year on the basis of a fixed consultation structure. The annual meeting of the Supervisory Board with the supervisory directors of DNB also took place.

Self-assessment

In consultation with the Executive Board, it was decided to move the evaluation cycle forward by a quarter, as this will correspond more closely to the new governance cycle. This means that the Supervisory Board as a whole, and the committees and individual members as well, have been assessed in early 2017, as will the Executive Board as a whole and its individual members.

Meetings of the Supervisory Board and its committees

Raad van toezicht

The Supervisory Board met on 14 occasions during in 2016, four of which were held by conference call. Apart from a single exception, the meetings were attended by all members.

In accordance with the articles of association, the Supervisory Board has formed an appointments and remuneration committee. Its composition in 2016 was as follows:

- + Audit committee: Bart Koolstra (chair) and Rob Becker
- + Appointments and remuneration committee: Diana van Everdingen (chair) and Paul Rosenmöller

The audit committee advises the Supervisory Board on matters such as the operation of the internal risk management and control systems, the provision of financial information, the role and functioning of the

Internal Audit Service (IAS), the relationship with the external auditor, the financing of the foundation and the applications of information and communication technology. The duties of the appointments and remuneration committee include putting forward proposals to the Supervisory Board regarding the appointment and remuneration of the members of the Executive Board and the Supervisory Board.

Audit committee

The audit committee met on five occasions in 2016. The meetings were attended by all committee members. The meetings were held in the presence of the Chair of the Executive Board, the COO, the Head of Planning, Control and Finance, and the Head of the Internal Audit Service. The external auditor (the Government Audit Department, or Auditdienst Rijk) attended the meetings at which the financial statements, the budget, the management letter and the confirmation of engagement of the ADR were discussed. The members of the audit committee moreover held separate discussions with the external auditor without the presence of the Executive Board. The items discussed included the functioning of the IAS and the experiences of the performance of the external audit. An evaluation interview was also held with the head of the IAS.

In its discussion of the regular items in the planning and control cycle, the audit committee emphasised the broader issue of internal management and control of the organisation. The matters discussed included the formulation of a dashboard and critical performance indicators (CPIs). The audit committee supports the direction taken and acts as a sounding board for proposed solutions where needed. Each meeting includes a discussion of progress in the area of automated data processing and information security on the basis of structured reports. The audit committee





noted that much work has been done in order to achieve the desired level. At the same time, there are still important challenges that will continue to require attention from the relevant divisions of the AFM in the coming years.

Appointments and remuneration committee

The appointments and remuneration committee met on three occasions during 2016 and also consulted without holding a meeting (by conference call) on a number of occasions. The meetings were attended by all committee members. The meetings were held in the presence of the Chair of the Executive Board and the Head of Personnel & Organisation.

Attention was devoted this year among other things to filling the vacancy on the Supervisory Board and the reappointment to the Executive Board. The profile descriptions of the Supervisory Board and the Executive Board were used as the basis for this. Job descriptions were also formulated. The Supervisory Board engaged a recruitment and selection agency for the recruitment of the member of the Supervisory Board. The Supervisory Board submitted a proposal to the Minister to appoint Willemijn van Dolen as a member of the Supervisory Board for a term of four years. It was also proposed to reappoint Gerben Everts as a member of the Executive Board for a term of four years. Tests of properness, suitability and compliance (including additional activities and financial interests) were conducted prior to these appointments.

Independence and conflicting interests

Under the Corporate Governance Code, only one member of the Supervisory Board may be non-independent. The AFM has included this provision in its articles of association,

with the option of deviating from this if there are compelling reasons to do so. Members of the Supervisory Board may not have held a management position at the AFM prior to their appointment. The incompatibilities rule in the articles of association also applies in this context. A test framework has also been developed to refine and clarify the rules for additional functions and activities.

If a member of the Supervisory Board has a direct or indirect personal interest that conflicts with the interests of the AFM, this must be reported immediately and all relevant information must be provided. If in the exercise of activities for the Supervisory Board a member of the Supervisory Board has a direct or indirect personal interest that conflicts with the interests of the AFM, they shall hand over these activities to another member of the Supervisory Board and they shall not attend the discussions and decision-making on the issue in question. There were no instances of this in 2016.

About this report

The Supervisory Board has approved the annual report and the financial statements for 2016. The AFM's external auditor was in attendance during the discussion of the financial statements.

Last year was an intensive year for the AFM, and this required much effort by the employees and the Executive Board. The Supervisory Board wishes to thank all those involved for their efforts and commitment.

Amsterdam, 6 March 2017

Supervisory Board AFM

Paul Rosenmöller, Chair
Diana van Everdingen, Vice-Chair
Rob Becker
Willemijn van Dolen





Composition of supervisory council and executive board

Purpose, powers and composition of the Supervisory Board

The Supervisory Board supervises the policy of the Executive Board and the general state of affairs, and advises the Executive Board. The budget, the annual report and the financial statements of the AFM are submitted to the Supervisory Board for approval. Strategic resolutions by the Executive Board are also subject to approval by the Supervisory Board. These include establishing and changing the organisational structure, amendments to the articles of association and approving the results of the implementation test in the allocation of new duties to the AFM. The Supervisory Board also appoints the external auditor. The Minister of Finance has the power to appoint or dismiss members of the Supervisory Board. The Supervisory Board may make non-binding nominations for members of the Supervisory Board.

The Supervisory Board consists of at least three and at most five members. A Supervisory Board at less than full strength retains its powers. Vacancies are filled as quickly as possible. In line with the established profile description, the composition of the Supervisory Board is diverse, in terms of both gender and knowledge, background, personality and experience with the various stakeholders of the AFM.

In 2016 the Supervisory Board consisted of:

- + P. (Paul) Rosenmöller (Chair)
- + D.C.C. (Diana) van Everdingen (Vice-Chair)
- + R. (Rob) Becker MBA
- + Prof. W.M. (Willemijn) van Dolen (since 1 September 2016)
- + B. (Bart) Koolstra (temporarily stepped down as of 26 February 2017)





Biographies of the Supervisory Board members



P. (Paul) Rosenmöller (born 1956)

(Chair, man, Dutch national, first appointment as Chair on 15 July 2015, eligible for reappointment for four years)

Main position: Chair of the VO Council, association of schools in secondary education

Additional positions in 2016:

- + Member of the supervisory board of NS, vice-chair, chair of the remuneration and appointments committee
- + Chair of Stichting Jongeren Op Gezond Gewicht (until 1 April 2016)
- + Member of the Advisory Council Focus Area Professional Performance, University of Utrecht

Paul Rosenmöller has been the chair of the VO Council, the association of schools in secondary education, since 2013. From 1989 to 2003 he was a member of GroenLinks in the House of Representatives, and party chairman from 1994. From 2003 to 2013 he was a programme maker and presenter at IKON.



D.C.C. (Diana) van Everdingen (born 1957)

(Vice-Chair, member, woman, Dutch national, first appointed as member on 1 November 2009, reappointed for current term on 1 November 2013, current term until 1 November 2017, eligible for reappointment for four years)

Additional positions in 2016:

- + Member of the board of supervision of Stichting Almeerse Theaters (Schouwburg Almere)
- + Member of the executive board of Het Nationale Ballet Fonds
- + Secretary of the board of supervision of International Choreographic Arts Centre (ICK)
- + Member of the General Executive Board Grotius Academie (from 1 June 2016)

Diana van Everdingen was a partner at the legal firm Stibbe. She is a specialist in capital markets transactions and mergers and acquisitions, and worked as a legal counsel for institutions including listed companies, banks and the Ministry of Finance.



R. (Rob) Becker MBA (born 1965)

(member, man, Dutch national, first appointed as member on 15 July 2015, eligible for reappointment for four years)

Additional positions in 2016:

- + Chair of the supervisory board of Rode Kruis Ziekenhuis
- + Chair of the supervisory board of Zorg van de Zaak Netwerk BV
- + Chair of the executive board of international Stichting Aflatoun
- + Member of the board of supervision and chair of the audit committee of the University of Amsterdam (from 26 August 2016)

Rob Becker worked at Achmea for eight years as the CFO for the pensions division and the chair of Achmea Bank Holding and the Social Security and Direct Distribution divisions. He was also a member of the Achmea-wide group committee. Prior to this he spent 15 years at McKinsey & Company in the Netherlands and abroad, working for banks, insurers and supervisory agencies.



Prof. W.M. (Willemijn) van Dolen (born 1972)

(member, woman, Dutch national, first appointed as member on 1 September 2016, eligible for reappointment for four years)

Main position: Professor of Marketing at the University of Amsterdam

Additional positions in 2016:

- + Member of the supervisory board of Starbucks Coffee EMEA B.V.
- + Member of the board of supervision and remuneration committee of Amsterdam Marketing
- + Member of the academic advisory council of NIMA (Dutch Institute of Marketing)

Willemijn van Dolen was appointed as Professor of Marketing at the University of Amsterdam in 2012, after working there as a senior university lecturer since 2005. As a professor and in her research, she focuses among other things on online consumer communication, corporate social responsibility and social media.





B. (Bart) Koolstra (born 1952)

(member, man, Dutch national, first appointed as member on 15 July 2015, eligible for reappointment for four years)

Main position: policy adviser at Labor Management B.V.

Additional positions in 2016:

- + Member of the board of supervision of Zorggroep West-Alblasserwaard
- + Vice-chair of the board of supervision of Diakonessenhuis, chair of the audit committee
- + Treasurer of the daily management of the Dutch Auschwitz Committee

In his time as a partner at PricewaterhouseCoopers from 1998 to 2013, Bart Koolstra advised many international companies. He started as a forensic auditor at the National Audit Service and worked as an auditor and IT consultant at Ernst & Young from 1983 to 1990.



Purpose, powers and composition of the Executive Board

The Executive Board leads the AFM. It consists of three executive directors. Collectively, they form the Executive Board of the AFM under its articles of association, they adopt resolutions collectively and they collectively bear strategic final responsibility. The Executive Board has granted individual mandates to its members to adopt resolutions on behalf of the Executive Board, subject to application of the four-eyes principle. Each board member has a portfolio with areas of attention for which they personally bear strategic responsibility and final operational responsibility. In the

composition of the Executive Board, the aim is to achieve diversity, not only in terms of gender, but also in terms of knowledge, affinity, background and personality. The AFM has a Chief Operations Officer (COO) who – under the responsibility of the Executive Board – is charged with the central management of the business operation of the AFM.

In 2016 the Executive Board consisted of:

- + M.W.L. (Merel) van Vroonhoven MBA, Chair
- + G.J. (Gerben) Everts
- + Prof. F. (Femke) de Vries
- + H.W.O.L.M. (Harman) Korte (until 1 November 2016)





Portfolio allocation



Merel van Vroonhoven

- + Strategy, Policy & International Affairs
- + Communications
- + Legal Affairs
- + Internal Audit Service
- + Compliance & Integrity
- + Representation in ESMA
- + Representation in the Financial Stability Committee
- + Innovation & Fintech
- + Business operation of the AFM
- + Works Council



Gerben Everts

- + Quality of Auditing and Reporting
- + Efficient Capital Markets
- + Asset Management
- + General Counsel
- + Representation ESRB
- + Representation in IOSCO
- + Representation in IFIAR



Femke de Vries

- + Insurance and Pensions
- + Lending, Savings and Retail Investors
- + Market Integrity & Enforcement
- + Audit Supervision
- + Supervision Service Centre
- + Expertise Centre
- + Representation in FEC Council
- + AFM-Lab
- + Data-driven supervisor





Biographies of members of the Executive Board



M.W.L. (Merel) van Vroonhoven MBA (born in 1968)

(Chair, woman, Dutch national, first appointed on 1 April 2014, current term until 1 April 2018, eligible for reappointment for four years)

Additional positions in 2016:

- + Chair of Working Group vanuit Autisme Bekeken (until June 2016)
- + Member of Dutch Council INSEAD
- + Member of board of supervision of Gemeentemuseum Den Haag
- + Member of Nederlandse Sportraad

Merel van Vroonhoven has been employed at the AFM as Chair of the Executive Board since April 2014. From 2009 to 1 April 2014, she was a member of the Executive Board of the Dutch Railways. Before joining NS, she held various positions at the bank and insurer ING in the Netherlands and abroad. Until 2007, Merel van Vroonhoven was director of the group pension company of Nationale-Nederlanden. Following this, she was a member of the management committee at ING Investment Management Europe.



G.J. (Gerben) Everts (born 1971)

(director, man, Dutch national, first appointed on 1 November 2012, reappointment current term as per 1 November 2016, eligible for reappointment for four years)

Additional positions in 2016:

- + Member of board of governors of post-doctoral education in Accountancy at Tilburg University
- + Director of Vereniging voor Financieel Recht
- + Member of the Programme Board Executive Internal Auditing Programme, Amsterdam Business School, UVA

Gerben Everts has been employed at the AFM since 2011 and became an executive director of the AFM on 1 November 2012. Prior to this, he worked at APG as manager of Corporate Finance, Control and Risk Management. From 2002 to 2006 he worked in Brussels at the European Commission, Directorate-General of the Internal Market. From 1998 to 2002 Everts worked at the Ministry of Finance.





Prof. F. (Femke) de Vries (born 1972)

(director, woman, Dutch national, first appointed on 1 October 2015, current term until 1 October 2019, eligible for reappointment for four years)

Additional positions in 2016:

- + Professor of Supervision at the Royal University of Groningen
- + Member of the executive board of Vide
- + Visiting lecturer at various universities

Femke de Vries has been an executive director of the AFM since 1 October 2015. She has been employed at de Nederlandsche Bank (DNB) since 2003, where initially she was a supervisor and division director. After this, she led the internal organisation and the monitoring of the management of DNB as secretary-director. She has been an endowed professor of supervision at the Royal University of Groningen since March 2015.



H.W.O.L.M. (Harman) Korte (born 1956)

(director, man, Dutch national, first appointed on 1 November 2012, current term until 1 November 2016)

Additional positions in 2016:

- + External member of the audit committee of the Ministry of Health, Welfare and Sport

Harman Korte has been employed at the AFM since 2000, among other positions as board secretary and director. He was a member of the Executive Board of the AFM from 1 November 2012 to 1 November 2016. Before joining the AFM he was employed at the Ministry of Finance, where he was director of the Budget Affairs department from 1991 to 2000.





Governance at the AFM

Organisation and management

The AFM is a non-departmental public body (NDPB) with powers for the supervision of conduct in the financial markets. Under the Non-Departmental Public Bodies Framework Act, an NDPB is an administrative body of the central government that under or pursuant to legislation is invested with public authority and is not hierarchically subordinate to the Minister. The legislature has vested powers to the AFM and the AFM bears responsibility for the exercise of supervision in practice. The AFM is a foundation (legal entity) with an Executive Board and a Supervisory Board.

The Supervisory Board supervises the manner in which the Executive Board of the AFM carries out its duties. The Minister of Finance appoints the Executive Board and the members of the Supervisory Board. The Supervisory Board may make non-binding nominations for these appointments. In addition, the Minister of Finance approves amendments to the articles of association, the annual budget and the financial statements, among other things. The Minister of Social Affairs & Employment approves the part of the supervision of pension providers in the Agenda (the budget) and the financial statements.

The Dutch Financial Supervision Act (Wet op het financieel toezicht, or 'Wft') contains various provisions regarding the governance of the AFM, including rules for the appointment and remuneration of members of the Executive Board and the Supervisory Board. The Wft also states the

duties of the AFM. The governance and these provisions are further elaborated in the articles of association and regulations of the AFM.

Corporate Governance Code

In its own governance, the AFM wishes - as far as possible and relevant - to fulfil the same requirements as those applying to listed companies subject to its supervision. The AFM accordingly voluntarily complies with the Dutch Corporate Governance Code ('the Code').

The Corporate Governance Code Monitoring Committee revised the Code on 8 December 2016. The revised Code takes effect on 1 January 2017. Dutch listed companies are expected to report on their compliance with the revised Code in the 2017 financial year in 2018. In line with this, the AFM reports on the 2016 financial year in accordance with the previous Code established in 2008. Our reporting for the 2017 financial year will be in accordance with the revised Code.

The AFM has prepared an overview of all the provisions in the Code that are applied in its organisation. This Corporate Governance Code Matrix ('the Matrix') also shows the provisions that do not apply because the AFM is a non-departmental public body (NDPB) in the form of a foundation. The Matrix is published on the AFM's website. In general, the provisions relating to supervisory boards have been adjusted to the situation of the Supervisory Board. Where the Code allocates powers to the general meeting of shareholders,





for application within the AFM these are considered to be the powers of the Minister of Finance.

Compliance & Integrity

Compliance and integrity are high priorities for the AFM. In its capacity as the supervisory authority for the financial markets, AFM employees have to set an example with respect to integrity. The organisation as a whole is also expected to set an example in this respect. The position and reputation of the AFM as a supervisory authority can only be assured if it leads the way when it comes to integrity and policy relating to integrity. One of the measures of this policy is designed to ensure that employees are not exposed to integrity risks unnecessarily, and that employees are supported when dealing with dilemmas.

“Compliance and integrity are high priorities for the AFM.”

AFM employees are expected to behave professionally, meaning that they use their powers, resources and information with care and responsibility.

At the AFM, integrity is defined as:

- + Acting on the basis of professional responsibility and in accordance with legislation and regulation, according to both the letter and the spirit of the law.
- + Careful consideration of the interests of all the stakeholders concerned (inside and outside the organisation) in its actions and decisions.
- + Being prepared to give account of decisions that have been made (transparency).
- + Acting in accordance with our norms and values and/or with generally accepted standards of decency, with consideration of context.

The development of the compliance function

The AFM established a compliance charter and appointed compliance officers in 2015 in order to safeguard compliance and integrity. This assures a direct reporting line to the Executive Board and the Chair of the Supervisory Board, as well as access to information and availability of sufficient resources.

Activities in 2016

2016 featured the further consolidation of the newly formulated compliance function. A general systematic risk analysis was carried out in relation to integrity. The results of this analysis formed the basis of the year plan. Regular reports on the implementation of the year plan are submitted to the Executive Board and the Supervisory Board. Reports are also submitted to the Minister of Finance every six months on aspects of compliance that have been raised by the Supervisory Board.

An important part of the activities of the compliance function is regular. The duties include making employees aware by means of training courses, providing information via intranet messages and conducting dialogues at specially organised consultation sessions. There is also monitoring of matters such as personal investment transactions, additional activities, invitations and gifts.

The effects of the activities relating to awareness have also been measured and a Conduct & Integrity training course has been organised for the Executive Board and the division heads reporting to the Executive Board. This included attention to the issue of moral leadership.

2016 also saw further automation of the compliance processes. The procedure for the annual confirmation statements of





employees, directors and members of the Supervisory Board with respect to records, the AFM Code of Conduct, personal investment transactions and additional activities is now automated.

We have also started on a thorough review of our internal regulations. The revised AFM Code of Conduct was published on the website in 2016. In addition, compliance is a fixed agenda item at the monthly meetings of the Supervisory Board. Besides dealing with individual additional activities, the meeting regularly devoted attention to compliance and integrity policy in a wider context.

Enforcement

The Compliance & Integrity Division investigates signals with reference to integrity and follows the AFM's enforcement policy with respect to breaches of integrity. The signals in 2016 concerned personal investment transactions, additional activities, confidential information and undesirable behaviour.

Every relevant signal leads to an investigation of the facts. Enforcement action is then taken or not, depending on the outcome of this investigation. There was one case involving a formal measure against an AFM employee in 2016. The measure concerned a serious warning due to undesirable behaviour. The employee in question is no longer working for the AFM.

Complaints scheme / General Counsel

Everyone is entitled to be treated fairly by the AFM and its employees. If a person is of the opinion that this has not been the case, he or she can submit a complaint to the AFM. Complaints are dealt with carefully by the AFM in accordance with its complaints scheme and the General Administrative Law Act (Algemene wet bestuursrecht, or Awb).

The complaints coordinator dealt with five complaints in 2016 (2015: six). The two cases in which an opinion on the merits was reached concerned - in brief - complaints regarding treatment and/or inappropriate behaviour. Both these complaints were declared to be unfounded. Contact was made with the complainant on behalf of the complaints coordinator in two other cases, and a solution was found by other means. This approach is also in line with the use of mediation when dealing with certain complaints.

One complaint was not further substantiated by the complainant, despite our request that they should do so. This complaint was not dealt with due to insufficient substantiation.


There were a further two complaints at the end of 2016 that will be dealt with in 2017.





Control cycle

The AFM uses a control cycle for internal control and external reporting. This cycle concerns the processes of planning (including strategic planning), implementation, direction and reporting within the financial preconditions. The issue of whether the AFM is 'on track' is assessed on the basis of various interim measurements. Adjustments are made when necessary. External stakeholders are informed as to progress. The AFM gives account of the results and effects of its efforts in its annual report.

The AFM has formulated a medium to longer term vision in its [Agenda 2016-2018](#) 

Influencing behaviour and measuring effectiveness

The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct supervisor, we contribute to a sustainable financial system and prosperity in the Netherlands. We strive to achieve this with our supervision and the resources available to us.

As a learning organisation with a public mandate, it is important to identify the results of our supervision by measuring our effectiveness. We can only determine whether a particular influence on behaviour is effective by analysing the effects of our interventions as objectively as possible. For instance, we establish the target group or problem that has been effectively addressed by a particular intervention and those for which the intervention has not been effective. If an intervention has had the desired effect, this means that it can be used to address similar issues more frequently in future. If not, we learn lessons from the experience. The measurement of effectiveness therefore supports the setting of priorities.

In addition, the public expects us to successfully resolve problems that have been identified. We are expected to be able to demonstrate that our efforts have led to results and that both consumers and the financial markets benefit from our work.

“The measurement of effectiveness supports the setting of priorities.”





Risk management

Risk appetite

As a conduct supervisor of the financial markets, the AFM has a statutory and a public duty. To effectively fulfil this duty, it is important that we safeguard our authority. Effective management of the risks in the market and in our own organisation is an important precondition for this. Our risk appetite is therefore relatively low. At the same time, the public has high expectations of our supervision. A sufficient degree of risk appetite and intelligent use of our (limited) resources are required in order to make well-considered decisions so that we are always present where there is harmful behaviour or the threat of this in the market.

Risk management

At the AFM, the Executive Board and the management are responsible for the effective identification, analysis, management and monitoring of risks. The risk management process is embedded in the control cycle and forms an integral part of the cycle dialogue between the Executive Board, the division heads and the Supervisory Board. The design of our risk management has been approved by the Supervisory Board and the external auditor. The AFM distinguishes between risks occurring in the market (market risks) and the risks experienced by it as an organisation (organisational risks). The organisational risks that are directly related to the financial statements are included in a system of in-control statements.

Market risks

Assuming risk, and the transfer and trading of risk for a consideration, allows financial markets to function. We accordingly differentiate between desirable and undesirable risks, and focus our supervision on the management of undesirable risks. These market risks are caused by developments in the financial markets or come about as a result of the behaviour of companies, consumers and investors, whether in relation to gaps in legislation and regulation or not. The AFM conducted a new analysis of the market risks and categorised these risks in the context of its 2016-2018 strategy in 2015. This led to the identification of the top 10 most serious risks, which has been leading in the prioritisation of our supervisory efforts. The results of this process are reflected in our Agenda 2016–2018. Prioritisation sessions are regularly organised in order to intensify or shift our supervisory focus. This approach ensures that our strategic objectives reflect the risks identified in the market.

Organisational risks

Organisational risks arise in the AFM's immediate environment and concern all aspects of our business operation. We use the three lines of defence model in order to manage these risks as effectively as possible. The main organisational risks identified and associated measures on the basis of this annual process for 2016 were:



Table 17

| Main organisational risks | Risk measures in 2016 |
|--|---|
| <p>There is an expectations gap in relation to the role and effectiveness of supervision, meaning that there is insufficient public support for the AFM’s supervision (licence to operate/ mandate)</p> | <ol style="list-style-type: none"> 1. Stakeholders: <ol style="list-style-type: none"> a. Making our policy and its effects visible to government and the public, through fixed communication moments, targeted interviews and public statements (accountability) b. Giving meaning by means of systematic explanation of our role and mandate and managing expectations on the basis of clear positioning and profiling (with a focus on specific themes/top 10 risks). Creating realistic expectations among politicians and the public, among other things by communicating what is within the scope of the AFM and what is not. c. Making connections, entering into dialogue with stakeholders: organising a stakeholder survey, the Advisory Panel, round tables, Consument&Panel, etc. 2. Issues management: Identifying issues that present threats or opportunities for our relationship with stakeholders and managing them accordingly |
| <p>The quality and functionality of IT systems does not provide adequate support for the conduct of supervision and do not make a sufficient contribution to the desired level of security. Employees are not sufficiently aware of the risks.</p> | <ol style="list-style-type: none"> 1. Investing in supervisory systems (including for MiFID II) 2. A more professional business operation: <ol style="list-style-type: none"> a. The AFM has stronger defences against the major digital threats. The Information Provision Master Plan contains details of improvements to the IT services that are needed for supervision and supervisory support. This is based on improving the infrastructure, simplifying the application landscape and improving IT processes. The first release will be phased in in 2017. b. We have invested in the knowledge and competences of our employees and have attracted new experts with diverse backgrounds (data analysts, behavioural economists and psychologists). |
| <p>Insufficient retention of knowledge, intake and mobility of personnel in a market that is picking up and in a transition to becoming a more data-driven supervisor.</p> | <ol style="list-style-type: none"> 1. Strengthening strategic HR planning. 2. Investing in recruitment and education to increase expertise. |
| <p>An internal organisation that is not sufficiently result-oriented or adaptable.</p> | <ol style="list-style-type: none"> 1. The AFM has simplified the organisation of its primary supervision. For instance, the supervision of asset management has been concentrated in a single division and a division has been formed that specifically focuses on relationship management with the largest market parties. Quality safeguards have also been increased through the creation of the Quality Assurance function. 2. Strengthening governance, leadership programme. 3. Start of developments of CPIs for key results. |
| <p>Scarcity of knowledge, experience and capacity in relation to our broad statutory task.</p> | <p>Monitoring developments and risks in the market as part of ongoing supervision. Continuous assessing whether activities needed to be reprioritised and taking appropriate action.</p> |





In addition, we note that in 2016 the AFM developed and took into operation a methodology for a more structured identification and monitoring of risks in supervisory projects. This is in line with the recommendations in the report by the external research agency Alvarez & Marsal on the assessment of interest-rate derivatives services provided by banks. The Executive Board is regularly informed regarding the status of projects with the highest level of risk.

Where possible, we will identify the potential impact of the key risks on our results and financial position in 2017. Part of this involves a qualitative description of the effectiveness of the control measures implemented.

In Control statement

The organisational processes that are directly related to the items in the financial statements are included in a system of in-control statements. After the relevant processes are identified, they are described in terms of risk, control measures and reporting. Each process has an owner who reports on the control of the process by means of a statement. In view of the above and the best practice provisions of the Corporate Governance Code, the AFM believes that the systems of internal risk control and monitoring have functioned appropriately and give a reasonable degree of certainty that the financial reporting does not contain any material misstatements.

Report on the legitimacy of the financial management

The AFM has structured its financial management. We use a system of internal procedures with built-in checks, including authorisation, separation of functions, obligatory documentation and recording of financial management.

The external auditor has carried out an interim audit. This focused among other things on the design, existence and operation of the major internal control processes, and specifically the legitimacy of the income, expenses and movements in the balance sheet in 2016. The reliability and continuity of the automated data processing was also audited.

The resulting recommendations from the interim audit have or will be adopted. The financial legitimacy of the AFM in 2016 is determined according to the Government Accounts Act 2001 [Comptabiliteitswet 2001] and the requirements pursuant thereto.

The AFM exceeded the tolerance level for unjustified procurement by 1 per cent in 2016, partly due to the effect of ongoing assignments from previous years. The unjustified expenses and obligations in 2016 amounted in total to €1,931,770. The tolerance level of 1 per cent of the actual expenses (€90,086,000) was therefore exceeded by €1,030,910, representing 1.14 of a percentage point of the actual expenses.

The procurement procedures were not correctly followed with respect to these expenses. The AFM will tighten up its procurement procedures in order to prevent unjustified expenditure in future.



Audit

The AFM's financial statements are audited by an external auditor. In line with the provision of Section 5 (3) of the Financial Supervision (Funding) Act (Wet bekostiging financieel toezicht), this auditor is not subject to supervision by the AFM. A choice was made for the Government Audit Department (Auditdienst Rijk, or 'ADR') that carries out the internal audit function for several ministries, including the Ministry of Finance. Specific measures are in place at the Ministry of Finance, of which the ADR is part, with respect to the audit of the AFM to ensure the auditor's independence. The audit is conducted by an auditor who is not involved in issues that are in any way related to the AFM as a result of his position at the ADR or his responsibility for work at the ADR for other clients.

Legal proceedings and notes

Objections against levies

The number of objections against levies was 10% higher in 2016 compared to 2015. The objections were against the levies imposed on the basis of the Financial Supervision (Funding) Act (Wet bekostiging financieel toezicht) that took effect on 1 January 2013, and concerned both levies for non-recurring supervisory actions and levies for ongoing supervision. 125 objections against levies were dealt with in 2016.

Other objections and legal proceedings

The number of other objections in 2016 was slightly lower than in 2015, falling by 10%. Most objections concerned fines imposed (11), the withdrawal of licences or rejection of licence applications (9), orders for incremental penalty payments (9) or the handling of requests under the Government Information (Public Access) Act (Wet openbaarheid van bestuur, or 'Wob') (8). In around 93 per cent of these cases, the AFM reached a decision on the objection within the allotted statutory terms. This represents a significant improvement compared to previous years (2015: 60 per cent, 2014: 75 per cent). The AFM made an active effort in this area (among other things by internal procedural and management measures) without affecting the degree of care exercised in its decision-making. A total of 51 objections were dealt with in 2016. 14 of these were withdrawn, 7 were declared inadmissible, 3 were fully or partially upheld and 27 were declared to be unfounded.

The total number of legal proceedings instituted declined in 2016 compared to 2015 (54 compared to 62 in 2015). Rulings were issued in 40 legal proceedings (provisional rulings, appeals and higher appeals) in 2016. A number of the proceedings also involved legal formation and were fundamental in nature. The rulings were (generally) favourable to the AFM in 80 per cent of the cases. This applies for instance if a ruling requested by an opposing party is rejected, an appeal or an appeal to a higher court by an opposing party is declared to be unfounded, or if the stance of the AFM is generally upheld. This percentage may fluctuate from one year to another, and in 2016 remained within the range of the results in previous years.





Table 18 Objections and legal proceedings

| Subject | 2016 | 2015 | 2014 |
|---------------------------|------|------|------|
| Objections against levies | 137 | 124 | 84 |
| Other objections | 56 | 62 | 125 |
| Legal proceedings | 54 | 62 | 55 |

Appeals committee

Before deciding on an objection, the AFM gives the interested parties the opportunity to present their arguments orally to the appeals committee. This procedure is only not held if there is no possible reasonable doubt regarding the decision to be taken. This applies to most of the levy objections. If the interested parties state that they do not wish to make use of the right to be heard, no hearing by the appeals committee is held. The AFM appeals committee, which is not an advisory committee in the sense of Section 7:13 of the General Administrative Law Act, consists of an external Chair, a legal expert from the Legal Affairs department and (in some cases)

a representative from the division that prepared for the primary decision that is the subject of the objection. The appeals committee had two external Chairs in 2016: Mr C.O.W. Dubbelman and Ms C.M. Grundmann-Van de Krol.

The appeals committee held 21 hearings in 2016, a similar number to the previous year. Around 75 per cent of the hearings concerned decisions made by the AFM in its official capacity (such as fines, licence withdrawals or levies). Minutes are taken of the hearings, and form part of the final decision on the objection.

Table 19 the appeals committee

| Subject/primary decision | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|
| Referrals to PPS | 1 | 0 | 2 |
| Fines | 5 | 11 | 6 |
| Orders for incremental penalty payments | 2 | 2 | 2 |
| Withdrawals/rejections/granting licences or exemptions | 5 | 2 | 7 |
| Other | 8 | 0 | 6 |
| Total | 21 | 21 | 23 |
| Cancellations | 2 | 2 | 5 |





Corporate Social Responsibility

The proper functioning of the financial markets is very much in the public interest. The supervision of this - the core task of the AFM - by definition means that we actively support the public interest and therefore also Corporate Social Responsibility (CSR). CSR is embedded in our mission, core values and processes. For instance, the AFM supervises the ethical and controlled business operation of financial enterprises and the strengthening of continuity in business practices. Furthermore, the AFM actively contributes to the debates with respect to sustainability, the role of financiers, the change of raw materials inventories and the more strategic and integrated approach to reporting on these issues. In its supervisory role therefore, the AFM indirectly contributes to an approach to CSR that is more desirable for the wider public.

CSR-scorecard

CSR moreover occupies an important place in the business operation of the AFM. The activities relating to CSR have been made measurable as far as possible. For this we use a CSR scorecard. This shows the short and long term objectives, divided into five areas: employer, purchaser, user, environment and supervision. Some of key results in 2016:

- + Employer: in 2015 we set a target that women would occupy 40% of our management positions. This target has been achieved, and actually exceeded (46.27%). The overall workforce at the AFM consists of 47.3% men and 52.7% women.
- + Supervision: partly as a result of social developments, the AFM made changes to its supervisory organisation, such as initiating a fintech programme and the InnovationHub. We have been an active participant in the Sustainable Funding Platform (Platform voor Duurzame Financiering, or 'PvDF') since 2016.
- + User: the AFM wishes to reduce its CO² emissions. The result is made visible by measuring and comparing emissions (benchmarking) with similar organisations. The AFM compensates the CO² emissions associated with air travel via the sustainable Gold Standard project.

The AFM systematically gives central importance to CSR considerations when making new decisions with respect to contracts, mobility, building design and local public involvement. The AFM sees this as an integral part of its role as an organisation acting in the public interest.





Table 20 The AFM in figures

| The AFM in figures | 2016 actual | 2015 actual | 2014 actual |
|--|-------------|-------------|-------------|
| General | | | |
| Total expenses (in EUR x million) | 90,1 | 86,6 | 80,9 |
| Total income (in EUR x million) | 92,3 | 87,5 | 81,6 |
| Government contribution as percentage of total income | 0% | 0% | 25% |
| Market contribution as percentage of total expenses | 100% | 100% | 75% |
| Average workforce AFM employees (in FTE) | 574 | 584 | 560 |
| Average total workforce (including temporary hires; in FTE) | 603 | 607 | 571 |
| Number of institutions subject to supervision | 9.600 | 9.900 | 10.200 |
| Overview of supervisory measures | | | |
| <i>Formal supervisory measures</i> | | | |
| • Penalties imposed | 15 | 17 | 31 |
| • Orders for incremental penalty payments imposed | 17 | 8 | 26 |
| • Reports to PPS | 3 | 1 | 2 |
| • Licence withdrawals | 11 | 5 | 23 |
| • Instructions | 25 | 7 | 8 |
| • Public warnings | 22 | 7 | 12 |
| • Appointment of a Wft receiver | 2 | 0 | 0 |
| • Notification without recommendation (Wtfv) | 3 | 5 | 3 |
| • Notification with recommendation (Wtfv) | 2 | 1 | 0 |
| • Complaints to the Disciplinary Court for Auditors | 0 | 1 | 1 |
| Total number of formal supervisory measures | 100 | 52 | 106 |
| <i>Informal supervisory measures</i> | | | |
| • Number of instructive consultations/letters on compliance with standards | 588 | 481 | 301 |
| • Number of warning consultations/letters | 62 | 94 | 170 |
| Total number of informal supervisory measures | 650 | 575 | 471 |





Effectiveness of supervisory measures the main priority

When applying a supervisory measure, the AFM considers which measure is the most appropriate in the given situation. This includes all aspects, including the seriousness and duration of the violation, the attitude of the party concerned and the damage suffered by third parties as a result of the violation. It is also important to determine the effectiveness of a measure in the circumstances: what kind of signal does this give, how quickly can the measure be imposed and what is its expected effect on behaviour? The imposition of fines is not a target or something that the AFM aspires to. Supervision means more than this. In most cases, the markets, investors and consumers benefit much more from direct intervention by a supervisor. A persuasive discussion or direct intervention is much more effective than lengthy legal wrangling. Letting violations continue because you are in a review phase or a fine procedure is risky.

“The imposition of fines is not a target or something that the AFM aspires to. Supervision means more than this.”

The largest players in the market have the most impact on and benefit from the way in which the market operates. The AFM focuses specially on these parties in 2016. If this leads to a fine, the amount is correspondingly higher since the ability to pay is also a factor in determining the amount. This can be seen from the fines imposed in the past year. The highest fine imposed in 2016 involved a sum of € 2.2 million. The AFM imposed 15 fines in total in 2016 with an average of just over € 0.6 million. This average is the same as in 2015. In 2014 the average fine imposed was € 0.2 million.

Four fines were imposed on each of the four largest audit firms for violation of their duty of care. These fines were imposed as a result of the reviews of the quality of statutory audits on which a report was issued in September 2014. A further two fines were imposed for failure to meet the prospectus obligation and two fines were imposed for violations of the ban on inducements by insurers.

Increase in supervisory measures imposed

The number of formal supervisory measures nearly doubled in 2016. More orders for incremental penalty payments were imposed, and more instructions and public warnings were issued. There were also more licences withdrawn.

The orders for incremental penalty payments were mostly imposed on providers of pay-day loans, as well as advisers and intermediaries. The public warnings primarily concerned boiler rooms and ill-intentioned providers of financial products. The AFM notes that boiler rooms are becoming increasingly subtle but also more aggressive in their efforts to convince investors to do business with them. Besides inclusion in public warning lists, the AFM wrote to 783 consumers to warn them that they were on call lists used by boiler rooms.

The number of measures may vary each year, since the imposition of a measure sometimes falls in the next year. This means that the figures for the various years fluctuate. In 2015 for instance, the number of formal measures halved in comparison to 2014.





Informal supervisory measures often take effect more quickly

The AFM uses a mix of formal and informal measures, depending on the most effective way of influencing behaviour. Informal measures can achieve the same effect more efficiently in some cases. One example is action by the AFM against the provision of unclear and misleading information to consumers.

Consumers need correct and comprehensible information when making financial decisions. The AFM monitors the market continually with the aim of identifying shortcomings as quickly as possible. 73 signals of misleading or otherwise unclear information were dealt with in 2016, whereby we urged various providers of investment, credit and savings products to cease providing misleading, unclear and incomplete information.

This does not usually involve lengthy review procedures in advance. Market parties can then cease violations relatively easily by ceasing to provide information or by adding certain information. Informal influence is thus a good way of responding to these signals, for example with interventions by telephone or what are known as instructive letters on compliance with standards. The company concerned is made aware of the violation(s) and requested to state the measures it will take in writing. 52 instructive letters on compliance with standards were sent in relation to unclear and misleading advertisements in 2016. This usually works quickly and effectively.

Explanation per supervisory measure

The place of formal supervisory measures in the entire range of supervisory instruments is described in the section 'The supervisory approach of the AFM'. The number and also the mix of supervisory measures may fluctuate from one year to the next.

Fines

The AFM imposed 15 fines in 2016 (2015: 17). These mainly concerned more serious, complex and therefore more labour-intensive cases. The number of fines imposed in 2016 is in line with the average number of fines since 2012. Only in 2014 was the number of fines imposed relatively high, since there were various smaller cases that could be dealt with with a simple and more or less standard procedure.

The total amount of the fines imposed was € 8.5 million (€ 9.6 million in 2015). In 2016 the AFM imposed fines for more serious violations occurring at larger companies. This was in line with 2015. The highest fine imposed in 2016 involved a sum of € 2.2 million (2015: € 2.0 million). The average fine imposed in 2016 and 2015 was just over € 0.6 million (2014: €0.2 million).

The cases that ultimately led to fines being imposed were intensive in terms of preparation, investigation and processing. This is an additional reason why a violation of statutory norms does not lead to a fine procedure being initiated in many cases. The AFM takes the view that the nature of the fine and its public effect are more important than the number of fines imposed.

Fines are only recognised as income in the



financial statements once they have been declared to be irrevocable and the fine imposed has been received by the AFM. This means that the fines recognised as income in the financial statements may vary from the total amount of fines imposed.

Orders for incremental penalty payments

“In 2016, orders for incremental penalty payments were imposed mainly on credit providers (pay-day loans) and advisers and intermediaries.”

There were 17 orders for incremental penalty payments imposed in 2016 (2015: 8 and 2014: 26). In several cases, orders were imposed with the aim of obtaining information from companies. As compliance with requests for information by the AFM improves, we will have to use this measure less frequently. In 2016, orders for incremental penalty payments were imposed mainly on credit providers (pay-day loans) and advisers and intermediaries.

Reports to PPS

Three enforcement procedures led to a referral to the Public Prosecution Service in 2016. There was one such instance in 2015.

Licence withdrawals

The formal measure of licence withdrawal among other things concerns full or partial withdrawals due to failure to comply with requirements relating to professional competence and a controlled business operation. The number of withdrawals increased in 2016 to 11 (2015: 5). This is

due to the stricter policy whereby the AFM ensures that the licence requirements are met. An effort was made to optimise the processing of signals and measures were imposed more quickly in 2016.

Instructions

There were 25 instructions issued, a significant increase compared to previous years (2015: 7 and 2014: 8). Many advisers and intermediaries initially submitted appeals to Kifid (the Financial Services Complaints Board). Based on signals of missing Kifid affiliations and after establishing that these parties were no longer paying for their affiliation, the AFM issued a formal instruction to these parties.

Appointment of a Wft receiver

The AFM has the power to appoint a Wft receiver if a company fails to comply with an instruction, if the violation threatens the adequate functioning of the institution or if the violation seriously threatens the interests of consumers. This measure was applied in two cases in 2016 (2015: 0).

Public warnings

Public warnings involve publication and inclusion in the warning list on the AFM's website, for instance in cases involving boiler rooms or ill-intentioned providers of financial products. The AFM was more frequently forced to place such warnings on its website in 2016 than in 2015. The AFM notes that boiler rooms are becoming increasingly subtle but also more aggressive in their efforts to convince investors to deal with them.

Notifications (Financial Reporting)





(Supervision) Act, or 'Wtfv')

The AFM may issue a notification to a company indicating that its financial reporting does not comply with the reporting standards. The company has to prepare its future financial reporting in accordance with these standards. In cases where the company is obliged to issue a press release, this concerns a notification with recommendation. 5 companies received a notification in 2016 (2015: 6), 2 of which concerned a notification with recommendation (2015: 1).

Complaints to the Disciplinary Court for Auditors. No complaints were submitted to the Disciplinary Court for Auditors in 2016 (2015: 1).

“Informal measures involve instructive or warning letters or conversations on compliance with standards.”

Informal supervisory measures

There were 650 informal supervisory measures taken in 2016 (2015: 575). Informal measures involve instructive or warning letters or conversations on compliance with standards. There was a small shift from warning letters and conversations to instructive letters and conversations on compliance with standards in 2016. There was a further increase of 75 in the total number of informal measures compared to the previous year (2015: +104). The number of informal measures may fluctuate widely from one year to another, partly due to the complexity of the investigations carried out. The increase in the number of instructive letters and conversations on compliance with standards was due to a higher number of measures against advisers and intermediaries. In addition, in both 2016 and 2015 this figure includes the instructive letters on compliance with standards to companies that had appointed a co-policymaker or policymaker without prior testing.





“Give the customer’s interest a central priority in the pension debate”

Harold Herbert, director of the Dutch Association of Insurers

‘We experienced good cooperation with the AFM in 2016. We appreciate its expertise and it is convinced that our intentions are positive. In a professional dialogue we are striving to achieve the same goal on the basis of respect for each other’s position and responsibilities: doing the best for the customer. Where possible, we work together, support each other and keep each other sharp.

One of the themes where we work in parallel is the future of the pension system. The AFM has a clear vision, featuring a more personal pension system, a good balance between freedom of choice and protection, and more simplicity and transparency. It is actively engaged in the pension debate. I welcome this, because it is essential that the discussion is conducted primarily from the customer’s perspective.

However, I sense a degree of hesitancy on the part of the AFM to get involved in the pension area. This is unfortunate, since the AFM has modern insights into what customers want and what they can understand. It can be inspirational to look at pension schemes from the point of view of a product approval process: are they cost-effective, useful, safe and comprehensible? Not with the aim of rejecting pension schemes, but to encourage thinking from the customer’s point of view. The AFM is ideally placed to encourage this.’





04 Other information



→ **140**
Enclosure



Enclosure 1

Overview of supervisory measures

| Recommendations (civil-law) | | | | | | | | | | | | |
|--|----------------|--------------|-----------|------------------------------------|-------------------------------|---|---|--|---|-----------------|-------------|-------------------------------|
| 1. Formal measures | | | | | | | | | | | | |
| Supervision category | Reports to PPS | Instructions | Fines | Submission to the Enterprise Court | Appointment of a Wft receiver | Complaints to the Disciplinary Court for Auditors | Orders for incremental penalty payments | Notifications without recommendation (Wftfv) | Notifications with recommendation (Wftfv) | Public warnings | Commitments | Licence withdrawals (measure) |
| Credit providers | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 |
| Audit firms | 0 | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Advisers and intermediaries | 0 | 15 | 4 | 0 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 9 |
| Banks, electronic money institutions and clearing institutions | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Collective investment schemes and providers of investments | 1 | 4 | 1 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Investment firms non-proprietary trading excl. MTF | 0 | 1 | 1 | 0 | 0 | 0 | 2 | 0 | 0 | 22 | 0 | 0 |
| Investment firms engaged in proprietary trading | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| Payment institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Securities-issuing institutions: market | 2 | 3 | 2 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 |
| Securities-issuing institutions: reporting | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 2 | 0 | 0 | 0 |
| Financial infrastructure, market operators, MTF | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pension funds and premium pension institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Insurers: life and pensions | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Insurers: non-life | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| BES Islands | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Central counterparties | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Insurers: healthcare | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unspecified | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total 2016 | 3 | 24 | 15 | 0 | 2 | 0 | 17 | 3 | 2 | 22 | 0 | 11 |
| Total 2015 | 1 | 7 | 17 | 0 | 0 | 1 | 8 | 5 | 1 | 7 | 0 | 5 |
| Total 2014 | 2 | 8 | 31 | 0 | 0 | 1 | 26 | 3 | 0 | 12 | 0 | 23 |





Overview of supervisory measures (continuation)

| Recommendations (civil-law) | | | |
|--|--|---|--------------|
| 2. Instructive consultation, warning consultations and signals | | | |
| Supervision category | Number of instructive consultations/letters on compliance with standards | Number of warning consultations/letters | Signal |
| Credit providers | 14 | 3 | 0 |
| Audit firms | 2 | 2 | 0 |
| Advisers and intermediaries | 285 | 42 | 0 |
| Banks, electronic money institutions and clearing institutions | 6 | 0 | 0 |
| Collective investment schemes and providers of investments | 35 | 2 | 0 |
| Investment firms non-proprietary trading excl. MTF | 30 | 8 | 0 |
| Investment firms engaged in proprietary trading | 6 | 0 | 0 |
| Payment institutions | 0 | 0 | 0 |
| Securities-issuing institutions: market | 39 | 74 | 0 |
| Securities-issuing institutions: reporting | 0 | 0 | 0 |
| Financial infrastructure, market operators, MTF | 0 | 0 | 0 |
| Pension funds and premium pension institutions | 78 | 0 | 0 |
| Insurers: life and pensions | 9 | 5 | 0 |
| Insurers: non-life | 2 | 0 | 0 |
| BES Islands | 7 | 0 | 0 |
| Central counterparties | 0 | 0 | 0 |
| Insurers: healthcare | 0 | 0 | 0 |
| Unspecified | 0 | 0 | 6.881 |
| Total 2016 | 513 | 136 | 6.881 |
| Total 2015 | 481 | 94 | 6.976 |
| Total 2014 | 301 | 170 | 6.908 |