SUPERVISION OF THE 2007 FINANCIAL REPORTS OF LISTED COMPANIES

ACTIVITY REPORT 2008

Summary

2008 was the second year that the Netherlands Authority for the Financial Markets ('AFM') performed its supervisory duties in respect of the financial reporting of companies with registered offices in the Netherlands and listed on a regulated exchange ('companies') and formed an opinion regarding the correct application of financial reporting standards. Supervision contributes towards more transparency and comparability of financial reports of companies. Higher-quality financial reports also have a positive impact on the public's confidence in the adequate functioning of the capital markets. As was the case in 2007, the AFM's supervision was limited to annual financial reports. The half-yearly financial reports are expected to fall under AFM supervision from 2009, following implementation of the Transparency Directive.

The public register of the AFM holds the annual financial reports of the companies subject to its supervision filed for the 2006 and 2007 financial years, by 268 and 240 companies respectively. In six cases, the annual financial reports were not filed until the AFM had formally instructed these companies to do so.

The AFM has reviewed the financial reports of 71 companies, one review of which was started in 2007. 63 (2007: 51) of these reviews have been completed. The AFM raised questions with 38 companies, i.e. 60% (2007: 37 or 72%), about the application of financial reporting standards in their financial reports. In view of the due care exercised by companies in providing additional information and by the AFM in analysing this information, the statutory enforcement term[1] of six months is felt to be restrictive.

In the case of 30 (2007: 29) of the completed reviews, the companies in question were not able to remove the AFM's doubts about the correct application of financial reporting standards, and the AFM issued one or more notifications. The number of companies where the notification was accompanied by a recommendation from the AFM decreased significantly, from seven in 2007 to two in 2008. A recommendation requires the company to issue a public statement setting out the impact on its financial report had the company applied the financial reporting standards correctly. Both recommendations concerned financial reports for the 2006 financial year. The financial reporting issues raised included cash flow statements (IAS 7), measurement of financial instruments (IAS 39), presentation of financial statements (IAS 1) and share-based payments (IFRS 2). One recommendation was issued to a company from the local listing segment, the other involved a company listed on a foreign stock market. The press releases issued by the companies in question can be found in the public register of the AFM, which is available on the AFM website.

To date, the AFM has not issued any recommendation regarding 2007 financial reports. In two

[1] Pursuant to Section 449 of Book 2 of the Netherlands Civil Code, any stakeholder, the Advocate General or the AFM can initiate annual accounts proceedings with the Enterprise Section of the Amsterdam Court of Appeal within six months of adoption.

cases, the AFM issued a notification only, although the non-compliance with the financial reporting standards justified a recommendation. In one case, the company voluntarily incorporated the AFM's findings in its interim report; in the other case, the six-month enforcement term had expired. In the latter case, the AFM urged the company to issue a public statement voluntarily[2].

The financial reports of the companies in the local listing segment showed that compliance with IFRS had improved in the third year following the transition to IFRS, highlighted by the fact that the financial reports for the 2007 financial year of these companies contained considerably less evident mistakes, owing to increasing experience with IFRS.

As for the financial reports of the 28 companies (2007: 21) that were not required to issue a public statement, the notifications related in particular to compliance with the financial reporting standards on financial instruments (IFRS 7 and IAS 32/39), income taxes (IAS 12) and cash flow statements (IAS 7). These financial reporting standards also figured prominently in the notifications issued in 2007. The AFM will monitor closely the proper application of the financial reporting standards by these companies in their future financial reports.

In respect of the report of the Management Board, most questions raised by the AFM related to the application of the requirement that a company must include a statement on compliance with the Dutch Corporate Governance Code. The questions concerned in particular the best practice provision regarding the internal risk management and control systems. Given the economic and social relevance of compliance with the Dutch Corporate Governance Code, the AFM believes that transparency regarding compliance with the best practice provisions has to be improved substantially.

The number of companies where desktop reviews resulted in neither a request for additional information nor any supervisory action was 25, or 40% of the desktop reviews completed (2007: 14, or 27%). In particular the companies that had been given a notification by the AFM in 2007, in some cases accompanied by a recommendation, did well in this respect. Every company that had received a notification from the AFM in the preceding year was again selected for the purpose of a desktop review. These reviews showed that the notifications had been properly complied with.

In 2008, the AFM did not file any petition with the Enterprise Section of the Amsterdam Court of Appeal (2007: 1) to revise the financial statements of companies. It did, however, lodge an appeal in cassation in March 2008 with the Dutch Supreme Court against a judgment handed down in 2007 by the Enterprise Section. The AFM has fundamental objections to this judgment and deems it essential for its supervision of financial reporting and for future application of financial reporting standards that the Supreme Court forms an opinion on the judgment of the Enterprise Section. So far, the Supreme Court has not issued a ruling.

As a consequence of the credit crisis, transparency and comparability of financial reports have been receiving a great deal of attention. The AFM paid special attention to these matters in the past year. In August 2007, it advised the financial institutions by letter that, in performing its supervision of the 2007 financial reports, it would pay special attention to the financial reporting of a number of aspects relating to the at the time increasing risks which were the direct or indirect result of developments in the US credit market. In order to gain an understanding of the relevance of the subprime and non-subprime investments to the financial position and performance of the company, it is important that users of financial statements are aware of the size of these investments, how their fair values have been determined and the assumptions used to arrive at fair value. Of the ten financial institutions reviewed, seven were issued one or more notifications regarding this topic because the required disclosures had not been included in their financial

[2] At the time of publication of this Activity Report, it was not known whether the company would issue a public statement voluntarily.

statements. In view of the fact that financial institutions with substantial subprime and non-subprime investments disclosed the information concerned in another way (for example in their report of the Management Board, in analyst presentations or otherwise), the AFM decided to issue only notifications that were not accompanied by a recommendation. The AFM believes that there are two reasons for including these disclosures in next year's financial statements: (1) it promotes clarity and accessibility of the financial statements; and (2) the disclosures become subject to the auditor's opinion.

When considering the AFM's findings, one should bear in mind that the AFM reviews whether the reporting standards have been correctly applied. The AFM's reviews do not include verifying whether the financial report presents a true and fair view of the financial position and performance, and they are not a repetition of the auditor's work. Management estimates and judgments are usually subject to a limited review. A request for additional information can only be made by the AFM if it has doubts, based on public information, about the correct application of financial reporting standards, and its powers to demand specific documents are limited.

The AFM discussed technical aspects of financial reporting at the European Enforcing Coordination Sessions ('EECS') organised by the Committee of European Security Regulations ('CESR'), attended by regulators from other Member States in order to ensure a high level of convergence of supervisory decisions in the European Union. At the EECS meetings, the AFM put forward issues in the following financial reporting areas: business combinations, pensions, cash flow statements and financial instruments.

Findings of thematic reviews

Financial instruments: disclosures
The AFM found that the introduction of IFRS 7 resulted in a marked increase in the level of disclosures on financial instruments, the associated risks and risk management by both financial institutions and other companies in their 2007 financial reports. These disclosures are important for users, because they give them an understanding of the relevance of financial instruments to a company's financial position and performance. Improvements are required for the disclosures of the classes of financial instruments whose fair values are based on quoted market prices in an active market and of the classes of financial instruments whose fair values are determined using a valuation technique, as well as the assumptions used in determining fair value. The same applies to the disclosures on liquidity risk.

Pensions
Compared with the preceding supervision year, the AFM found that the 2007 financial reports displayed a higher level of compliance with the IAS 19 requirements regarding the disclosures on multi-employer plans and defined benefit plans. Improvements are required for the disclosures on the application of defined contribution accounting to multi-employer plans, the five-year overview of the present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan and the experience adjustments. As a result of the debate on the impact of financial reporting standards on defined benefit plans, this subject is high on the political agenda.

Key management personnel disclosures
IAS 24 and other documentary sources show that key management personnel includes the members of both the Management Board and the Supervisory Board and may also include other officers, depending on the circumstances. In the 2007 financial reports, the AFM found that the group of key management personnel was clearly defined in 77% of the financial statements reviewed, despite the fact that IAS 24 does not require this disclosure. In the case of 45% of the financial statements reviewed which included a clear definition of key management personnel, the AFM found indications that the group of key management personnel was wider than disclosed in the financial statements; 20 percentage points relating to members of the Supervisory Board and

25 percentage points relating to other officers. In addition, the AFM found that in the case of 47% of the reviewed financial statements of companies disclosing an award of share-based payments, the costs associated with these payments for key management personnel had not been disclosed. The debate about the level of top management compensation further adds to the importance of correct application of these financial reporting standards.

This report is set out in the following sections:

Section 1	**Introduction**
Section 2	**Statistics**
Section 3	**Filings and public register**
Section 4	**Selection of financial reports for review and the supervision process**
Section 5	**Notifications and recommendations**
Section 6	**Findings on the financial reporting of subprime and non-subprime investments**
Section 7	**Findings on IFRS 7 - Financial instruments: Disclosures**
Section 8	**Findings on IAS 19 – Employee benefits, pensions**
Section 9	**Findings on IAS 24 – Related parties, key management personnel**

Appendices[3]

A	**Tabulated statistics – Analysis of company reviews**
B	**IFRS 7 Report - Financial instruments: disclosures**
C	**IAS 19 Report – Employee benefits, pensions**
D	**IAS 24 Report – Related parties, key management personnel**

[3] Appendices B, C and D have not been included in this English language version of the Dutch report.

Section 1 Introduction

This report covers the AFM's activities during its second year of supervising the financial reports of companies with their registered offices in the Netherlands and listed on a regulated exchange ('companies'), under the Dutch Act on the Supervision of Financial Reporting (*Wet toezicht financiële verslaggeving* (*'Wtfv'*)). Supervision of annual financial reports is aimed at ensuring correct application of financial reporting standards, resulting in greater transparency and comparability of the financial reports of companies. Financial reporting supervision enhances public confidence in the adequate functioning of capital markets.

Not least as a result of the credit crisis, transparency and comparability of financial reports are important issues in the debate on fair value accounting. In 2008, the AFM paid special attention to this aspect of financial reporting. On 30 October 2008, the AFM's Chairman gave a speech on the application of fair value accounting on the occasion of the presentation of the 55th FD Henri Sijthoff award. In August 2007, the AFM informed financial institutions by letter that, as part of its supervision of financial reports, it would pay special attention to the reporting of a number of aspects relating to the risks directly or indirectly associated with developments in the US credit market, which at that time were increasing. The AFM also addressed this matter in its newsletter issued in September 2007. The findings of this specific review are set out in Section 6 of this activity report.

The AFM aims to be transparent about its activities. This report serves that purpose, while also meeting CESR standards requiring European supervisors to report annually on their supervisory activities regarding financial reporting. Partly in response to market requests, the AFM has decided to publish its activity report before the end of the year, attaching greater priority to its timeliness than to its completeness. Early publication will allow companies to take account of the report's findings when preparing their financial reports for 2008.

This report sets out the AFM's activities in 2008 pursuant to its supervisory duties regarding the 2006 and 2007 financial reports. These duties can be broken down into two domains ('supervision domains'). The first concerns the filing of financial reports and the maintenance of a public register, while the second concerns compliance with financial reporting standards for both consolidated and company financial statements, and compliance with legislation regarding the report of the Management Board and the Other Information pursuant to Section 392 of Book 2 of the Netherlands Civil Code. For the purpose of this second supervision domain, the AFM prior to its supervisory activities announced its plan to review compliance with reporting requirements laid down in IFRS 7, *Financial Instruments: Disclosures*, IAS 19, *Employee Benefits*, particularly regarding recognition and disclosures on defined benefit plans and multi-employer plans, and IAS 24, *Related Party Disclosures*, particularly regarding key management personnel disclosures.

Section 2 Statistics

In 2008, the AFM selected 91 companies whose financial reports were to be subjected to a desktop review. The selection was based on any notifications issued concerning the 2006 financial report, risk analysis, rotation or indications. None of the desktop reviews of financial reports were prompted by information received from whistleblowers. Appendix A presents, in tabulated form, the AFM's supervisory activities and findings in respect of the adopted financial statements for the 2006 and 2007 financial years.

Desktop reviews and supervisory actions

Between 1 January and 15 December 2008, the AFM initiated desktop reviews of the financial reports of 70 companies (2007: 52) and continued one desktop review that had not been completed at the end of 2007. The AFM has now completed 63 desktop reviews (2007: 51). In 38 or 60% (2007: 37 or 73%) of the 63 desktop reviews completed, the AFM approached the companies requesting additional information on the application of financial reporting standards. The relative fall in the number of requests for additional information can be explained by the impact of the companies receiving one or more notifications concerning their 2006 financial reports, accompanied by a recommendation in some cases. The 2007 financial reports of these companies were also reviewed by the AFM in 2008, to ensure correct application of financial reporting standards in respect of issues for which a notification had been issued in 2007. The fall shows an improvement in the application of financial reporting standards after issuance of a notification. In the case of two (2007: 7) of these companies, the AFM issued a *notification* accompanied by a *recommendation*, requiring the companies in question to issue a press release setting out in what respects their financial reports were not in compliance with financial reporting standards. Both notifications accompanied by a recommendation related to 2006 financial reports. In 28 cases, the AFM issued a *notification*, which did not require the companies involved to issue a press release. In summary, these notifications set out the AFM's doubts about the correct application of financial reporting standards in respect of specific financial reporting areas. In two cases, the AFM issued a notification only, although the non-compliance with the financial reporting standards justified a recommendation. In one of these cases, the company voluntarily incorporated the AFM's findings in its interim report, while in the other case, the six-month enforcement term had expired. In the latter case, the AFM urged the company to issue a public statement voluntarily[4]. Since this information regarding the former case was not disclosed and the information regarding the latter case will not be disclosed pursuant to a formal recommendation, it is not recorded separately in the AFM's public register.

As regards the other eight companies that were requested to provide additional information, the review was concluded without the AFM taking any further steps.

The AFM did not file a petition for revision of financial statements with the Enterprise Section of the Amsterdam Court of Appeal in 2008 (2007: 1). It did, however, lodge an appeal in cassation in March 2008 with the Dutch Supreme Court against a judgment by the Enterprise Section in 2007. The AFM has fundamental objections to this judgment and deems it essential for its supervision of financial reporting and for future application of financial reporting standards that the Supreme Court forms an opinion on the judgment of the Enterprise Section. This appeal is still pending.

Other activities

In 2008, the AFM contributed towards two activities of CESR-Fin. It took part in all seven EECS meetings organised by CESR. The aim of these meetings of European financial reporting supervisors, as well as to record supervisory decisions in the EECS database, is to ensure a high degree of convergence in supervisory decision-making within the European Union. In 2008, 14 supervisory decisions made by the AFM were discussed. The issues included business combinations, pensions, cash flow statements and financial instruments. In addition, an active contribution was made towards the CESR Statement on fair value measurement and related disclosures of financial instruments in illiquid markets, published on 3 October 2008.

In 2008, the AFM had three meetings with its Financial Reporting Committee (*Commissie financiële verslaggeving*, 'the Committee'), an advisory body made up of Dutch and international financial reporting experts. The meetings address matters concerning financial reporting related to supervision, such as the consequences of the credit crisis on financial reporting and the thematic reviews for the 2007 financial year. In addition, the AFM consults members of the Committee regarding the most complicated cases before making a supervisory decision. A number of Committee members were consulted in respect of one case in 2008 (2007: 2).

[4] At the time of publication of this Activity Report, it was not known whether the company would issue a public statement voluntarily.

Section 3 Filings and public register

Filing financial reports

Insofar as the AFM was aware of the date of adoption of the annual financial statements, the AFM advised companies of their obligation to file their financial reports and drew their attention to the fact that the financial reports should be filed with the AFM within eight days of adoption. Filing with the AFM does not affect the obligation to file financial reports with the Chamber of Commerce.

As soon as a company has filed its financial report with the AFM, the AFM checks whether the financial report is complete, i.e. that it contains the report of Management Board, the adopted financial statements and the Other Information pursuant to Section 392 of Book 2 of the Netherlands Civil Code, including the auditor's report. There is no substantive review at this point. Within five days of filing, the AFM includes the filed financial reports in its public register.

Companies can file their financial reports in two ways: either in hardcopy form by mail, including a form available on the AFM website, or electronically. Electronic filing is quick and convenient. Approximately 60% of the companies chose to file electronically. The AFM's aim is for as many companies as possible to file their 2008 financial reports electronically.

Public register

So far, approximately 240 companies have filed their financial statements with the AFM for financial years commencing in 2007. Insofar as the AFM is aware of the date of adoption, almost all companies preparing consolidated financial statements filed their financial reports with the AFM in time. Moreover, two companies filed a press release with the AFM after a recommendation issued by the AFM concerning their financial reports. The public register also includes a press release issued by the AFM stating that it has filed an appeal for cassation against a decision by the Enterprise Section of the Amsterdam Court of Appeal.

In 2008, 57 companies filed their annual report for financial years commencing in 2006. In many cases, the Annual General Meeting (AGM) of these companies had extended the term for preparing the annual financial statements by a maximum of six months and/or their financial year did not coincide with the calendar year.

In six cases, the reports were filed in 2008 after the AFM had given an instruction to that end. These instructions related to financial reports for both the 2006 and 2007 financial years.

Implementation of the Transparency Directive

Upon implementation of the European Transparency Directive, Dutch legislation will change significantly regarding the preparation and publication of financial reports and their filing with the AFM. The new legislation is expected to take effect in January 2009, and to apply to financial years commencing on or after 1 January 2008.

The most significant changes are the following:

1. The introduction of the *Home Member State* concept. This concept is relevant to define the scope of the new regulations mentioned above.
2. A wider definition of the term *financial report* to include the half-yearly financial report and a statement that the annual financial statements and the management report provide a true and fair view.
3. As a result of 1 and 2 above, an extension of the AFM's supervision of the correct application of financial reporting standards.
4. The introduction of statutory obligations for the publication of annual financial reports, half-yearly financial reports and interim management statements, as well as supervision of compliance with these obligations.
5. The introduction of new rules for filing annual and half-yearly financial reports and interim management statements with the AFM and the Trade Register.

Point to consider
The AFM has a strong preference for companies filing their annual financial reports, half-yearly financial reports and interim management statements with the AFM electronically. That way, processing takes less time, and a company can fulfil its filing obligation conveniently and quickly. The AFM will continue to bring this to the attention of companies in 2009. Since financial reports and interim management statements must be made available to the public in a non-discriminatory way and via a press release, the AFM expects this to be done mostly via the relevant company's website. Since the information is already available in digital format, this will probably encourage electronic filing.

Section 4 Selection of financial reports for review and the supervision process

The AFM has four different ways of selecting a company's financial report for a desktop review:

1. Selection of the financial report of companies that were issued a notification (which may have been accompanied by a recommendation) by the AFM in respect of one or more aspects of their financial report in the preceding year. In these cases, the AFM verifies that the financial report for the following financial year does not raise any doubts about the correct application of financial reporting standards regarding the financial reporting issues raised the preceding year. Depending on the outcome, it may decide to carry out a full desktop review.
2. Selection using risk analysis, determining on the basis of specific factors of a company whether or not there is a higher than average risk that financial reporting standards will not be correctly applied. This selection also takes account of the potential impact of such incorrect application on the users of the reports, such as investors, and on the adequate functioning of the capital market. This approach is consistent with CESR principles and recommendations.
3. Selection on the basis of rotation, so that companies can also be selected for a desktop review regardless of any specific risk or impact on the capital market. The basic principle is that a company's financial report should be subjected to a desktop review at least once every five years.
4. Selection on the basis of indications that the financial reporting standards may not have been applied correctly in respect of one or more financial reporting areas. This concerns indications received by the AFM after completion of its risk analysis for selecting financial reports for a desktop review.

A desktop review is carried out on the basis of public information and starts, partly depending on the available staff resources, as soon as possible after publication of the financial report.

The AFM gives companies a reasonable time period in which to provide answers to its questions. In most cases, the initial response time is set at ten working days. Many companies indicated that they needed more time in order to answer the questions with due care. Where a company substantiated its request for a longer response time with specific reasons, the AFM granted a longer response time where possible, taking into account the restrictions arising from the statutory six-month enforcement term. In some cases, companies indicated that they felt the time allowed was too short, even after extension. If the enforcement term were extended, the AFM would be able to grant a longer response time.

In a number of cases, extending the response term resulted in little time for consultation at the end of the process, due to the statutory six-month enforcement term. In view of the high convergence of supervisory decision-making desired in the European Union, the short enforcement term should also allow for the required international harmonisation with other European supervisors. Due to the complexity of the standards and the AFM's express goal to put the quality of the outcome of its reviews first, the six-month term was exceeded, restricting our enforcement options. In these cases, the findings and their consequences for subsequent financial reports were discussed with the companies involved, and some notifications were issued.

There were no cases where the AFM applied to the Enterprise Section for an order to obtain any additional information. However, the AFM did request further additional information in cases where the response to our first information request or the oral clarifications raised additional questions. In carrying out its desktop reviews, the AFM also identified issues that did not immediately give rise to a request for additional information or a notification, but which, the AFM believes, could be useful for the management of companies in improving compliance with financial reporting standards. These findings were also reported to the companies in question, without raising any specific questions. The companies are expected to take note of these comments in their future financial reports.

In some cases, it took a long time before the company could remove the AFM's doubts about the correct application of financial reporting standards. This process could very probably have been more efficient if the company had submitted the specific documentation requested at an earlier stage. Under the Wtfv, companies cannot be forced to submit certain documents, because it is for the company to decide how it wishes to address any doubts raised.

Please refer to Appendix A for tables summarising the AFM's supervisory activities.

Section 5 Notifications and recommendations

General impression

In general, the AFM has found that companies and their auditors have cooperated well. Given the complexity of the issues raised, consultations with the AFM usually took more than one round. In many cases, companies also gave an oral explanation. Where the AFM's doubts about the correct application of financial reporting standards in respect of specific elements had not been removed, the AFM decided in many cases to issue a notification or a recommendation. In most cases, the companies have promised to comply with the relevant financial reporting standards in future when preparing their financial reports.

In a number of cases, companies informed the AFM that it would involve its Supervisory Board or its Audit Committee in answering the AFM's questions, or would inform them thereof. The AFM supports this involvement, as supervision of the financial reporting process and compliance with legislation is an important responsibility of the Supervisory Board. However, this should not result in a further extension of the term required to provide additional information. The statutory six-month enforcement term is not long enough for this.

In any case, it is standard procedure for the AFM to provide the Supervisory Board with a copy of the notification letter (including any recommendation). The AFM considers it important to support the Supervisory Board in its role of primary supervisory body, by providing notifications.

Recommendations (public)

Introduction

As regards financial reporting issues that are the subject of an AFM recommendation, the AFM believes that correct application of financial reporting standards has a significant impact on the company's current financial report or future financial reports. It is important for users of financial statements to be able to learn this information, because it will enable them to make well-considered investment and other decisions. It is in the public interest that these issues are made transparent. Such transparency is achieved by issuing a public statement following an AFM recommendation, thus contributing to an adequate functioning of the capital markets and the confidence of investors in these markets. The AFM believes that greater transparency of these issues outweighs any interests of companies to refrain from going public.

Recommendations can be issued in cases where non-compliance with financial reporting standards affects a primary statement (i.e. balance sheet, income statement, cash flow statement or statement of changes in equity), possibly resulting in material misstatements in the financial statements, or where a primary statement is omitted all together. Omission of essential disclosures may also result in the AFM issuing a recommendation.

The Wtfv provides for two types of recommendations. A recommendation pursuant to Section 3, subsection 2, under a of the Wtfv ('A recommendation') requires a securities-issuing institution to issue a public statement setting out how the requirements will be applied in the future and setting out the consequences thereof for its financial report. A recommendation pursuant to Section 3, subsection 2, under b of the Wtfv ('B recommendation') requires a securities-issuing institution to issue a public statement setting out in what respects its financial report does not comply with the requirements pursuant to Section 3 of the IAS Regulation or Part 9 of Book 2 of the Netherlands Civil Code and setting out the consequences thereof for its financial report.

In its second year of supervision, the AFM issued a recommendation to two companies (2007: 7), both of which related to 2006 financial reports. The content of the public statement is the responsibility of the company's Management Board. The AFM did, however, advise the companies to consult with their auditors on the content of such public statements. The Wtfv does not require such statements to be audited. The public statements issued by companies must be filed with the AFM, in its public financial reporting register, allowing users of the financial reports to consider the financial reports already filed in conjunction with such public statements. The press releases issued by companies are available via the public register on the AFM website (via the link 'financial reporting' on www.afm.nl/public database).

Principal findings

Although each case stands on its own in terms of, for example, materiality, investor interests and capital market impact, the AFM has identified the following general findings concerning its recommendations:

1. The two recommendations related to 2006 financial reports and were issued to companies not belonging to the index stocks segment.

2. As regards the application of specific financial reporting standards, the AFM's findings are as follows:

    a. The application of IAS 7, *Cash Flows Statements*, was an issue in both recommendations. In both cases, following the recommendations resulted in adjustments to the presentation of cash flows from operating activities by adjusting recognised non-cash items or reclassifications.

    b. In one case, the fair value of a shareholding with a quoted price in an active market had not been determined in accordance with the IAS 39 requirements.

    c. Other points to consider were the presentation of equity-settled share-based payment transactions (IFRS 2) and the recognition of movements in the statement of changes in equity (IAS 1).

3. It is notable that no recommendations were made regarding 2007 financial reports, indicating that, generally, compliance with financial reporting standards improved compared with the 2006 financial year. The companies in the local listing segment made significant improvements in the transition to IFRS, as a result of which the 2007 financial reports contain considerably fewer obvious errors due to lack of familiarity with IFRS. There were two cases where the AFM issued a notification only, although the non-compliance with the financial reporting standards justified a recommendation. In one case, the company voluntarily incorporated the AFM's findings in its interim report; in the other case, the six-month enforcement term had expired. In the latter case, the AFM urged the company to issue a public statement voluntarily[5].

[5] At the time of publication, it was not known whether the company would issue a public statement voluntarily.

Notifications (non-public)

Introduction

The AFM issued notifications to 27 companies to the effect that the AFM had doubts about the correct application of financial reporting standards in specific areas, while noting that companies were expected to take account of the notifications when preparing future financial reports. Although these notifications did not require companies to issue any public statement, they are not without obligation. In these cases, the AFM will verify that the financial report for the following financial year does not raise any doubts about the correct application of the financial reporting standards regarding the issues identified the year before. If all doubts are not removed, financial reports are likely to be reviewed in full.

The main reason that a notification suffices is that the doubts about the correct application of financial reporting standards do not directly impact a primary statement or essential disclosure. If there were such an impact, correct application would significantly affect the financial reports, as a result of which such information should be made available to users of the financial report. In brief, there is no public interest in such information being made public.

In most cases, the AFM had prior contact with the company in question before issuing a notification. In many cases, the notification is a written confirmation of the areas in which the company has committed itself to improvements in their future financial reports.

Principal findings

The notifications issued in 2008 concerned highly diverse issues and will not be made public, given the AFM's statutory confidentiality obligation. That is why the AFM is only providing its general findings. The notifications related in particular to compliance with the financial reporting standards regarding financial instruments, (IFRS 7 and IAS 32/39), income taxes (IAS 12) and cash flows statements (IAS 7).

In addition to the above financial reporting areas, the AFM also issued notifications relating to issues in the company financial statements, the report of the Management Board and the Other Information pursuant to Section 392 of Book 2 of the Netherlands Civil Code, primarily concerning compliance with the Dutch Corporate Governance Code, in particular, the best practice provisions regarding the internal risk management and control systems, the application of the Takeover Directive and the compensation of directors.

Section 6 Findings on the financial reporting of subprime and non-subprime investments

Introduction

In its letter of August 2007, the AFM advised Dutch listed financial institutions of its intention to focus its supervision of the 2007 financial reports on certain issues relating to the reporting of subprime and non-subprime investments, including measurement of subprime and non-subprime investments at year-end 2007, recognition of impairments of subprime and non-subprime investments classified as available for sale and the disclosures on these investments. In this context, the AFM performed a desktop review of the 2007 financial reports filed by ten financial institutions. In one case, this review focused on the aspects relating to the reporting of subprime and non-subprime investments only.

Before setting out its findings, the AFM would like to point out, perhaps unnecessarily, that its findings relate to the 2007 financial reports, which in most cases were prepared in the first quarter of 2008. At the end of 2007 and in the first quarter of 2008, the financial markets situation and the gravity of the credit crisis were very different from the circumstances prevailing in the autumn of 2008. It should also be noted that the AFM's supervisory work involves an assessment of the correct application of financial reporting standards (IFRS as endorsed by the EU and/or Part 9 of

Book 2 of the Netherlands Civil Code). Legislative history of the Wtfv is clear about the AFM's role not being a repetition of the work done by the auditor nor being an assessment of whether the company's financial report is a true and fair representation of its financial position and performance. Only if the AFM has doubts, based on public information, about the correct application of financial reporting standards, it has the power to ask for additional information. In the case of management judgment, the AFM's review will usually be limited, determining whether it was reasonable for the company's management to make its judgment.

Measurement of subprime and non-subprime investments

The size of the subprime and non-subprime investments at year-end 2007 varied widely between financial institutions, both in absolute terms and as a percentage of the balance sheet total or the investment portfolio. The measurement basis most commonly applied was fair value. In most cases, the year-end 2007 fair values of these financial instruments were determined using quoted market prices in an active market. At year-end 2007, the financial institutions regarded the markets where these investments were traded as active markets, i.e. transactions in these instruments were taking place regularly, from which prices could easily be derived. In exceptional cases, fair value was determined, in whole or in part, by using valuation techniques applying assumptions not supported by prices from observable current market transactions in the same instruments and not based on available observable market data. In these cases, the management of the financial institutions took the view that the market was not active. With due observance of the statements in the introduction, the AFM did not find that the management of any of the financial institutions had been unreasonable in arriving at its judgment about whether the markets in which the subprime and non-subprime investments were traded were active or not.

Recognition of impairments of subprime and non-subprime investments

At year-end 2007, the majority of these investments were qualified as available for sale. Gains and losses arising from changes in the fair value of these investments are recognised directly in equity, except for impairment losses, which are recognised in profit or loss. A financial instrument is impaired when the loss arising from the change in its fair value is the result of an expected decline in the cash flows from the financial instrument. In the 2007 financial reports, only a limited proportion of the losses arising from changes in the fair value of subprime and non-subprime investments was reported as impairment losses. At year-end 2007, the financial institutions took the view that the cash flows from these subprime and non-subprime investments would not change, as they were investments in the lowest risk class (triple-A rated). With due observance of the statements in the introduction, the AFM found in none of the financial statements reviewed that the management of the financial institutions had been unreasonable in their judgment that these subprime and non-subprime investments were not impaired.

Disclosures on subprime and non-subprime investments

IFRS 7 requires companies to disclose in their financial statements, among other things, the fair value for each class of financial instruments. Insofar as financial institutions disclosed this information in their financial statements (see Section 7 of the activity report 2008), they paid no or insufficient specific attention to the subprime and non-subprime investments. In most cases, they did not consider these products to be a separate class on which separate information should be disclosed, as required by IFRS 7. In most cases, the omitted disclosures were the disclosures of the size of the subprime and non-subprime investments, the way their fair values were determined, any valuation techniques applied, and the assumptions used therein. This information is important for gaining an understanding of the relevance of the subprime and non-subprime investments to a company's financial position and performance. Seven of the ten financial institutions reviewed were issued one or more notifications for omitting required disclosures. In view of the fact that financial institutions with substantial subprime and non-subprime investments disclosed the information concerned in another way (for example in their reports of the Management Board, in analyst presentations or otherwise), the AFM decided to issue only notifications that were not accompanied by a recommendation. The AFM believes that there are two reasons for including these disclosures in next year's financial statements: (1) it promotes clarity and accessibility of the financial statements; and (2) the disclosures become subject to the auditor's opinion.

Section 7 Findings on IFRS 7 - Financial Instruments: Disclosures

In September 2007, the AFM announced in one of its newsletters that, in addition to its desktop reviews, it would review specific financial reporting areas through thematic reviews. One of the AFM's thematic reviews focused on the application of IFRS 7, *Financial Instruments: Disclosures*, in the 2007 financial statements.

The AFM has concluded that the IFRS 7 requirements were largely complied with, although there is still room for improvement in certain areas, as mentioned in Section 6 of this report. Comparing the 2007 and 2005 financial statements[6], the AFM also found that the introduction of IFRS 7

resulted in increased disclosures on financial instruments. This is one of the results of several new requirements in IFRS 7.

The main findings of this review are set out below.

Relevance of financial instruments to the financial statements

The review revealed that financial instruments constituted approximately 80% (2005: 84%) of the balance sheet total (measured on the basis of reported balance sheet amounts) for financial institutions, compared with approximately 20% (2005: 33%) for non-financial institutions. We would like to stress that this is not indicative of the relative risk of financial instruments for the companies in question. In addition, it is worth noting that the picture in 2007 is not much different from the picture in 2005, and that the relative proportion of fair value instruments in both populations remained more or less the same over the period.

Fair value

The AFM found that, in 2007, 79% (2005: 72%) of the financial statements included a description of the valuation methods for determining the fair value. In both financial years, in most cases, the descriptions provided were very general. Financial institutions included a quantitative breakdown of the financial instruments by valuation method in 80% (2005: 50%) of the financial statements reviewed. The breakdown was usually limited to certain main categories of financial instruments. 25% of the financial institutions concerned did not use the terminology used in IFRS 7.27(b)(c). In some cases, the term 'listed' is used instead of 'public price quotations in an active market'. Listed does not necessarily mean that there is an active market or vice versa. As regards non-financial institutions, the AFM found one financial report (2005: none) that included a breakdown by valuation method. In addition, the AFM found that the category of 'valuation technique not supported by market prices' was hardly used by the financial institutions reviewed in 2007, as was the case in 2005.

Credit risk

The AFM found that the financial reporting requirements in IFRS 7 with regard to credit risk were largely complied with in 2007. In addition, the AFM found an increase in the disclosures provided on the quality of the credit portfolio compared with 2005. The AFM found that 97% of the 2007 financial statements reviewed included a disclosure of risk concentration. In 2005, approximately 25% of the financial statements reviewed did not disclose this information. Furthermore, the AFM found that the number of financial statements disclosing the maximum exposure to credit risk at year-end had doubled. The AFM found that approximately 90% (2005: 11%) of the 2007 financial statements reviewed included more specific information on credit quality, such as an analysis of the age of financial assets and a breakdown based on risk level.

[6] For most companies, the introduction of IFRS 7 was a process that was initiated well before 2007, and therefore could have had an impact on the quality of the 2006 financial reports. That is why a comparison was made between the 2007 financial reports and the 2005 financial reports.

The AFM notes that the credit quality disclosure by non-financial institutions in 2007 comprised an analysis of the age of their debtors (including both debtors past due and not yet past due) only, whereas the analysis provided by financial institutions in 2007 was of financial assets past due using either an internal or external assessment model.

Liquidity risk

As regards the maturity analysis for financial liabilities, the AFM found that non-discounted cash flows were not used in 41% of the 2007 financial statements reviewed (2005: 72%). The AFM also found that 21% (2005: 34%) of the 2007 financial statements reviewed did not provide a maturity analysis for all financial liabilities, this omission relating to derivative financial instruments in particular.

Market risk

In respect of the disclosures on market risk (interest-rate risk, foreign currency risk, equity price risk and other price risk), the AFM found that all companies under review included a sensitivity analysis in their 2007 financial reports. This is a marked increase compared with 2005, when 62% of the financial statements reviewed included a sensitivity analysis. Non-financial institutions provided this analysis on the basis of a method that shows how profit or loss and equity would have been affected by changes in the relevant risk variable, whereas financial institutions used more complex methods, such as Value at Risk (VaR) and Earnings at Risk (EaR) models. Regarding these complex models, the AFM found that the underlying assumptions often varied, reducing the ability to compare financial statements in this respect.

Proposed amendments to IFRS 7

The International Accounting Standards Board (IASB) has recently issued an Exposure Draft (ED) proposing amendments to IFRS 7, requiring quantitative disclosures of financial instruments measured at fair value based on the approach to determining fair values and disclosures on liquidity risk. The proposals are in line with the findings of the IFRS 7 thematic review.

Section 8 Findings on IAS 19 – Employee Benefits, pensions

In September 2007, the AFM announced in one of its newsletters that, in addition to its desktop reviews, it would review specific financial reporting areas through thematic reviews. One of the AFM's thematic reviews focused on the application of IAS 19 regarding pensions.

Based on the findings of the thematic review and the fact that the AFM only issued two notifications on the application of IAS 19 in the 2008 supervision year, the AFM has concluded that 2007 disclosures on pensions improved compared with 2006. The disclosures generally provided a better understanding, although there is still room for improvement on a number of points.

As regards the disclosures on multi-employer plans qualifying as defined benefit plans, the AFM has the following comments to make. Companies paid relatively little attention to the disclosure requirements with respect to the financial status of the pension fund and the consequences thereof for the company, as well as to disclosure of the reason why sufficient information was not available to account for the plan as a defined benefit plan.

As regards the defined benefit plans, the AFM's most important findings are:

- 51% of the companies did not comply with the disclosure requirements concerning the five-year historical overview of the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan , while 65% of the companies did not comply with the requirement to disclose the five-year overview of the impact of experience adjustments on actuarial assumptions.
- 23% of the companies limited their general description of the defined benefit plans to stating that it concerned a defined benefit plan, making this description not specific

enough.

- The majority of the companies complied with the disclosure requirements regarding the impact of defined benefit plans on their balance sheet and profit or loss. However, some elements in the reconciliations were omitted or included incorrectly.
- Additional disclosures of the plan assets were omitted or incomplete in 37% of cases, except for the AEX-listed companies.
- Based on the data collected, no meaningful conclusion can be made on the assumptions used per sector or region.

Section 9 Findings on IAS 24 – Related parties, key management personnel

In September 2007, the AFM announced in one of its newsletters that, in addition to its desktop reviews, it would review specific financial reporting areas through thematic reviews. One of the AFM's thematic reviews focused on the application of IAS 24 regarding disclosures on key management personnel.

The AFM reviewed the financial reporting manuals of the big four accounting firms and other documentation to determine how clear they were on the composition of the group of key management personnel. The AFM concluded that this group in any case includes members of both the Management Board and the Supervisory Board, and may include other officers, depending on the situation.

Following its review of the above documentary sources, the AFM reviewed the financial statements focusing on the definition of 'key management personnel' and the extent to which the disclosures meet the requirements set out in IAS 24.16 on key management personnel compensation and IAS 24.17 on other transactions with key management personnel. The AFM's has concluded that disclosures on key management personnel require improvement. The main findings are:

- 47% of the financial statements disclosing the award of share-based payments did not disclose the associated cost;
- 77% of the financial statements reviewed clearly defined the group of key management personnel, although IAS 24 does not require such disclosure;
- in 45% of the financial statements reviewed in which the group of key management personnel was clearly defined, the AFM found indications for the group of key management personnel being wider than disclosed in the financial statements; 20 percentage points relating to members of the Supervisory Board and 25 percentage points relating to other officers;
- 4% of the financial statements reviewed did not include disclosures on key management personnel compensation referred to in IAS 24.16; and
- 20% of the financial statements disclosed, alongside key management personnel compensation, other transactions with key management personnel. 41% of the relevant financial statements did not comply with the disclosure requirements in respect of these transactions and the balance sheet items arising from these transactions, within the meaning of IAS 24.17.

Appendix A: Tabulated statistics – Analysis of company reviews

	Total	**AEX**	**AMX**	**AScX**	**Local**[7]	**Foreign**[8]	**Bonds > €50,000**[9]
Companies subject to supervision[10]	**271**	**21**	**21**	**21**	**91**	**117**	**approx. 280**
Started in 2007	**1**				**1**		
Selected companies	**90**	**14**	**11**	**6**	**35**	**24**	**-**
Desktop reviews initiated:	**70**	**14**	**9**	**4**	**31**	**12**	
2006 Supervision	*29*	*2*	*4*	*2*	*15*	*6*	**-**
Risk analysis and rotation	*36*	*11*	*5*	*2*	*13*	*5*	
Indications	*5*	*1*	-	-	*3*	*1*	
Desktop reviews completed:	**63**	**13**	**9**	**4**	**27**	**10**	
2006 financial statements	*2*	-	-	-	*1*	*1*	**-**
2007 financial statements	*61*	*13*	*9*	*4*	*26*	*9*	
Supervisory activities:							
Request(s) for additional information	38	8	7	2	14	7	**-**
Notifications	28	4	6	2	10	6	**-**
Recommendations	2	-	-	-	1	1	**-**
Revision requests	-	-	-	-	-	-	**-**
Appeal in cassation					1		

Issues in notifications and recommendations on Part 9, Book 2 of the Netherlands Civil Code:

Provisions in Part 9, Book 2 of the Netherlands Civil Code	**Total**	**AEX**	**AMX**	**AScX**	**Local**	**Foreign**
Corporate Governance	7		1		2	4
Takeover Directive	3		1		1	1
Report of the Management Board	1				1	
Management Board and Supervisory Board compensation	2					2
Other provisions	5	1		1	2	1
Total	18	1	2	1	6	8

7 Dutch companies with shares (not included in an index) and/or bonds listed in the Netherlands.
8 Dutch companies with only one or more foreign listings of shares and/or bonds.
9 Dutch companies issuing bonds of €50,000 (par value per unit) or over only and exempt from filing financial reports with the AFM. The size of this group is unknown (given that there is no filing obligation with the AFM).
10 The group of Dutch companies with listed securities as of March 2008 to the extent known to the AFM at the time.

Main issues in notifications and recommendations per IFRS standard[11]

IFRS	Brief description	Total	AEX	AMX	AScX	Local	Foreign
IFRS2	Share-based Payment	2			1		1
IFRS 3	Business Combinations	8	1		2	3	2
IFRS 7	Financial Instruments: Disclosures	10	3	1		6	
IAS 1	Presentation of Financial Statements	8	2	1		3	2
IAS 7	Cash Flow Statements	9		3		4	2
IAS 8	Accounting policies	5	1	1		3	
IAS 11	Construction Contracts	1		1			
IAS 12	Income Taxes	11	1			6	4
IAS 14	Segment Reporting	1		1			
IAS 17	Leases	1		1			
IAS 19	Employee Benefits	2		1		1	
IAS 21	The Effects of Changes in Foreign Exchange Rates	2	1			1	
IAS 24	Related Party Disclosures	2				1	1
IAS 28	Investments in Associates	1		1			
IAS 31	Interests in Joint Ventures	1		1			
IAS 32/39	Financial Instruments	12	4		1	5	2
IAS 33	Earnings per Share	3				3	
IAS 36	Impairment of Assets	6	1			3	2
IAS 38	Intangible Assets	2				1	1
Total		87	14	12	4	40	17

[11] Standards included in notifications or recommendations more than once, e.g. for different aspects, have been added up for the purposes of this summary. If notifications or recommendations contained references to more than one standard, only one standard has been included.