In Balance 2014

Audit and Reporting Quality

October 2014

Contents

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The Netherlands Authority for the Financial Markets

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

In Balance 2014

Investors are looking for timely, relevant and reliable information on listed companies. This is an important condition for confidence in the operation of the financial markets and reducing the costs of capital. Relevant and comparable financial information, together with a real account of the company's 'own story' should be the priorities in the notes to the financial reporting.

Our report 'In Balance 2014' shows that while companies and their auditors are paying attention to the quality of their reporting, investors are still not in all cases provided with the information they need in our opinion.

In this annual report, the AFM published its findings in relation to financial reporting on the past year and the items of attention for the new annual reporting season. Timely publication of this report allows companies and auditors the time to take account of the areas needing improvement listed therein when preparing and auditing the financial reporting for 2014.

Based on its reviews of financial reporting over the past years, the AFM is under the impression that most companies are becoming increasingly accustomed to the application of IFRS and that quality of the financial reporting has improved further in certain respects.

On the other hand, we note that certain reporting standards are not observed correctly in all cases. This year, again, the AFM encountered cases that indicate shortcomings in the financial reporting as revealed by the desktop reviews and thematic reviews it conducted. These concern shortcomings that were either not noticed by the auditor, or that did not lead to adjustments in the financial statements.

The AFM notes that correct application of the reporting standards becomes more difficult when new standards come into effect, existing standards are changed or in situations involving one-off transactions, such as the acquisition or disposal of business divisions.

We also note that items involving interpretation or management estimates to a significant extent are not in all cases presented and disclosed transparently. These include the valuation of real estate, receivables, goodwill (and the provisions or impairments that are often associated with these items) and pensions, including the assumptions used and related disclosures.

The AFM will continue to focus its attention on the quality of financial reporting in 2015. We will once again carry out desktop and thematic reviews. We will among others review the financial reporting by Dutch banks for 2014, since the recent results of the Asset Quality Review carried out by the ECB need to be properly accounted for therein. Supervision of this is and will continue to be a duty that the AFM is pre-eminently suited to perform.

We will also be attentive to important general developments, such as the implementation of the European Directive on Financial Statements in the Netherlands and the further application of integrated reporting. We will, moreover, strive to increase our understanding of the operation of audit committees and we will continue to focus on the remuneration of management boards, in particular the disclosure of severance arrangements.

We expect this report to contribute to the continued improvement of financial reporting by companies, to the auditing of this reporting by auditors and, thereby, to regaining the confidence of investors.

I hope you enjoy reading it.

Gerben Everts
Member of the Executive Board AFM

1 Introduction

Each year in autumn, the AFM publishes the items of attention in financial reporting that have come to the fore during the year. This gives companies and auditors sufficient time to include these items of attention in the preparation and auditing of their financial reporting. Besides the findings from current and completed reviews of financial reporting for 2013, the main findings from our thematic reviews conducted in 2014 are also included. The complete results from the thematic reviews are included as appendices. The AFM also announces in this publication its priorities with respect to the supervision of financial reporting in 2015. By assembling all the findings of the various reviews, the AFM hopes to contribute to a more recognisable and comparable account of the state of affairs, so as to make the connections between the reviews easily comprehensible and facilitate the measurement of effects. In our view, this will contribute to the effective operation of the capital markets.

The supervision conducted by the AFM is risk-driven. This means that we set priorities in our supervision so that our presence can be focused where the risks are the greatest. To the extent possible, we anticipate new and future risks. The AFM analyses market developments and external and internal risks in order to set the right priorities in our supervision. The AFM moreover devotes ample attention to signals and incidents that indicate potential errors in financial reporting. In our supervision of the capital markets, the interests of investors are given the highest priority. They need timely, relevant and reliable information on companies. This applies throughout the life cycle of companies active in the capital markets: at the initial listing (IPO) and issues of new securities (prospectus supervision), in ongoing trading (supervision of price-sensitive information and market abuse), with respect to regular obligations (supervision of financial reporting and the auditors' reports on that reporting) and finally in the event of a delisting as a result of a bid for securities (public takeover bids). Justifiable investor confidence is also in the interests of companies, since it increases confidence and reduces the cost of raising capital.

The operation of the capital markets largely depends on the relevance and reliability of available financial and non-financial information and the conduct of directors, supervisory directors and shareholders. Good governance and good quality of audits positively affect the quality of the financial reporting of companies and investor confidence. This is the objective of the AFM's overall theme of 'The quality of governance, reporting and auditing is increasing'. One of the subsidiary aims of this theme is that the reporting should meet qualitative criteria such as relevance, reliability, comparability, timeliness and verifiability. In the longer term, the AFM supports a gradual transition to an integrated reporting system in which companies present information on their financial and non-financial performance in integrated form.

The AFM promotes fairness and transparency within the capital markets. In order to achieve this, the AFM also deploys reporting expertise in other areas subject to its supervision, besides financial reporting. For instance, information from semi-annual and annual financial reporting also appears in press releases and prospectuses, and financial reporting is in turn audited by auditors and audit firms which are subject to supervision by the AFM.

In the appendices to this report, the AFM gives a number of examples of disclosures in financial statements. These quotations are qualified by the AFM as good practices[1] and can serve as an inspiration to include company-specific and relevant information in the disclosures. For the AFM, providing a good disclosure is not a one-off exercise, but a continuous process that is necessary each year to further increase relevance.

The items of improvement the AFM refers to in this publication mainly concern the disclosures to the financial statements. This should not be taken to mean that there is no need for improvement in measurement and the determination of the result. The AFM's supervision is designed to establish whether the reporting standards are correctly applied. The more substantive and deeper investigation of whether the financial reporting presents a true and fair picture of the size and composition of the results, capital and cash flows is primarily the responsibility of the external auditor. The AFM does not repeat the auditor's work. Management estimates and opinions can only subjected to a limited review by the AFM.

[1] The good practices cited in this report are examples of specific disclosures from existing financial statements and annual reports. The AFM hopes that other companies will be inspired by these good practices to increase the quality and relevance of their own disclosures. The good practices quoted should not be seen as a standard or as the only correct implementation of existing or future disclosures. Other formulations to comply with legislation and regulation are possible. The inclusion of good practices in this report does not imply any judgement by the AFM regarding the financial statements in question as a whole.

2 Outlook

In this section, the AFM describes a number of developments in the reporting of companies and the supervision thereof:

- Role of the auditor
- The international perspective
- Integrated reporting
- More information is not necessarily better information
- Consistent reporting
- Governance
- Auditor's report
- Method of reporting

Role of the auditor

A good quality audit increases the quality of financial reporting and the effectiveness of the risk management system. The results of the AFM's inspections of the quality of statutory audits by the four largest audit firms in the Netherlands that the AFM published on 25 September 2014 shows that the quality of these audits is not at a satisfactory level. The auditing sector needs to take practical measures as soon as possible in order to ensure that the audits carried out by external auditors are of adequate quality. The sector also needs to place a higher priority on the public interest and to strengthen its own governance.

The sector now appears to have understood the urgency of improving the quality of auditing, so that investors, pension scheme members, consumers and other users can rely on auditors' opinions. The Big 4 audit firms have announced measures in response to the results of the inspections by the AFM. The report by the accountancy professional body the NBA 'In the Public Interest' also puts forward suggestions for improvements across the entire sector. The AFM hopes that this has laid the foundation for the strengthening and the cultural change that this sector, in which the public has a significant interest, needs. In the coming period, the AFM will closely monitor the implementation and effectiveness of the remediation and improvement measures at the Big 4 firms.

The international perspective

The increasingly international character of supervision, both in cooperation and direction, affects the way the AFM carries out its supervisory duties. The European Common Enforcement Priorities (ECEP[2]) are published by the European Securities and Markets Authority (ESMA) each year. In the ECEP ESMA and the national supervisors, including the AFM, identify a number of issues that require the attention

[2] http://www.esma.europa.eu/news/Press-Release-ESMA-sets-enforcement-priorities-listed-companies%E2%80%99-financial-statements?t=326&o=home

of companies and their auditors in the preparation and auditing of their financial reporting for 2014.

According to ESMA and the national supervisors, this attention is necessary due to the current economic and general circumstances. Recent supervisory actions in Europe have also shown that IFRS are frequently not applied correctly. Potential issues of implementation in the application of new standards may also be reason for prioritising a reporting issue. The issues concern the consolidated financial statements and the associated disclosures, the classification of joint arrangements and the recognition and measurement of deferred tax assets. In addition, ESMA draws attention to previously identified priorities, including impairment, determination of fair value and the associated disclosures.

In the ECEP, ESMA refers in its report to the lack of comparability of the financial reporting of banks in Europe[3]. It expects the banks to make further improvements to their disclosures. This applies to issues such as the creditworthiness of loans and receivables, the principles used with respect to impairments of financial assets and restructured loans, also known as forborne loans. ESMA also addresses the results of the Asset Quality Review (AQR) of bank balance sheets by the European Central Bank (ECB) in the ECEP and the consequences of this for financial reporting over 2014. See also section 5.

Lastly, ESMA expects banks to issue more complex financial instruments in order to increase their capital. On issuance, these instruments will have to be classified as debt or equity, which will very probably require management assessments. ESMA expects these management assessments to be disclosed, including the effect thereof on interest and dividend payments.

Consequences of the Directive on Financial Statements (2013/34/EU) for Title 9 Book 2 of the Dutch Civil Code (BW)

The introduction of the Directive on Financial Statements (2013/34/EU) of the European Parliament means that Title 9 Book 2 BW will have to be amended by mid-2015. This amendment provides an opportune moment to reconsider a number of choices that were made on the implementation of the fourth and seventh directives. In the opinion of the AFM, the choices made at that time led to the Dutch reporting standards offering too many options. As a result of this broadness of options, financial statements (i) are difficult to compare for investors and consumers, who have to base their decisions on these financial statements, and (ii) lack transparency and objectivity, since companies are free to choose the option that puts transactions and events in the most favourable light from their point of view. This freedom of choice also seemingly has a negative effect on the efficiency and effectiveness of

[3] http://www.esma.europa.eu/system/files/2013-1664_report_on_comparability_of_ifrs_financial_statements_of_financial_institutions_in_europe.pdf

audits. A robust system of reporting standards would better support auditors in taking effective action in their audits of financial statements. Finally, the freedom of choice and options given to preparers and the costs of interpretation and uncertainty for investors lead to a more onerous administrative burden, since companies employ consultants in order to determine the most advantageous presentation of transactions and events at an early stage. Examples of these options include the group concept, deviation from special provisions regarding required information, the accounting principles permitted for assets, the statutory embedding of the cash flow statement and the costs associated with incorporation and the issuance of shares.

Integrated reporting

The reporting of non-financial information by companies is a current item of interest. The users of reports increasingly require non-financial information, and the importance of this has also been recognised in the political sphere. In spring 2014, the European Parliament passed a directive with a large majority that obliges listed companies with more than 500 employees to include sustainability matters relating to the conduct of their business in their annual reports. From 2017, listed companies will be obliged to state their policies in relation to the environment, human rights, diversity and anti-corruption measures in their financial reporting.

An increasing number of companies are reporting non-financial information, and they are also increasingly doing so by means of integrated reporting. The availability of global standards in this respect has made a positive contribution. A definitive framework for integrated reporting was published by the International Integrated Reporting Council (IIRC) in December 2013. Furthermore, the Global Reporting Initiative (GRI) published a new set of guidelines (G4) for sustainability reporting in 2013 that can be applied within the framework of integrated reporting.

The B20, a business forum that advises the G20, published a report in mid-2014 on long-term investment requirements and the funding of infrastructure. This report explicitly endorses integrated reporting as an important innovation. Integrated reporting can contribute to investors being given the necessary information regarding long-term investments in infrastructure.

There is a realistic expectation that integrated reporting will increasingly become the standard in the future.

More information is not necessarily better information

The quality of disclosures has been a central item of attention for several years. On the one hand, financial statements include disclosures that are not material and/or not to any meaningful extent company-specific; on the other hand, relevant disclosures are regularly absent. In this context, ESMA refers to the Disclosure Initiative of the International Accounting Standards Board (IASB)[4], which is aimed at improving the quality of disclosures. The Board also encourages companies to include information specific to them in their financial statements, and to focus on disclosures that are important for an understanding of the company's financial position, financial performance and cash flows, as well as the associated risks. This year, the AFM carried out a thematic review of the quality and scope of disclosures (see section 4).

Consistent reporting

In April 2014, the AFM published a report[5] stating that Dutch listed companies are increasingly using different financial performance indicators in their press releases year-on-year. One of the findings of this report was therefore that companies could be more consistent and transparent in their use of alternative financial performance indicators in press releases. This is in the interests of investors.

In the AFM's consultations with investors, the Dutch Investors' Association, Eumedion and various analysts, it emerged that these parties need indicators such as autonomous growth, net debt position and underlying EBIT to obtain information of the state of affairs at a company. The AFM understands this need and considers it important that investors are presented with the same, clearly established indicators year-on-year so that they can make meaningful comparisons.

ESMA prepared a consultation document in 2014 with guidelines for the use of alternative financial performance indicators. The guidelines concerned definition, calculation and connection, comparability, prominence, presentation and consistent usage of indicators. The aim is to make financial information more transparent and more comparable. ESMA expects to publish its definitive guidelines in the fourth quarter of 2014.

Governance

Good corporate governance contributes to the proper functioning of the capital markets. Good corporate governance and transparent reporting on the design and operation of corporate governance deserves attention, as well as reporting on the company's strategy and financial and non-financial performance and the company's risks and risk management related thereto. Auditors monitor the reliability of the reporting and the accounting included therein and prevent situations in which every

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[4] http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Pages/Disclosure-Initiative.aspx

[5] http://www.afm.nl/en/professionals/nieuws/2014/apr/financiele-indicatoren

user would have assess reliability themselves. The critical role of the preparers of reporting, audit committees, shareholders and auditors is essential to ensure that the reporting and the responsibility embedded therein can be relied upon.

The AFM has recently initiated an exploratory review of the way in which audit committees fulfil their role with respect to financial reporting and auditing.

The AFM wishes to establish whether audit committees are fully playing their part with respect to the quality of the company's financial reporting and auditing. The AFM supposes that audit committees are having a positive effect in this regard. They are indeed an important link in the relationship between the listed company, its shareholders and the external auditor.

This review will investigate the way in which audit committees fulfil their role with respect to financial reporting and auditing in more detail. Questionnaires were sent to the chairpersons of audit committees of Dutch listed companies. Interviews were also conducted with supervisory directors, and minutes of shareholder meetings and reports by supervisory boards were analysed. The review is not designed to form an opinion specifically with respect to the performance of the company's audit committee, the intention is to obtain an impression of the performance of audit committees as internal safeguards within the company with regard to the quality of the financial reporting and the audit. The AFM will publish the results of the review in January 2015.

Severance arrangements have attracted public and political attention. There are signals that indicate that severance arrangements are designed so that ex-directors remain notionally employed for a longer period or continue to be involved in a different capacity with the company (for instance, as a consultant) even though they are no longer actually active as a director. Under the severance arrangement therefore, the maximum of one year's salary as a severance payment is not observed in all cases. To prevent this becoming a permanent phenomenon in which case the public does not have a proper understanding of the reality of the severance payment, the AFM will monitor particularly that correct disclosures are provided. In the opinion of the AFM, evident deviations from the maximum payment should be clearly disclosed, in which case financial institutions in particular obviously must comply with the *Regeling beheerst beloningsbeleid Wft 2014* (Regulation for a Controlled Remuneration Policy in the Financial Supervision Act (Wft) 2014).

Auditor's report

The International Auditing and Assurance Standards Board (IAASB), the body that draws up the international audit standards, has produced a format for a new auditor's report in order to improve and strengthen communication by external auditors. In this new auditor's report, the external auditor describes the key issues for his audit and explicitly endorses the conclusions of the management regarding the company's ability to continue as a going concern. Research by Eumedion shows that 36 per cent of AEX companies, 53 per cent of AMX companies and 32 per cent of AScX companies have already included a more extensive auditor's report in their financial reporting for 2013. Following on the initiative of the IAASB, the NBA published a proposed new format for a more extensive auditor's report and an associated proposed new format for auditing standards for consultation on 10 October 2014. The period allotted for responses to the proposals runs until 18 November 2014.

Method of reporting

Under the Standard Business Reporting (SBR) programme, Dutch parties from the government and the market are working together to simplify the composition and exchanging of financial and other reporting. Significant progress has been made nationally with respect to the assurance in relation to SBR and the statutory framework in which the use of SBR will become mandatory for the filing of financial reporting by companies at the Trade Register of the Chamber of Commerce. At international level, ESMA has picked up the issue and advised the European Commission to develop a single European structured format for electronic filing of financial reporting of and by listed companies. Due to this initiative at European level, the Dutch legislator has decided to exclude listed companies with an obligation to file with the AFM from the SBR obligation.

At national level, the AFM continues to be involved with the SBR platform with regard to the working group that is researching the consequences of SBR for the auditor's report. In the near future the AFM will no longer be involved in the actual performance of the national filing process, since listed companies with an obligation to file with the AFM will be excluded from the SBR obligation. The AFM will definitely continue to be involved in the activities of ESMA in this area, with the aim of keeping the differences between ESMA's proposed solution and SBR as limited as possible.

3 Findings and items of attention from regular desktop reviews

The AFM calls on companies to take note of the following issues:

- The measurement of assets. The measurement of assets and transparent disclosure thereof continues to be of great important in the light of the economic circumstances.

- Segmentation. The AFM notes that it is not always clear whether operating segments have been justifiably combined into one segment for reporting purposes.

- Business combinations. The processing of acquisitions, whether gradual or not, is not carried out in accordance with the reporting standards in all cases. This needs to be improved.

- Disclosure of credit risk and other risks. The AFM recognises that the large Dutch banks have further improved these disclosures, but it wishes to see these disclosures tightened up in certain respects.

In this section, the AFM states its findings from its current and completed reviews of annual financial reporting on 2013. The AFM's intention is to encourage adherence to the reporting standards. The AFM expects companies and auditors to include these items of attention in the annual financial reporting for 2014 and the auditing thereof.

Measurement of assets

Given the difficult economic recovery, the measurement of assets and transparent disclosure thereof remains an item of great importance. As in previous years, the AFM has put questions to companies in 2014 regarding the measurement of real estate investments and other assets, including goodwill. There were indications in relation to these companies that gave rise to the suspicion that these assets may have been overvalued. In a number of cases, the disclosure for these items was not adequately specific or missing altogether as well. In other words, the assumptions on which basis the measurement is arrived at are not always clear, and/or there is no sensitivity analysis to give the users of the financial reporting an impression of the forces at work in the determination of the recoverable amount of a cash-generating unit and whether an impairment should be recognised or not. The AFM also noted that these disclosures were missing in a number of cases in previous years. Companies need to include these disclosures in their financial statements.

Segmentation

It is not clear to the AFM in all cases whether companies are reporting on the correct operating segments. The AFM has asked a number of companies whether operating segments are justifiably combined into one segment for reporting purposes. This is only permitted if the combination is consistent with the key principle of IFRS 8, and the segments display similar economic features. That is to say, the segments must be similar in terms of the nature of their products and services, the nature of their production processes, the customers for the products and services, the distribution channels for the products and services and, if applicable, the nature of the applicable regulations. The AFM advises companies to provide clarity in their financial reporting with respect to the way in which they have classified their operating segments and how this relates to the actual reporting and decision-making process at the company.

Business combinations

Most companies do not have to deal with acquisitions (or business combinations) every year. The AFM notes that these non-recurring transactions and the related disclosures are not always carried out in accordance with the reporting standards. The AFM has asked questions regarding business combinations in various cases. These included questions regarding phased acquisitions, the recognition and measurement of intangible non-current assets and the disclosure of contingent payments.

In the case of a phased acquisition[6], the original shareholding prior to the acquisition should be measured at fair value. The difference between the fair value and the original carrying amount should be recognised directly in the result on the acquisition date. The interest measured at fair value is part of the acquisition price paid. At one company, the AFM noted that the way such an item had been processed in the financial reporting for 2013 was incorrect after it had questioned the item. The company published a press release[7] in 2014 in which it stated the correct recognition.

When a company is purchased, the separate assets and liabilities have to be identified. A balance sheet item is recognised separately if it is likely that the future economic benefits will go to the acquiring party, or that settlement will result in an outflow of funds that includes economic benefits and the fair value of this can be reliably established. The AFM's questions mainly concerned the intangible non-current assets acquired, for instance whether the economic life of an intangible asset is limited or indefinite. The AFM also asked companies whether further analysis of the intangible assets should not have been provided.

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[6] In a phased acquisition a party acquires control of an entity in which it already held a non-controlling interest.

[7] http://www.afm.nl/registers/fv_documents/14455.pdf

If a company is acquired, there may be contingent payments due to earn-out arrangements. These are additional payments that are due if the company meets contractually established conditions. Such contingent payments form part of the acquisition price and must be recognised by the company at fair value. The contingent payment is adjusted to fair value on each reporting date, with the change in value being recognised in the result. In one case the AFM questioned a company regarding a material change in value of the contingent payment in the period between the initial measurement and the measurement on the reporting date. This time period was actually very limited.

The AFM calls on companies to process and disclose business combinations in accordance with the reporting standards.

Disclosure of credit risk and other risks by the large Dutch banks

In 2012, a taskforce of the Financial Stability Board (FSB), the Enhanced Disclosure Task Force (EDTF), made recommendations for the improvement of disclosures by banks with respect to policy, risk management, capital and liquidity management and the disclosure of and relationship between items in the financial statements, such as funding and encumbered assets and regarding the nature, quality and concentration of receivables and investments.

In 2013, ESMA carried out a review to establish the adoption of the EDTF recommendations in the 2012 financial statements of 40 European banks. Also in 2013, the AFM carried out a thematic review of the disclosure of receivables and investments by Dutch financial institutions, including the banks. Both these reviews clearly showed that despite extensive qualitative and quantitative disclosure by the banks, the aim of the EDTF, which was to obtain more information on what the banks were doing, was not fully realised.

In 2014, the AFM studied how the large Dutch banks had addressed the recommendations of the EDTF in their financial reporting for 2013. The AFM noted that the large Dutch banks had further improved their disclosures regarding credit risk and other risks in their financial statements for 2013. An example of an improved disclosure is a more extensive account of risk management, for example the disclosures concerning the liquidity buffer and restructured loans. The large Dutch banks also reported the extent to which they had adopted the EDTF recommendations in their annual reporting for 2013 and how these disclosures would be developed further in their future reporting.

The AFM also sees that improvements have been made regarding the relationships between items and disclosures. Accessibility has been improved by the inclusion of references to the relevant disclosure in the disclosure on the state of affairs in relation to the EDTF recommendations.

The AFM wishes to point out that the connection between the disclosure on the balance sheet items in the financial statements and the disclosure on these items in the risk management paragraph could still be further improved. The disclosure of assets given as collateral (and the relationship with the funding) can also be improved. The disclosure on collective provisions and the development thereof can be improved by means of the inclusion of more quantitative information on the formation of these provisions. If the banks include Pillar-III[8] information as additional information to the financial statements, it is important that the relationship between this additional information and other elements of the annual reporting is clear and disclosed where necessary. This applies for instance to the relationship between the loan provision and the PD (100%)[9]-categories.

[8] Prudential disclosure requirements for banks.
[9] Probability of default. The likelihood that receivables will not be repaid, or not repaid in full.

4 Findings and items of attention from the thematic reviews in 2014

In 2014 the AFM conducted thematic reviews of:

- Scope and quality of disclosures
- Remuneration of management boards
- Pensions
- Risk paragraph

The reviews show that the quality of annual reporting falls short of satisfactory in a number of respects, and must be improved. The review of the quality and scope of the disclosures in the financial statements shows that while users need to know a company's own story, the financial statements are currently seen by the companies as mainly a compliance document. Users also consider that the information in the financial statements and the annual report should be relevant.

The disclosure of the remuneration of management boards is still not transparent enough, despite the attention the AFM has devoted to this issue in recent years. Depending on the remuneration component, the AFM observes that between 7% and 39% of the companies do not disclose the actual costs, but disclose amounts calculated on different principles. For another quarter to one third of the companies, it is not clear whether the actual costs are disclosed. The information on the remuneration of the management board is moreover often presented in a piecemeal fashion throughout the financial reporting.

From the review of the comparison of compliance with the old and the new reporting standard for pensions, it emerges that compliance with the new reporting standards for pensions by companies is poor and that industry pension schemes are not consistently qualified in terms of their type.

Finally, the review of the risk paragraph shows that while risks that are described appear to be comprehensive in most cases, the prioritisation of risks could be improved. More attention should be devoted to the quantification of risks and sensitivity analyses could be more frequently included.

The main findings of the four thematic reviews are presented below. The complete results from the thematic reviews are included as appendices.

Scope and quality of disclosures

Internationally, there is much attention for the readability and accessibility of financial reporting. In recent years, the AFM has called on companies to make their disclosures in the financial statements company-specific and relevant and avoid the use of standard or 'boilerplate' texts as far as possible. This appeal was made because the AFM had noted in recent years that boilerplate texts are still being widely used and that relevant information is often either lacking or obscured. For this reason, the AFM carried out a thematic review of the quality and scope of the disclosures in the financial statements in 2014.

The two main findings of the review were:

- All those involved should focus on the company's own story and not on the drafting or testing of a compliance document; it appears that the company's own story is being obscured by the slavish following of a checklist or illustrative financial statements.
- The information in the financial statements must be relevant; relevant information is information specific to the company that could influence the decision-making of investors.

Remuneration of the management board

The social debate on remuneration of management boards is still ongoing. The disclosure of the remuneration of managers in key positions, including the remuneration of executive and supervisory directors, is an important and relevant source of information for decisions by users of financial reports. Despite the attention devoted by the AFM to the reporting of remuneration of management boards in recent years, we are still seeing signs of shortcomings. The AFM accordingly carried out another thematic review of the disclosure of remuneration of management boards in 2014 as included in the 2013 financial statements of 119 listed companies.

The main finding of this review is that too many of the disclosures relating to remuneration of the management board are not transparent enough. This is shown by the following findings:

- Actual costs are not adequately disclosed; depending on the remuneration component, between 7% and 39% of the companies do not disclose the actual costs. For another quarter to one third of the companies, it is not clear whether the actual costs are disclosed.
- The remuneration structure is reasonably well described, however it is often not clear whether the bonus targets have been achieved; two-thirds of the companies did not state whether the targets set had been achieved or not. The AFM's view is that companies must provide this mandatory disclosure in their financial reporting.
- The information is not sufficiently accessible; more or less all the companies include information on remuneration in several places in their financial

reporting. It would help the users if clear references were made between the various disclosures regarding remuneration of the management board.

Pensions

The reporting of pension liabilities (and costs) in financial reporting is of great relevance to the public. Transparent presentation of the costs of current pension schemes has contributed to a wide social debate on the substance and continuity of pension systems, in the Netherlands and elsewhere.

In addition to this social relevance, the pension schemes at company level are also highly relevant. The pension liabilities generally are of a size that they directly affect strategic policy (for instance, dividend strategy) and thus the value of the individual company.

IAS 19, which until the 2013 reporting year was the reporting standard for pensions, was a complex regulation that was not usually properly understood by investors and was also not usually properly applied by companies. IAS 19R[10] has been the standard for pensions reporting since 2013. The purpose of IAS 19R is to make the reporting more comprehensible, partly by limiting the permitted options for the measurement of the pension liabilities and expanding the disclosure of the pension liabilities. The aim of the review is to establish the level of quality of financial reporting with respect to the accounting of the pension liabilities and to improve this if necessary.

The two main findings of the review were:

- Compliance with most of the new disclosure requirements in IAS 19R by the companies was poor; these requirements refer in particular to a description of the statutory framework and the governance of the pension fund, a description of the risk appetite of the pension fund (an ALM study[11]) and the provision of a sensitivity analysis for the key assumptions.
- Industry pension schemes are not consistently qualified; the AFM notes that companies do not consistently qualify the same industry pension scheme placed with the same administrator (sometimes as a defined benefit scheme and sometimes as a defined contribution scheme) and that this can confuse the user with respect to the correct qualification of the scheme and the related risks.

Risk paragraph

For the users, it is important that companies report transparently on relevant risks (strategic, operational, financial, legislative and regulatory and financial reporting)

[10] In this report, IAS 19 (1999) is referred to as IAS 19 and IAS 19 (2011) as IAS 19R. IAS 19 concerns the financial reporting for 2012, while IAS 19R concerns the financial reporting for 2013 and thereafter.

[11] Asset and Liability Management. An assessment of the total risk using the characteristics and mutual relationship between the assets and the liabilities.

and their readiness to accept risks (known as risk appetite). Moreover, a number of recent business incidents have clearly shown the importance to users of transparent reporting on risk management and internal controls. The AFM accordingly conducted a thematic review of the risk paragraph.

The AFM's findings as a result of the review it conducted were as follows:

- The prioritisation of risks can be improved. A relatively large proportion of the AEX companies prioritise their risks; only a few of the AMX, AScX and locally listed companies explicitly state which risks are most important to them.
- There is room for improvement of the disclosure of the risk appetite; our review showed that around a half of the AEX and locally listed companies devote attention to risk appetite.
- More attention is needed to the quantification of risks and sensitivity analyses; only a few companies quantify the effects or potential effects of one or more risks. This applies to around 50% of the AEX companies and a lower proportion of the other companies.
- The reporting of the evaluation of the operation of the risk management system has to improve; the AFM notes that only a few companies report on potential deficiencies, changes and improvements in their risk management system.

5 Priorities in 2015

In 2015, the AFM will give priority to the reporting standards for consolidation, joint arrangements and related disclosures (new standards IFRS 10, IFRS 11 and IFRS 12), the 2014 financial reporting of Dutch banks, transparency regarding bank covenants and integrated reporting.

Each year, the AFM sets priorities in financial reporting to which it wishes to draw attention. This takes account of input from investors. In this section, the AFM states the priorities it has set in 2015 with respect to its supervision of the financial reporting for 2014. The priorities are announced before the annual reports and financial statements are prepared, so that companies and auditors can include them in their financial reporting for 2014 and the auditing thereof. The AFM expects this focus on specific elements to contribute to improving the quality of the financial reporting.

The community priorities for all national supervisors in Europe for the supervision of the financial reporting for 2014 (see the section titled 'The international perspective' in section 2) will also form part of the AFM's supervision of the financial reporting for 2014.

The AFM will prioritise the following four areas in 2015:

The reporting standards for consolidation, joint arrangements and related disclosures (IFRS 10, IFRS 11 and IFRS 12)
The new reporting standards for consolidation (IFRS 10), joint arrangements (IFRS 11) and the related disclosures (IFRS 12) will be applied by most listed companies in their financial reporting for 2014 for the first time. This could entail significant changes to the financial reporting.

2014 financial reporting of Dutch banks
In anticipation of the transfer of supervision of the 128 largest banks in Europe to the European Central Bank (ECB) on 4 November 2014, the balance sheets of these banks have been reviewed on the instructions of the ECB in 2014 (the Asset Quality Review or AQR). At the same time, the ECB also carried out stress tests on these banks. The ECB published the findings of this review on 26 October 2014. The seven Dutch banks reviewed are well capitalised according to the evaluation of the ECB. The findings of the AQR did, however, lead to a downward adjustment of the core capital of these seven banks amounting to €2.8 billion after tax.

The downward adjustments to the core capital are based on the methodology used by the ECB. These are prudential adjustments in the context of the AQR. The financial reporting of the banks under review is based on IFRS. IFRS assumes optimal transparency. The AFM expects these banks to study the consequences of these prudential adjustments to their core capital for their financial reporting for 2014 in accordance with IFRS. The AFM expects banks to adequately disclose material changes arising from the AQR, such as changes in accounting policies, changes to estimates, correction of errors and adjustments to the capital requirement in their financial reporting for 2014. The AFM will, in close cooperation with ESMA, focus on this in its review of the 2014 financial reporting of listed Dutch banks in 2015.

The adjustments will involve commercial real estate, among other things. The valuation of commercial and other real estate is an important item of attention for the AFM. Together with *De Nederlandsche Bank* (DNB), the AFM has recently organised a number of round table discussions with various parties from the real estate sector, including interest groups, valuers and project developers. Auditors were also represented. For the time being, the valuers – facilitated by the AFM and DNB – have begun work on a code, a professional body and a discipline. Should it be necessary to enforce progress or depth by means of legislation, the AFM will propose this in 2015.

Transparency regarding bank covenants

For users, it is important that companies are transparent regarding the risks associated with their business. The disclosure of bank covenants concluded may therefore be relevant. The disclosure should state the agreed ratios, the method used to calculate these ratios by the credit providers and how reorganisation costs will be dealt with if they occur, the results at year-end and the possible consequences if the covenant limits are breached. Recent examples of listed companies in financial difficulties show that it is important for users that companies disclose this information.

Integrated reporting

In 2013 and 2014 the AFM focused on the monitoring of developments in the field of integrated reporting and increasing awareness of this issue, both internally and among the various stakeholders in annual reporting. The AFM has also held discussions with various stakeholders involved in integrated reporting. The AFM also intends to further increase awareness of integrated reporting by means of publications on the subject and its involvement in international organs. The AFM will again devote attention to integrated reporting in 2015.

6 Regulatory changes

For financial years starting on or after 1 January 2014, a number of IFRS/IFRIC have undergone significant changes and/or have been ratified by the European Union. These are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- Amendment to IAS 39 Renewal of derivatives and continuation of hedge accounting
- IFRIC Interpretation 21 Levies

We also discuss certain changes to Dutch legislation:

- Removal of the consolidation exemption for listed intermediate holding companies (Section 2:408 BW)
- Group exemption Section 2:403 BW
- New statutory assessment framework for pension funds

IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities

With effect from the 2014 financial year, the new reporting standards for consolidation, joint arrangements and the related disclosures have to be applied in the European Union for the first time. This is one year after the effective date of the IASB, since the European Commission allowed companies more time to introduce the new standards.

The application of these new standards may entail significant changes to the reporting. Initial application of IFRS 10 and IFRS 11 may lead to changes in the group to be consolidated and/or the way in which joint arrangements are recognised in the financial statements. Application of the proportional consolidation method is no longer permitted. The ECEP (see section 2) shows the points companies must take into account in the application of these standards when preparing and auditing the financial reporting for 2014.

IFRS 10 states that consolidation depends on whether there is control or not. Different principles have to be used to determine whether a company has control over another entity. These principles are explained in the Application Guidance in Appendix B to IFRS 10, which also gives examples. Control exists if a company (i) has control over another entity and thus can direct the relevant activities of this other entity, (ii) is exposed to and/or is entitled to a variable return and (iii) has the possibility of affecting that return by means of its control. Paragraph 7(a) of IFRS 12 requires that the company state in its disclosure the key estimates and assumptions that it has used in this regard.

Paragraph 10 of IFRS 12 requires, among other things, that companies provide information on the interests of third parties (non-controlling interests, or NCIs). The disclosures required must enable the user of the financial reporting to understand the interests of third parties in the operations and cash flows. This means that for every subsidiary company with a material non-controlling interest the amounts paid in dividend must be disclosed. Summary financial information regarding the assets, liabilities, profit and loss and cash flows of the subsidiary companies in question must also be included. The question of whether a non-controlling interest in a subsidiary company is material or not must be decided on the basis of both quantitative and qualitative factors. The IFRS Interpretations Committee (IFRS IC) has confirmed this in the IFRIC Update of September 2014.

The introduction of IFRS 10 means that the financial information of subsidiary companies that qualify as 'Investment Entities' will no longer be included in the consolidation. These entities will be carried at fair value with changes in value through profit and loss.

Paragraph 10(b)(ii) of IFRS 10 and paragraph 24(b) of IFRS 12 deal with the requirement to disclose the nature of and changes to the material risks associated with interests in both consolidated and non-consolidated structured entities. The ECEP (see section 2) draws attention to this issue. This disclosure must also be company-specific in its content.

Classification of joint arrangements

Contrary to the former standard (IAS 31), the classification of joint arrangements under IFRS 11 is not made exclusively on the basis of the legal structure. Account must also be taken of the contractual provisions and the 'other facts and circumstances' to the extent that these entail enforceable rights to assets and liabilities and the payment of debts.

The criteria for determining whether a joint arrangement qualifies as a joint operation or a joint venture are stated in IFRS 11. In a joint venture, the parties to a joint arrangement have no direct entitlements to the assets and are not directly responsible for the liabilities of the joint arrangement. In all other cases, the entity is a joint operation. A joint venture is accounted for in the financial statements using the equity method. In a joint operation, the assets, liabilities, income and expenses are included in the consolidated financial statements in proportion to the share of the company.

The IFRS IC has devoted attention to issues associated with the classification of joint arrangements on several occasions since mid-2013. In particular, this concerned aspects in relation to 'other facts and circumstances'. The IFRS IC published its observations and conclusions in the IFRIC Update of September 2014. ESMA stresses that companies and their auditors should take account of the observations and conclusions of the IFRS IC and ensuing publications on this subject.

The previously mentioned paragraph 7 of IFRS 12 also requires that the company include the key estimates and assumptions it has used in the classification of joint arrangements in its disclosure. In order to be able to estimate the nature and scale of the financial effects of joint arrangements on the company's financial statements, financial information has to be provided. The nature of and developments in the risks associated with the interests in joint ventures must also be disclosed.

Amendment to IAS 39 Renewal of derivatives and continuation of hedge accounting
In order to mitigate counterparty risk in 'Over The Counter' instruments, central clearing houses must be used. With this amendment the IASB is making clear that replacing the original counterparty with a clearing house, subject to conditions, is not a reason to terminate the use of hedge accounting.

IFRIC Interpretation 21 Levies
This interpretation deals with the question as to when a levy imposed by the government, for example a fixed percentage of the revenue generated by the company in a financial year, must be recognised as a liability in the financial statements. The interpretation seeks to establish a relationship with the event or activity that led to the imposition of the levy. The fact that the company is economically compelled to continue the activities is not in itself a liability. The interpretation is in line with the principles of IAS 37 Provisions, contingent liabilities and contingent assets.

Removal of the consolidation exemption for listed intermediate holding companies (Section 2:408 BW)
The changes in the *Wijzigingswet Financiële Markten 2014* (Financial Markets (Amendment) Act 2014) include an amendment to Section 2:408 BW, which allows intermediate holding companies the possibility of not being consolidated, subject to conditions. In the Netherlands, and contrary to the 7th EC Directive, this exemption could also be applied by intermediate holding companies with listed securities. After the introduction of the Financial Markets (Amendment) Act this is no longer possible and Dutch legislation is in line with the 7th EC Directive on this point.

Originally, the intention of the legislator was that this exemption from consolidation would lapse as of 1 January 2014. The exemption could therefore no longer be applied in financial statements prepared after 1 January 2014. The AFM understood from the companies concerned that it would be extremely difficult to prepare consolidated financial statements at year-end 2013 with comparative figures for 2012 since the change to legislation was only adopted in the autumn of 2013. This problem was made worse by the fact that as a result of the removal of this exemption from consolidation the intermediate holding companies that used the exemption would be preparing consolidated financial statements based on IFRS for the first time and therefore would have to apply IFRS 1. The legislator has taken account of these arguments and will allow the change to take effect as of 1 January 2015.

Group exemption Section 2:403 BW

The group exemption in Section 2:403 BW can be applied by listed companies that only have to prepare separate financial statements and prepare these separate financial statements on the basis of Title 9 Book 2 BW. The obligations regarding making the annual financial reporting generally available therefore apply with the inclusion of the exemptions in Section 2:403 BW.

The group exemption in Section 2:403 BW cannot be applied by listed companies which are obliged to consolidate. In the event that a company with listed securities on a regulated market is obliged to consolidate, it must prepare its consolidated reporting according to the standards established by the IASB and approved by the European Commission (IAS/IFRS). This means that if the company prepares its financial standards according to these standards, Section 2:403 BW does not apply.

The possibility for a listed company to prepare its separate financial statements on the basis of Title 9 Book 2 BW and taking account of Section 2:403 BW described above will in all probability be removed in the near future with the implementation of the revised Directive on Financial Statements (2013/34/EU). Section 40 of this Directive states, after all, that member states may not make simplifications and exemptions provided for in the Directive available to public interest entities, including companies with listed securities, unless expressly determined otherwise in the Directive. Member states have to comply with this and the other provisions of the Directive by 20 July 2015. The possibilities for listed companies to apply simplifications and exemptions will thus be limited.

New financial assessment framework for pension funds (nFTK)

The bill for a new financial assessment framework for pension funds (nFTK) dealing with a number of amendments, motions and notes of changes was adopted by the House of Representatives on 16 October 2014. The new assessment framework includes more onerous provisions relating to repayments and contribution discounts by pension funds to their sponsor(s). These are in principle only permitted if the fund's assets are higher than the required equity and indexation is allocated for at least 10 years. The required equity under the nFTK is expected to be substantially higher than under the current regulatory regime due to the stricter requirements with respect to credit risk. As a result of these stricter requirements in the nFTK, contribution discounts and repayments will occur only rarely in practice and in any case will no longer occur without conditions having to be met. In its response to the nFTK of 2 September 2014, the Royal Actuarial Association states: "This means that missed indexation and curtailments of pensions in the previous ten years will have to be restored. In addition, the expectation is that the indexation target will have to be met. Since the requirements for catch-up indexation and the restoration of pension curtailments will be significantly more strict, there is little chance that catch-up indexation and restoration of pension curtailments will actually occur. Contribution discounts will therefore become more or less impossible." As a result of this, these changes in the nFTK will directly affect the determination of the maximum pension assets that can be recognised under IAS 19 and IFRIC 14. The AFM will devote attention to this issue in its supervision of the financial reporting for 2014.

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Appendix 1 Thematic Review Scope and quality of disclosures

1. Rationale, objectives and population

1.1 Rationale

The worldwide attention to the quality and scope of the disclosures in financial statements was the rationale for this review. Internationally, several reports[12] have been published on reviews and initiatives in this field. The AFM has also received signals from the market that the disclosures in financial statements are too lengthy, that companies use many boilerplate texts and that disclosures frequently contain information that is not relevant. This can affect decision-making by users of financial statements. The AFM has therefore in the past called on companies to make the disclosures in their financial statements more company-specific and more relevant.

The AFM announced that it would carry out an exploratory review of this issue in its annual 'In Balance' report in 2013. We used the above-mentioned publications for this purpose, and we distributed a questionnaire among companies, auditors and users. We also held a number of interviews with respondents in order to obtain further information.

1.2 Objectives

The AFM wants financial statements to include relevant and company-specific disclosures. Reducing the use of boilerplate texts and disclosures that are irrelevant contribute to forming a better impression of the company that prepared the financial statements. Through its review, the AFM gained an understanding of the views of companies, auditors and users. By listing a number of good practices in this report, the AFM wishes to contribute to the debate on the importance of relevant and company-specific disclosures.

1.3 Population

For the purpose of this review we distributed a questionnaire among companies, auditors and users of financial statements. 33 respondents completed the questionnaire. The largest single group among the respondents were the auditors (15). An equal number of users and companies responded (both 9). The relatively limited number of respondents means it is not possible to draw conclusions regarding the experiences and opinions of the companies, auditors and users per group. The results of the survey, however, do show the same picture as the results of the international reviews. We feel that these findings provide a sufficient basis to report on items of improvement in the quality and scope of the disclosures in the financial statements.

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[12] See for example the FRC report 'Cutting Clutter', the FRC Lab report 'Towards Clear & Concise Reporting', the report of the Joint Working Group of the ICAS and the NZICA 'Losing the Excess Baggage', the IASB Exposure Draft 'Disclosure Initiative' amendments to IAS 1.

2. Rationale, objectives and population

The AFM has included the results of the survey, the conclusions of discussions with a number of respondents and important findings from international reviews in the results of its review. This section also lists certain ‘good practices’. These are intended to serve as examples of companies that have moved towards reduced usage of boilerplate texts and sought to meet their disclosure requirements by including company-specific and relevant information.

2.1 All those involved should focus on telling the company’s own story, instead of preparing or testing a compliance document

The AFM’s review into the views in the market on the scope and quality of the disclosures in financial statements has shown that the respondents fall into four groups that have significant influence in this area. These are the companies, the auditors, the users and the external supervisor. The fifth party involved, the internal supervisor, was not seen as an important element by the respondents. We have listed the findings per group from the point of view of the respondents below.

Companies

The review showed that the primary focus of the preparers of the financial statements, the companies, is that the process of producing the financial statements should run smoothly. Respondents thought that many companies use all or parts of model financial statements provided by their auditors. Companies apparently do not focus adequately on providing company-specific or relevant information, and do not take the trouble to make the boilerplate texts from model financial statements company-specific. Adopting this attitude means that companies need discuss the financial statements with their auditors only to a minor extent, and provides a certain degree of certainty about the completeness of the information to be included.

Auditors

The review showed that the role of the auditor in the financial statements process could be improved. The survey revealed that respondents consider a checklist mentality and fear of the AFM on the auditor’s part to be the reason that auditors do not readily agree with innovations in the financial statements, even if such an innovation would increase the relevance of the information included.

The AFM takes the view that there is a duty here for the auditor. The auditor can point out to the company at an early stage that the financial statements do not have to be solely focused on compliance. The auditor should support the company in the process of including company-specific and relevant information in the financial statements.

Users
There is no standard user. The review reveals that there is no single definition to describe the users. This makes it difficult to define the information that the users of financial reporting require.

Some of the respondents indicated that the users would prefer more information rather than less. They also stressed the importance of company-specific and relevant information. Boilerplate texts in financial statements provide little information of value to the users. In addition, it emerged that some users only read parts of the financial statements. They see the financial statements as a reliable reference to be able to use the information provided in press releases and other press publications.

The external supervisor - the AFM
According to the respondents, in the past the AFM mainly focused on compliance with legislation and regulation and not so much on company-specific information. The AFM has taken this comment on board, and adjusted its supervision in an attempt to focus more on company-specific information. However, it is also aware that this process is not yet complete. The AFM will therefore take further steps as described in the concluding paragraph of this section, see section 3.4.

Internal supervisors
Most of the survey respondents said that they had no information regarding the activities of the internal supervisors in the financial statements process. At the same time, the respondents said that they thought that the internal supervisors were not primarily concerned with the content of the financial statements. In this review, the AFM considers the internal supervisors to include the company's supervisory board or audit committee. The AFM is currently carrying out a project to obtain information on the role of audit committees in the preparation of the financial reporting and the conduct of the audit. Further information on this project can be found in section 2 of 'In Balance 2014'.

2.2 Information in the financial statements must be relevant

The financial statements must contain all the information that is relevant for the users. Relevant information is information that is specific to the company and that could influence an investor's decision. Those involved in the financial statements process need to assess whether the information provided on the company is relevant.
For instance, a disclosure relating to a material item does not have to include all the required disclosures included in a reporting standard if some of the latter disclosures are not relevant. On the other hand, a disclosure may provide relevant information even though the related item does not appear material in terms of size.

IFRS is principle-based, but is applied as if rules-based

The majority of the consolidated financial statements of listed companies subject to supervision by the AFM are prepared on the basis of International Financial Reporting Standards (IFRS). IFRS is principle-based, contrary to reporting standards that are based on the strict application of rules, known as rules-based standards. The review shows that those concerned tend to apply IFRS as if it were rules-based. All disclosures are included, and the question of relevance to the users appears to be a secondary consideration. This leads for example to the inclusion of accounting policies for items that do not appear in the financial statements or are not material.

Another very common application of a rules-based approach is continuing to include disclosures that are no longer relevant due to the passage of time or changes to the size and composition of balance sheet items. The AFM calls on companies to remove disclosures if they are no longer relevant. This will make the relevant information more accessible to the users.

Boilerplate texts are not informative

Another problem revealed by the review, and also from international reviews, is the extensive usage of boilerplate texts. The texts in financial statements appear to be copied from a reporting manual. Whether this is IFRS or another set of reporting standards makes no difference in this respect. The inclusion of a boilerplate text that could be included in any financial statements without amendment offers less information value to the users.

The AFM calls on companies to limit their use of boilerplate texts as far as possible. A good example of where this appears to be possible concerns the accounting policies. Several studies show that accounting policies that are not specific to the company concerned have been copied from a reporting manual. This information is usually not relevant.

A few companies have developed initiatives to make the content and composition of their accounting policies relevant to the users. They do this for instance by stating which accounting policies are relevant to the company or describing the reasons for choices they have made. The AFM welcomes such initiatives.

Consistency between annual report and financial statements
The review focused on the financial statements. The financial reporting is broader and includes the annual report, the risk paragraph, the corporate governance report and the report of the supervisory board. The information in this part of the financial reporting is also relevant for the information in the financial statements. The review shows that users look to see whether the information included in the annual report is consistent with the information included in the financial statements. For instance, it is strange if the report of the management board gives a detailed account of various product groups while the segment reporting in the financial statements is provided at a higher business level, meaning there is no connection between the annual report and the financial statements. The AFM calls on companies and auditors to ensure that a better standard of consistency is applied so that the relevant information is disclosed in both the annual report and the financial statements.

2.3 Good practices that provide company-specific and relevant information
The AFM gives a number of examples of disclosures in financial statements in this report. These quotations are qualified by the AFM as good practices and can serve as inspiration to include company-specific and relevant information in the disclosures. These good practices can also be used as a guide by the other parties concerned in order to get the discussion of how the relevance of the financial statements can be improved off to a timely start. For the AFM, providing a good disclosure is not a one-off exercise, but a continuous process that must be repeated each year to further increase relevance.

The AFM explains the reason why each example represents good practice. Obviously, quotation of part of a disclosure from a set of financial statements does not imply that the AFM considers the entire disclosure or financial statements to represent good practice.

Separate presentation of accounting policies
Source: Financial statements of Sligro Food Group N.V. (Sligro) 2013, page 95
Subject: Presentation of accounting policies

Sligro has chosen to separate its presentation of its accounting policies in its financial statements on the basis of relevance. Instances where Sligro has had to make choices itself regarding the specific implementation of an accounting policy are presented under ‘G’. Policies of a more critical nature are presented separately under ‘H’. The accounting policies that are standard under IFRS regardless of the company or its business sector are presented under ‘I’. Sligro thus achieves a situation in which the relevant accounting policies, that is, those with respect to which Sligro has made an individual choice and those with a material impact are made more accessible for the users. The contents of the relevant section of the financial statements is included below to illustrate the above.

Overview of accounting policies	
	Page
A. General	96
B. Financial year	96
C. Statement of compliance	96
D. Accounting policies used in the preparation of the consolidated financial statements	96
E. Changes to accounting policies	96
F. New standards and interpretations	97
G. Specific choices within IFRS	97
H. Accounting policies of a more critical nature	98
I. Other accounting policies	99
J. Principles for consolidation	101
K. Segment information	102
L. Earnings per share	102

Accessibility and structure of the disclosures
Source: Financial statements of ITV plc (ITV) 2013, page 120
Subject: Design of the disclosure, accessibility of the disclosure

ITV has chosen to disclose its accounting policies separately, whereby policies that apply only to one item are presented with that specific item rather than a separate statement of accounting policies at the beginning of the disclosures.
ITV also inserts brief text balloons ('In this section') in its disclosures explaining the contents of the section for each element. For more complicated matters, a text balloon 'Keeping it simple' is inserted that explains the main features of the section concerned. This makes the financial statements more readable and accessible.

In this section . . .

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, segmental information, exceptional items, taxation and earnings per share.

Keeping it simple . . .

This section analyses the Group's profit before tax by reference to the activities performed by the Group and an analysis of key operating costs.

Earnings before interest, tax, amortisation (EBITA) and before exceptional items remains the Group's key profit indicator. This reflects the way the business is managed and how the Directors assess the performance of the Group. This section therefore also shows each division's contribution to total revenue and EBITA.

Following revisions to IAS 19, we have restated our prior period results and the details of those restatements are included in note 3.7.

Disclosure on the basis of principle
Source: Financial statements: NSI N.V. (NSI) 2012, page 140
Subject: disclosure of bank covenants if there is a risk these will be breached.

NSI gives an example of when the principles in the reporting standards are more important than the specific requirements. By disclosing its bank covenants, NSI provides information on its financial position. This disclosure is not obligatory under IFRS 7, because the covenant has not been breached. By including this information nonetheless, NSI presents a picture of its financial situation. Without this information, the disclosure is not complete.

The inclusion of relevant information in the disclosures does not therefore automatically mean that there will be fewer disclosures.

The example below is a brief quotation from the whole disclosure relating to the covenants in the 2012 financial statements. The AFM considers that this section explains why this disclosure is relevant.

(…)*Solvency ratio*
Based on the covenants, the adjusted equity at group level must amount to at least 40%. In 2012 this amounted to 40.3% (2011: 41.2%) and therefore meets the standard.

There were no changes to NSI’s capital management policy during the past year.

Apart from the requirements that apply due to the company’s status as a fiscal investment institution, neither the company nor its subsidiary companies are subject to externally imposed capital requirements.
(…)

2.4 The AFM welcomes proposals for improving the relevance of disclosures

The AFM is aware that it also has a role to play in improving the scope and quality of the disclosures in the financial statements of listed companies falling under its supervision. The AFM fulfils this role through, among others, its participation in international joint ventures such as ESMA and IOSCO. The AFM also wishes to inform the public regarding what it considers to be good practice. The AFM wishes to encourage the companies under its supervision and their auditors to include company-specific and relevant disclosures in their financial statements, and to help them make progress regarding reducing the use of boilerplate texts. The AFM cannot do this alone, and accordingly appeals to those involved for their support. The AFM proposes the following actions.

Companies subject to supervision and their auditors can submit proposals to the AFM

Companies subject to supervision which together with their auditors consider possible steps to provide more company-specific and relevant disclosures in their financial statements are welcome to contact the AFM.
The AFM will be pleased to work together with the company and its auditor regarding their proposed changes. This contact should ideally take place at an early stage in the formulation of the financial statements so that the company will be able to publish its financial statements in good time.

The AFM welcomes suggestions for good practices from those involved

The AFM calls on all parties involved, companies, auditors, users and internal supervisors, to let it know when a good practice is identified. The AFM has given some examples of good practices in this report. This is of course a selection and not an exhaustive list. The AFM wishes to have a better understanding of what other parties consider to be good practice. The AFM therefore requests that you send examples of such good practice. Please send us an e-mail stating the good practice and the source, such as 20XX financial statements of company Y. Please also state why you consider this to be a good practice. The AFM hopes to receive numerous examples of good practices in the course of 2014 and 2015 and to publish them at a later date.

If you would like to participate in one or both the AFM's initiatives, you can contact us as shown below:
By email: fin.verslaggeving@afm.nl
By surface mail: The Netherlands Authority for the Financial Markets
Auditing and Reporting Quality
P.O. Box 11723
1001 GS Amsterdam

Appendix 2 Thematic Review Remuneration of management boards in financial reporting

1. Rationale, objectives and population

1.1 Rationale: the remuneration of management boards continues to be a subject of public debate

There has been a public debate concerning the remuneration of management boards of listed companies and public organisation ongoing for many years. The debate concerns the size of the remuneration, and the performance on which entitlement to that remuneration is based. More recently, there has been media attention regarding reactions to severance payments, remuneration of supervisory directors and the targets on which entitlement to a variable remuneration is based.

The debate has led to the following actions by the legislator:

- The *Wet Normering bezoldiging topfunctionarissen publieke en semipublieke sector* (Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act), which came into force on 1 January 2013;
- The *Wet tot wijziging van Boek 2 van het Burgerlijk Wetboek* (Act of Amendment to Book 2 of the Dutch Civil Code) and the *Wet op het financieel toezicht* (Financial Supervision Act) in relation to the power to adjust or reclaim bonuses and profit-sharing payments to directors and persons in charge of day-to-day policy, which came into force on 1 January 2014; and
- A proposal recently put forward by the European Parliament[13]. The proposal aims firstly to increase transparency regarding the remuneration policy and the remuneration actually awarded, and secondly to create a closer connection between performance and remuneration by giving shareholders the authority to control the remuneration of management boards. Under the proposal, shareholders will have the power to approve the remuneration policy and vote on the implementation of that policy at the shareholders' meeting.

In view of the above, the disclosure of the remuneration of managers in key positions, including the remuneration of executive and supervisory directors, is an important and relevant source of information for decisions by investors. It is not appropriate for the AFM to comment on the size of the remuneration; however, the AFM certainly has a duty to ensure that the social debate is conducted on the basis of correct and complete information. The disclosure of the remuneration of management boards must therefore be transparent.

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[13] Proposal for a Directive of the European Parliament and of the Council amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and Directive 2013/34/EU as regards certain elements of the corporate governance statement, dated 9 April 2014.

1.2 Objective: the disclosure of the remuneration of management boards must be transparent

One of the objectives of the thematic review was to establish whether the current disclosures were sufficiently transparent. If this is found not to be the case, the AFM will consider the measures it can employ to influence behaviour and bring about an improvement. In this review, the AFM focused on accuracy, comparability and relevance as measures of quality in transparent financial reporting.

From its thematic review of the financial statements for 2010, the AFM concluded that the disclosure of the remuneration of management boards had improved in comparison to the financial statements for 2007, but that more than 30% of the companies could improve in this respect. Regarding the financial statements for 2011 and 2012, the AFM took individual actions against companies as part of the desktop reviews it conducted. As a result of these actions, two companies actually published a press release in which the correct disclosure of the remuneration of the management board was included[14]. The AFM is nonetheless still receiving signals that the disclosure of the remuneration of management boards is not up to standard. In its report ‘In balance 2013’, published in October 2013, the AFM accordingly announced that it would conduct a thematic review of the reporting of remuneration, including the remuneration of management boards. The intention of this review was to establish whether this is the case.

Review design and population

This review was carried out on the 2013 financial statements of public companies incorporated under Dutch law whose shares are listed on a regulated market in Europe. These 119 companies form a cross-section of the market, which makes it possible to detect differences that may exist between indices.

1.3 Follow-up: analysis of causes and bringing influence to bear

There may be many reasons why companies do not or not fully comply with the statutory and other requirements with respect to disclosures. What instruments will be deployed to achieve the desired effect depends very much on the reasons for the non-compliance.

In order to identify the causes of the shortcomings, the review results will be analysed further. Based on the results of this analysis, the AFM will determine which supervisory instruments can be applied in order to positively influence companies’ behaviour. These may include enforcement, or the influencing of behaviour.

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[14] See the press release by Wolters Kluwer N.V. dated 27 July 2011 http://www.afm.nl/registers/fv_documents/7001.pdf and the press release by TomTom N.V. dated 30 December 2012 http://www.afm.nl/registers/fv_documents/10575.pdf.

We expect this report and the good practices described therein to provide a certain degree of influence. This will be taken into account when setting our follow-up strategy.

2. Rationale, objectives and population

The results are given below. This section also lists certain 'good practices'. These good practices are intended to provide examples of how a company can comply with the disclosure requirements in a manner specific to its own situation. The AFM hopes these good practices will inspire companies and assist them in the transparent disclosure of the remuneration of their management board.

2.1 Actual costs are not adequately disclosed

Regulation requires that the disclosure of the remuneration of the management board states the costs incurred by the company in that respect in the reporting year. A limited group of companies do not disclose the actual costs, they disclose amounts calculated according to other principles. The key findings are described in more detail below. The most variations were found with reference to:

- share-based payments (19%)
- bonuses (7%)
- the crisis levy (39%)

Improvement is needed in these areas.

The Dutch Civil Code [15] and IAS 24[16] require that costs incurred by the company in the reporting year are disclosed. The *Raad voor de Jaarverslaggeving* (Dutch Accounting Standards Board[17]) states explicitly that it is not the timing of the actual payment that is the determining factor for the disclosure of the remuneration of management boards, but that it is the year in which the payment in question is charged to the company's result according to the reporting standards.

It would appear that some companies consider it necessary to disclose the remuneration paid. While the AFM acknowledges that this information may be useful in some cases, this does not discharge companies from their statutory obligation to state the costs recognised in their result.

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[15] Section 383c Book 2 Title 9 of the Dutch Civil Code (*Burgerlijk Wetboek*).
[16] IAS 24 'Related parties' paragraph 17.
[17] Annual Reporting Guidelines 271 'Employee benefits' paragraph 606.

If a company decides to state both the costs and the remuneration payments made, it is important that it clearly defines what is stated and in which part of the disclosure it is stated.

It would also be helpful to the users if the accounting policies applied are stated in the disclosure. This would mean that the basis on which the amounts of material remuneration components stated have been calculated would be immediately clear.

Good practice 1: Statement of accounting policies
Source: 2013 financial statements of Nutreco N.V., page 177
Underneath the table 'Remuneration of members of the Executive Board 2013', Nutreco discloses the policies applied for a number of material remuneration components.

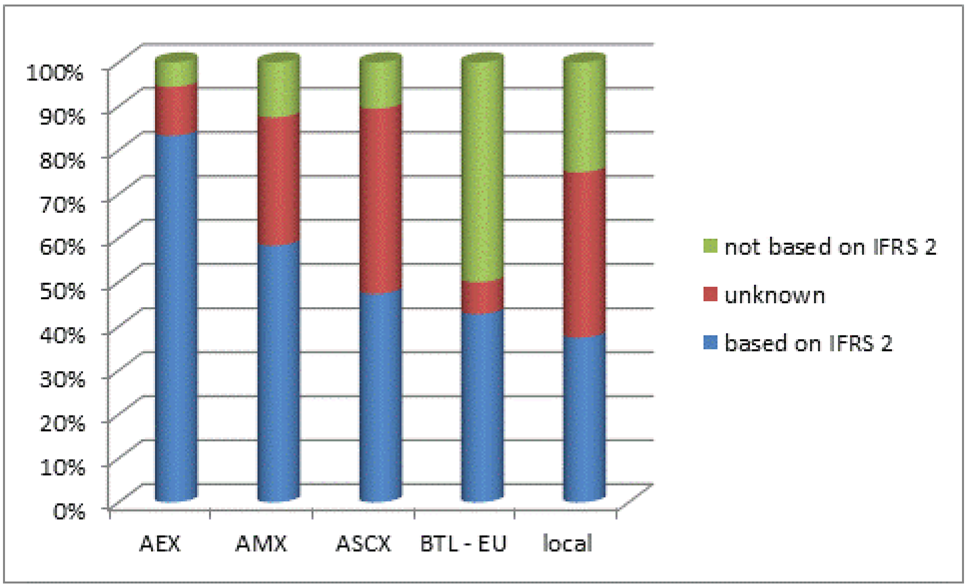
1 The performance bonus relates to the performance in the year reported and is to be paid in the subsequent year.
2 The valuation of the LTI shares is based on IFRS accounting principles and does not reflect the value of vested LTI shares.
3 Other compensation mainly includes insurances, private use of company cars, allowances for expenses and housing.
4 The crisis tax of 16% as imposed by the Dutch government is payable by the employer on the part of the salaries exceeding € 150,000.

Disclosure of share-based payments on the basis of IFRS 2

IFRS 2 'Share-based payments' requires that the costs associated with such arrangements are attributed as employee expenses to the period between the date of vesting of the entitlements and the date on which the entitlements become unconditional. According to the regulation, these costs must be included in the disclosure of the remuneration of management boards.

It emerged that 19% of the companies with a share-based remuneration component included an amount in the disclosure of the remuneration of the management board that differed from the costs recognised in the income statements on the basis of IFRS 2. This for instance concerned the value of the options that had become unconditional during the reporting year. 26% of the companies did not make it clear how the amount disclosed in the disclosure of the remuneration of the management board had been determined. It was thus not clear whether the amounts disclosed corresponded to the actual costs. The figure below shows these results per index.

Figure 1: Disclosure of the 'share-based payments' component on the basis of IFRS 2



Bonuses earned in the current reporting year must be disclosed
In the case of eight companies (7%), the disclosure of the remuneration of the management board states the bonus paid in the reporting year rather than the costs attributed to the reporting year. A further 39 companies (33%) did not make it clear whether the bonus concerned the current or the previous reporting year. Besides the fact that this does not meet the requirements, it is also not experienced by the users as current information[18].

If an actual or legal obligation exists at the end of the reporting year and its size can be reliably estimated, short-term and other bonuses due to directors must be recognised and disclosed in the reporting year to which they relate.

The crisis levy is part of the remuneration of management boards
The crisis levy had to be recognised in the 2012 financial statements for the first time. 39% of the companies included an explicit disclosure that the amounts disclosed were excluding the crisis levy. On the other hand, 20% of the companies included a disclosure including the crisis levy. It was notable that the remainder of the companies reviewed (41%) did not make it clear whether the amounts stated included the crisis levy or not. A majority of the companies failed to disclose the amount of the crisis levy per director. Companies must be more transparent regarding the amount of the crisis levy and the way in which the costs of the crisis levy form part of the management boards' remuneration disclosed.

[18] See the evaluation of the 2013 shareholder meetings season by Eumedion.

The Activity Report 2012[19] states under IAS 19 'Employee benefits' that the crisis levy must be counted in employee benefits, because it concerns a payment that is related to the employment services received by the company. In their financial statements, listed companies must therefore include the crisis levy in employee benefits and present this as an element of the short-term remuneration in the disclosure of the remuneration of the management board.

2.2 The remuneration structure is reasonably well described, but in many cases it is not clear whether the bonus targets were achieved

In addition to the size and composition of remuneration, the public debate has focused on the conditions that must be met in order for a variable remuneration to be awarded. Virtually all the companies present a description of their remuneration policy. Around half of them give a description that states that the remuneration is dependent on a peer group, targets to be met (KPIs), a relative weighting of KPIs and/or individual targets. Only 40% of the companies states whether the targets set were achieved or not. The description of the criteria for the award of a bonus and the degree to which the underlying targets have been met leaves room for improvement.

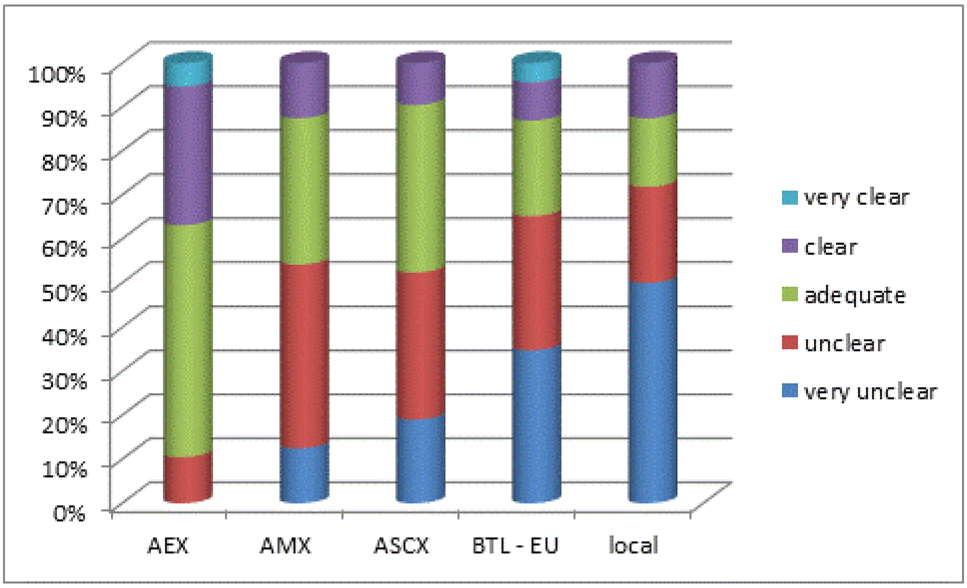
Investors can derive relevant knowledge from this information, because it enables them to understand the targets directors are striving to achieve in the short and the long term, the extent to which these targets have been met in the reporting year and whether this has led to a bonus being awarded. For this reason, the AFM looked at the extent to which companies provide clear descriptions of:

- the various remuneration components
- the peer group
- the targets, or performance indicators
- the weighting of the various targets
- the realisation of the various targets
- the individual targets

The information provided was ranked according to a scale from 1 to 5 (very unclear to very clear). If the description shows that the bonus for instance depends on EBITDA, net operating cash flow or the company's performance relative to a peer group, the disclosure is considered to be adequate. If this is not stated, or not stated for all the remuneration components, the disclosure is considered to be unclear or very unclear. Disclosures by companies that provide further information, for example regarding what it considers a peer group and/or the ranges used for the targets, are considered to be clear or very clear. The figure below shows that the descriptions provided by the AEX companies contain the most information.

[19] http://www.afm.nl/nl-nl/professionals/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/publicaties

Figure 2: Degree of clarity in description of remuneration policy



Disclose whether targets have or have not been met

The Dutch Civil Code requires that a statement be provided regarding whether the targets set were achieved or not. It is notable that mainly local and foreign companies frequently do not state whether the targets giving entitlement to a bonus were achieved or not. This is contrary to the situation with the AEX companies, 74% of which do provide this disclosure. The AFM's view is that companies must provide this mandatory disclosure in their financial reporting with effect from 2014.

Good practice 2: Targets met or not

Source: 2013 Annual Report TNT Express N.V., pages 54 and 55

This part of the disclosure explains the targets set by the supervisory board for the members of the management board, the weighting of the targets, the actual performance and the related payment.

The Supervisory Board has assessed and scored the performance against the targets and objectives set for 2013. The following table sets out the 2013 targets, their weighting, the performance achieved and the related payout:

Targets variable income - Executive Board

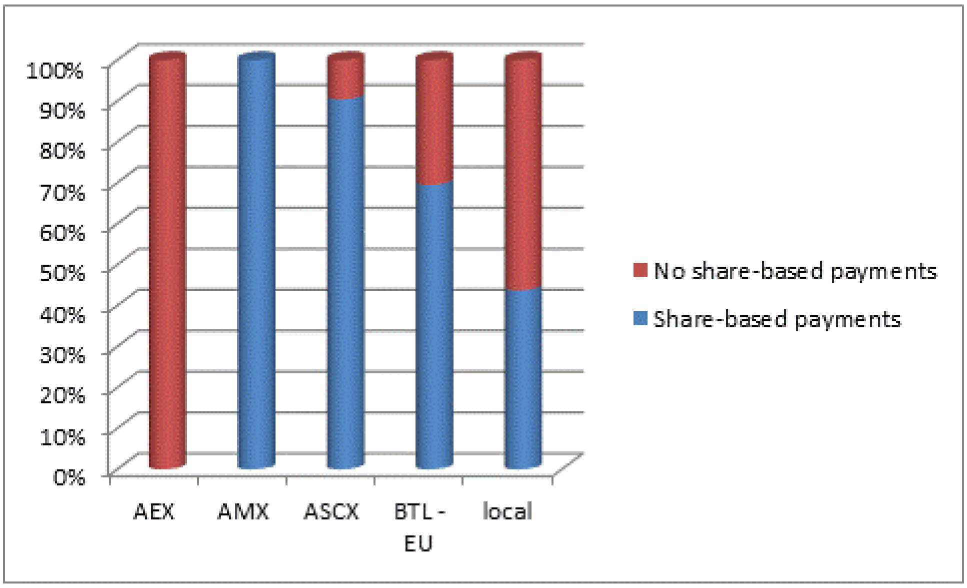
Target	Focus area	Weighting	Performance	Payout as a % of base salary
60% financial	Company results	70%	Target almost met	20.83%
	Net cash	30%	Target not met	0.00%
40% non-financial	Customers	33.3%	Target not met	0.00%
	Employees	33.3%	Target partially met	3.34%
	Sustainability	33.3%	Target partially met	3.34%
Total				27.51%

Complex arrangements require greater transparency
There are countless forms of share-based payments in practice. Usually, they involve the conditional vesting of shares and options, which becomes unconditional after a number of years. By their nature, these schemes are often complicated.

In their financial statements for 2013, 91 companies state that they have schemes for share-based payments to members of the management board. Eight of these companies also give share-based payments to the members of their supervisory board. This turns out to be usual practice mainly at companies with a registered office in the Netherlands but which are listed only on a foreign stock exchange. There are few changes in comparison with the 2010 reporting year; three companies have abolished the scheme, while six others have introduced such a scheme.

The figure below shows the count of companies with and without a share-based remuneration scheme for members of the management board. The application of this type of remuneration becomes less frequent as the size of the company diminishes.

Figure 3: Share-based payments for members of the management board (or not) by index



Share-based payments often form a significant part of the total remuneration of the management board. The AFM notes that the percentages of variable remuneration in the total remuneration of management boards vary widely. The costs of share-based payments as a percentage of total remuneration range from 0% to 82%. In one non-recurring case the share-based payment was negative, because the entitlements lapsed in 2013 and therefore the previously recognised costs had to be reclaimed.

Since variable remuneration is frequently a material remuneration component, it is important that companies give good account of the costs involved and the remuneration structure. The AFM calls on companies to take account of this in the preparation of their financial reporting for 2014.

2.3 The information is not sufficiently accessible

Companies apparently have difficulty in making their disclosure of the remuneration of the management board accessible. More or less all the companies include this information in several places in their financial reporting. While in some cases the information included in several places is in addition to that previously provided, in other cases it appears that the same information is repeated several times. Some companies report all the information relating to the remuneration of the management board together in one place in the report of the management board (the annual report). This is convenient for users, but often also raises the question of whether the statutory required information has been audited by the auditor.

The AFM suspects that this variety in presentation is related to the variety in the legislation. The Corporate Governance Code[20], IAS 24 and the Dutch Civil Code all contain disclosure requirements with respect to the remuneration of the management board. As an additional complication, the disclosure requirements in the Dutch Civil Code and in IAS 24 are similar, but not identical.

It would help the users if clear references were made between the various disclosures regarding the remuneration of the management board. It would also be helpful to the users if this information was included in one place, in its entirety, in the financial statements. The AFM calls on companies to take account of this in the preparation of their financial reporting for 2014.

Total counts are important and are a statutory requirement

Disclosure of total amounts with a breakdown into the various remuneration components helps users to establish that they are aware of all the components. The AFM considers the following findings to be a cause for concern in this context:

- Only 29% of the companies include a total count of the remuneration of managers in key positions, including the members of the management and supervisory boards. Over 60% of the foreign companies include this total count, compared to only 30% by companies in the AEX and AMX.
- 16% of the companies do not state a total count for each management board member. Over 20% of the local and foreign companies omit this total count, compared to only 5% for the AEX companies.

[20] Best practice provisions II.2.12 and II.2.13 of the Dutch Corporate Governance Code.

- A further 12% of the companies that do present a total count omit remuneration components in the total count they present. In virtually all cases, this concerns the share-based payments and/or the severance payment. Mainly foreign companies and to a lesser extent smaller Dutch equity funds disclose a total count that is incomplete.
- 28% of the companies do not state a total count for each remuneration category. Over 38% of the AMX and local companies omit this total count.

Every company is obliged to disclose the total amount of the remuneration of managers in key positions and the total amount for each member of the management board. The AFM accordingly takes the view that companies must include total counts in their financial reporting for 2014 and thereafter.

Good practice 3: Combination of legislation and total counts
Source: 2013 financial statements of Koninklijke Ahold N.V., page 142
This part of the disclosure shows how information required pursuant to the Dutch Civil Code (upper table) and IAS 24 (lower table) can be presented in combination with total counts.

31 Related party transactions (continued)

Remuneration of the Management Board by member

	Direct remuneration				Deferred remuneration		
€ thousand	Base salary	Bonuses[1]	Other[2]	Total direct remuneration	Share-based compensation[3]	Pensions[4]	Total remuneration[5]
Dick Boer							
2013	**975**	**868**	**12**	**1,855**	**1,114**	**433**	**3,402**
2012	965	478	13	1,456	890	95	2,441
Jeff Carr							
2013	**615**	**547**	**154**	**1,316**	**615**	**257**	**2,188**
2012	600	330	155	1,085	386	175	1,646
Lodewijk Hijmans van den Bergh							
2013	**537**	**478**	**16**	**1,031**	**545**	**212**	**1,788**
2012	530	292	49	871	412	120	1,403
James McCann							
2013	**650**	**579**	**414**	**1,643**	**665**	**239**	**2,547**
2012	600	330	153	1,083	386	138	1,607
Total 2013	**2,777**	**2,472**	**596**	**5,845**	**2,939**	**1,141**	**9,925**
Total 2012	2,695	1,430	370	4,495	2,074	528	7,097

Remuneration of the Executive Committee including Management Board

During 2013, the ExCo was formed. The table below specifies the remuneration of the ExCo, comprising the Management Board members as above and the additional ExCo members that were not part of the Management Board.

€ thousand	2013
Base salary	**3,183**
Bonuses[1]	**2,821**
Other[2]	**865**
Share-based compensation[3]	**3,983**
Pensions[4]	**1,320**
Total remuneration[5]	**12,172**

Appendix 3 Thematic Review Pensions – A comparison of compliance with the old and new reporting standards

1. Rationale, objectives and population

1.1 Rationale

The reporting of pension liabilities (and costs) in financial reporting is of great relevance to the public. Besides the fact that transparent reporting of the costs of current pension plans has contributed to a broad public debate on the content and sustainability of pension systems in the Netherlands and elsewhere, these liabilities are generally of such size that they have a direct influence on the company's strategic policy (for instance, its dividend strategy) and therefore its value. IAS 19, which was the reporting standard for pensions until the 2013 reporting year, was a complex regulation that was not usually properly understood by investors and was also not usually properly applied. The purpose of IAS 19R is to make the reporting more comprehensible, partly by limiting the permitted options for the measurement of the pension liabilities and expanding the disclosure of the pension liabilities.

1.2 Objectives

The aim of the review is to establish the level of quality of the financial reporting with respect to the accounting of the pension liabilities and to improve this if necessary. The AFM accordingly focused on the correct application of the (changed) disclosure requirements in the old and new reporting standard, and assessed the extent to which quality changed in 2013 compared to 2012.

The AFM also further studied the reporting of the key actuarial assumptions, including the actuarial interest the companies used. This was not restricted to listing the assumptions stated, but, in the case of the actuarial interest rate, also involved an assessment of the reasonableness of the assumption.

In 2012 the AFM evaluated the quality of the disclosure on the expected effects of IAS 19R on the capital and the result. The AFM noted that a number of companies failed to adequately disclose the expected effects of the introduction of IAS 19R on the capital and the result. As a result of that review, the quality of the disclosure regarding the system change from IAS 19 to IAS 19R was reviewed for this group of companies.

Finally, the review serves as a baseline measurement for future comparison of any further improvements.

1.3 Population

The review population consisted of all companies with shares listed on Euronext Amsterdam that fall under the supervision of the AFM pursuant to the *Wet toezicht financiële verslaggeving* (Financial Reporting Supervision Act) and publish consolidated financial statements on the basis of IFRS.

Only those companies were selected that had placed their defined benefit pension plan(s) with a company pension fund or a multi-employer pension fund in 2013. Lastly, companies that had already applied IAS 19R in the 2012 financial year (known as 'early adopters') were removed, since there was no baseline measurement in 2012. The selected population consisted in total of 57 companies.

The AFM moreover carried out an additional review of the disclosure of the system change by twelve companies. These were companies that were identified in the AFM's review in 2012[21] as having serious shortcomings in their 2011 financial statements or semi-annual financial information for 2012 with regard to the disclosure of the effects of the application of IAS 19R on the capital and result. The population also included companies that are not subject to supervision by the AFM pursuant to the Financial Reporting Supervision Act but that are subject to the AFM's supervision pursuant to the *Wet op het financieel toezicht* (Financial Supervision Act) due to their listing on Euronext Amsterdam.

A questionnaire was prepared for the purpose of the review based on the disclosure requirements in IAS 19 and IAS 19R, with a distinction being made between unchanged provisions and new provisions. Each disclosure requirement was assigned an equal weight in the determination of the non-compliance score, and all the disclosures that were not relevant to a company were removed. The relevance of a disclosure was established on the basis of other information in the financial statements or other publicly available information, including from the Internet. Disclosures that did not primarily relate to IAS 19 but were connected to other reporting standards such as IAS 24 and IAS 37 were not included in the non-compliance score. The so-called general provisions in IAS 19 and IAS 19R (IAS 19.120 and IAS 19R.135) were also not included in the non-compliance score.

[21] In 2012 the AFM conducted a review of the quality of the disclosure of the effect of IAS 19R on the capital and result of 71 companies with defined benefit pension plans as required in IAS 8.30. This revealed that 12 companies had failed to disclose this adequately. The companies in question were approached informally.

2 Key review results

The following paragraphs present our review results in detail. This section also lists certain 'good practices'. These good practices are intended to provide examples of how a company can comply with the disclosure requirements in a manner specific to its own situation. The AFM hopes these good practices will inspire companies and assist them in the transparent disclosure of their pension liabilities.

2.1 Compliance with the new reporting requirements of IAS 19R is poor

The AFM notes that it is mainly the new disclosure requirements introduced in IAS 19R with respect to pensions in the financial reporting for 2013 that were less satisfactorily complied with than in the financial reporting for 2012.

The non-compliance score per type of pension fund is shown in the table below. The disclosure requirements are classified by the type of pension fund that manages the pension plan for the company. A distinction is made here between company pension funds (CPF) and multi-employer pension funds (MEPF).

Table 1: Percentage of non-compliance with disclosure requirements in IAS 19 and IAS 19R per type of pension fund

	Disclosure requirements IAS 19[22]	Disclosure requirements IAS 19R[23]
Score for CPF	24%	28%
Score for MEPF	40%	57%

This table shows the average percentage of reporting standards that were not complied with by the companies in their financial reporting for 2012 (IAS 19) and 2013 (IAS 19R)

Table 1 shows that it was mainly the quality of the disclosure of plans placed with multi-employer pension funds that has deteriorated. The quality of the disclosure relating to pension plans placed with company pension funds also deteriorated slightly.

[22] The disclosure requirements in IAS 19 concern the financial reporting for 2012.
[23] The disclosure requirements in IAS 19R concern the financial reporting for 2013.

In order to determine whether reporting by the companies worsened with respect to the disclosures already required under IAS 19 or whether the quality of the disclosures remains behind with respect to the new disclosure requirements introduced in IAS 19R, we made a further distinction in the IAS 19R disclosures. The distinction is between disclosures in IAS 19R that were also required under IAS 19 and disclosures that were introduced under IAS 19R for the first time. The table below shows the application of the old and new disclosure requirements in the financial reporting for 2013.

Table 2: Percentage of non-compliance with disclosure requirements in the financial reporting for 2013

	Disclosure requirements in IAS 19R already required under IAS 19	Disclosure requirements newly introduced in IAS 19R
Score for CPF	13%	51%
Score for MEPF	23%	74%

This table shows the average percentage of reporting standards that were not complied with by the companies in their financial reporting for 2013 (IAS 19R), divided into disclosure requirements already required under IAS 19 and new disclosure requirements introduced in IAS 19R

Table 2 clearly shows that it was mainly the newly introduced disclosures in IAS 19R on which the companies scored very poorly in their financial reporting for 2013. However, the scores for the disclosure requirements in IAS 19R that were already present in IAS 19 were better in the financial reporting for 2013 than they were in the financial reporting for 2012. Among the CPF, compliance with the reporting standards increased from 76% to 87%. Among the MEPF, the increase was from 60% to 77%.

We further analysed the scores for the new disclosure requirements under IAS 19R. This showed that it was mainly the disclosures listed below on which the scores were very poor in the case of the company pension funds:

- a description of the statutory framework for pensions and pension funds (IAS 19R.139.a(ii));
- a description of the governance of the pension funds and the relationship with the company (IAS 19R.139.a(iii));
- information on the degree of risk regarding the measurement of the pension investments by means of a classification analogous to that contained in IFRS 13 (IAS 19R.142);
- information on the pension fund’s risk appetite and the consequences of this for the company (IAS 19R.146);
- the sensitivity of the pension liabilities to adjustments to the key assumptions (IAS 19R.145);

- information on the average life to maturity and distribution of the pension liabilities over time (IAS 19R.147(c)).

The AFM takes the view that these disclosures are relevant to users, as they enable the user to correctly assess the risks associated with the company's pension plan. More specifically, these disclosures provide information on the company's future expenses and outgoing cash flows (see for example good practice 2).

We carried out the same analysis for plans placed with multi-employer pension funds. This showed that the following disclosures were mostly missing or inadequate:

- the funding agreement with the multi-employer pension fund and the extent to which the company is liable for future deficits in the fund (IAS 19R.148a and b);
- the consequences for the company if the fund ceases to exist or the company wishes to place its liabilities elsewhere (IAS 19R.148c);
- the expected contributions to the fund (IAS 19R.148d(iii));
- the share of the company as a proportion of the total size of the fund (IAS 19R.148d(v)).

The AFM takes the view that these disclosure requirements are essential for the users. This is all the more cogent since the disclosure requirements that apply to defined benefit pension plans do not apply here and are therefore not stated. The actual size of the pension liabilities also does not have to be stated in the financial statements for plans placed with multi-employer pension funds.

The AFM stresses the importance of correct compliance with the provisions of the financial reporting standards. Companies need to improve their compliance with the new disclosure requirements of IAS 19R in their financial reporting for 2014. The AFM will again review compliance with these provisions in a follow-up review.

2.2 Multi-employer pension plans are not consistently qualified

The AFM notes that companies do not consistently qualify the same multi-employer pension plan with the same provider and that this can cause confusion for the users with respect to the correct qualification of the plan and the related risks.

Our review focused on the way in which defined benefit pension plans placed with a multi-employer pension fund are presented in the financial statements. A sectoral or multi-employer pension fund (MEPF) is a fund that states it is not in a position to identify the liabilities and in particular the assets of the various respective individual pension plans participating in the MEPF. Both IAS 19 and IAS 19R contain a provision in this respect.

If the information needed for the correct treatment of the defined benefit pension plan cannot be provided by the fund, the company is permitted to treat the defined benefit pension plan as if it were a defined contribution plan. In this case additional disclosures are required. The quality of these disclosures has already been discussed in the preceding paragraph. This paragraph deals with the way in which the company justifies treatment as a defined contribution plan.

A total of 30 of the 57 companies reviewed have placed some or all of their pension plans with one or more multi-employer pension funds. These pension funds are treated as defined contribution plans in all cases. Table 3 shows how the company justifies treatment of the plan as a defined contribution plan.

Table 3: Qualification of a multi-employer pension plan

	Number of companies
Plan is a defined contribution plan	8
Plan is a defined benefit plan, but the MEPF cannot provide the necessary information	19
No disclosure	3

This table shows the qualification of multi-employer pension plan by 30 companies that have placed their pension plan with a multi-employer pension fund

Of the 8 companies that state that their plan is a defined contribution plan, in one case this concerns a foreign plan. In seven cases the plans concerned are placed with two Dutch multi-employer pension funds. These two multi-employer pension funds also appear in both the 19 companies that state that the MEPF cannot provide the necessary information and thus qualify their pension plans as defined benefit plans and the 8 companies that state that the pension plan is a defined contribution plan. We note in this respect that the same pension plan at the same multi-employer pension fund is qualified differently by two companies, even though these companies are audited by the same audit firm.

The AFM takes the view that it is not desirable that companies should not qualify the same multi-employer pension plan with the same provider consistently, and that this can cause confusion for the users with respect to the correct qualification of the plan and the related risks. Despite the equal treatment, the AFM considers that correct and consistent qualification of the plan is needed for a correct assessment of the risks associated with the pension plan.

The AFM concludes that consistent treatment of the pension plan at multi-employer pension funds is essential for a correct assessment of the risks associated with the pension plan, and calls on companies and their auditors to formulate a consistent qualification on the basis of IAS 19R and the specific provisions of the pension plan and related administrative and funding decisions in their financial statements.

2.3 Other findings

Our review shows that the average actuarial interest rate used, that is the interest rate used by the company to establish the pension liabilities, was slightly higher for 2013 than for 2012, which corresponds to developments in the market. We also note that the range of actuarial interest rates applied by the various companies has narrowed, albeit marginally, in comparison to 2012. The differences in the long-term yield curve of high-value corporate bonds cannot fully explain the differences between the actuarial interest rates used. We accordingly consider the decrease in differences compared to 2012 expressed in the narrower range as an indication of a more accurate calculation of the actuarial interest rate.

Our review also shows that the most stated assumptions concern the actuarial interest rate and the expected salary increase. To a lesser extent (around half of our observations) we find the survival tables used, the expected inflation and the expected indexation. In many cases it is not clear why these assumptions are significant. The expected increase in the accrued pension entitlements due to the retention of purchasing power may depend on future salary increases or expected inflation, but this relationship is not or not adequately established in the disclosure. This makes it more difficult for users to compare financial statements with each other. The AFM therefore also takes the view that the companies have to explain the relevance of the key assumptions they mention.

With respect to the sensitivity analyses included, we encountered mainly the sensitivity of the liabilities to a change in the actuarial interest rate and to a lesser extent the sensitivity to changes in the assumptions for future salary increases, indexation and life expectancy.

It is notable that some companies still state the expected investment return. This is surprising to the AFM, since under IAS 19R the interest expenses are calculated on the net pension liabilities or the net pension assets.

The AFM concludes that there is room for improvement, especially with respect to the statement of the assumptions in relation to expected indexation and life expectancy, and in the related sensitivity analyses. The public debate on pensions includes discussion of the low level of interest rates, the retention of purchasing power and the rapid increase in life expectancy.

The absence of particularly these last two aspects in the disclosure of the assumptions and the related sensitivity of the pension liabilities is thus an important omission for the users when assessing the risks associated with a pension plan placed with a company pension fund.

2.4 Follow-up to previous review

In 2012 the AFM reviewed how companies provided information on the effects of the introduction of IAS 19R on their capital and result. This review revealed that twelve companies did not fully provide this information. The AFM has checked whether these companies have provided this information in their financial reporting for 2013. In brief, these requirements mean that information has to be provided on the effect of the change in accounting policies on the capital at the beginning of the comparative financial year, the end of the comparative financial year and the current financial year. The effect on the result in both years must also be shown.

Our review showed that all twelve companies provided this information in their financial statements for 2013.

2.5 Good practices

This paragraph contains examples of good practices.

Good practice 1: Disclosure of a defined benefit pension plan at a multi-employer pension fund as a defined contribution plan
Source: 2013 financial statements of ASM International N.V., pages 116-117

This good practice concerns a description of the pension plan to the extent that this is placed with a multi-employer pension fund. The description clearly states what the risks for the company are, the company's share in the pension plan in the multi-employer pension fund and the current status of the fund. In the AFM's opinion, this is a good application of the main provisions in IAS 19R.148. We would note that only the expected premium for the new financial year is missing.

Multi-employer plan

The Company's employees in the Netherlands, approximately 140 employees, participate in a multi-employer union plan, "Bedrijfstakpensioenfonds Metalektro", ("PME") determined in accordance with the collective bargaining agreements effective for the industry in which ASMI operates. This collective bargaining agreement has no expiration date. This multi-employer union plan covers approximately 1,300 companies and 147,000 contributing members. ASMI's contribution to the multi-employer union plan is less than 5.0% of the total contribution to the plan as per the annual report for the year ended December 31, 2013. The plan monitors its risks on a global basis, not by company or employee, and is subject to regulation by Dutch governmental authorities. By law (the Dutch Pension Act), a multi-employer union plan must be monitored against specific criteria, including the coverage ratio of the plan assets to its liabilities. This coverage ratio must exceed 104.3% for the total plan. Every company participating in a Dutch multi-employer union plan contributes a premium calculated as a percentage of its total pensionable salaries, with each company subject to the same percentage contribution rate. The premium can fluctuate yearly based on the coverage ratio of the multi-employer union plan. The pension rights of each employee are based upon the employee's average salary during employment.

ASMI's net periodic pension cost for this multi-employer union plan for any period is the amount of the required contribution for that period. A contingent liability may arise from, for example, possible actuarial losses relating to other participating entities because each entity that participates in a multi-employer union plan shares in the actuarial risks of every other participating entity or any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

The coverage ratio of the multi-employer union plan increased to 103.4% as of December 31, 2013 (December 31, 2012: 93.9%). Because of the low coverage ratio PME prepared and executed a so-called "Recovery Plan" which was approved by De Nederlandsche Bank, the Dutch central bank, which is the supervisor of all pension companies in the Netherlands. Due to the low coverage ratio and according the obligation of the "Recovery Plan" the pension premium percentage is 24.1% in 2013 (2012: 24.0%). The coverage ratio is calculated by dividing the plan assets by the total sum of pension liabilities and is based on actual market interest.

The Company accounts for the multi-employer plan as if it were a defined contribution plan as the manager of the plan, PME, stated that its internal administrative systems do not enable PME to provide the Company with the required Company-specific information in order to account for the plan as a defined benefit plan. The Company's net periodic pension cost for the multi-employer plan for a fiscal period is equal to the required contribution for that period.

A contingent liability may arise from, for example, possible actuarial losses relating to other participating companies because each company that participates in a multi-employer plan shares in the actuarial risks of other participating companies or any responsibility under the terms of a plan to finance any shortfall in the plan if other companies cease to participate. The plan thus exposes the participating companies to actuarial risks associated with current and former employees of other companies with the result that no consistent and reliable basis for allocating the pension obligation, plan assets and cost to individual companies participating in the plan exists.

Good practice 2: A description of the statutory framework for pensions and pension funds, as well as a description of the governance of the pension funds and the relationship with the company (IAS 19R.139.a(iii))
Source: 2013 financial statements of Koninklijke Vopak N.V., page 139

This good practice concerns the information the company provides in relation to the statutory framework of pension plans and pension funds and the governance within the pension fund as required in IAS 19R.139.a(ii)(iii). Koninklijke Vopak N.V. provides a detailed disclosure of the statutory framework of its Dutch pension fund and the governance within this fund.

Pension plan in the Netherlands
The Dutch pension plan *Stichting Pensioenfonds Vopak* represents 83% of the total defined benefit obligation. Plan participants are insured against the final consequences of old age, disability and death. The employer and employees (partly) pay contributions to the pension plan.

The pension plan has a legal structure of a foundation. The (actuarial) risks related to the pension plan consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries, and the return on plan assets) and are regularly reviewed by the board of the trustees. The board of trustees is the most senior governing body of the pension fund and is composed of equal numbers of employer and employee representatives (including pensioners and deferred members).

Pension plans in the Netherlands are subject to the Financial Assessment Framework, which is part of the Pensions Act and sets out the minimum requirements for the financial position of a pension fund, such as the statutory minimum funded status. A pension fund's financial position is reflected largely by the cover ratio. This expresses the relationship between the fund's assets and the pensions to be paid in the future (pension liabilities). The minimum required cover ratio is 105%. In addition, a pension fund must hold sufficient buffers (equity) to be able to cope with financial setbacks. The greater the investment risks and the higher the average age in the pension fund, the higher the buffer requirements, or minimum funding level. Taking into account these factors the Dutch pension plan *Stichting Pensioenfonds Vopak* had a funded status of 112.2% at year-end 2012. The actual ratio of the statutory funded status at 31 December 2013 was preliminary calculated at 118.5%. The fund's capital as well as the liabilities is valued at market.

Pension plans are overseen by the regulator Authority for Financial Markets (AFM) and *De Nederlandsche Bank* (DNB). An annual report including an actuarial review on the plan is prepared in accordance with legal requirements. Additional reports are prepared quarterly in accordance with IFRS requirements. If there is a funding shortfall (cover ratio less than 105%), the fund must submit a recovery plan to the DNB.
The cover ratio must regain the 105% level within 3 years. A fund subsequently has a total of 15 years in which to rebuild the required buffers.

The assets are managed by independent asset managers that also execute the investment transactions.

Appendix 4 Thematic Review Risk paragraph

1 Rationale, objectives and population

1.1 Rationale
For users, it is important that companies report transparently and comprehensively on relevant risks, their risk appetite and the way in which they respond to fast-changing strategic, operational, financial and compliance risks for the company. Moreover, a number of recent business incidents have clearly shown the importance to users of transparent reporting on risk management and internal controls.

1.2 Objectives
The objective of the review is to improve the quality of the financial reporting in the annual report with respect to the risk paragraph. The aim is that the risk paragraph should more frequently meet qualitative considerations such as relevance and completeness. Users want to know the principal risks to the company's business (in quantitative and qualitative terms) and the extent of the company's risk appetite. Moreover, there must be transparent communication regarding risk management and internal controls.
Lastly, the review will serve as a baseline against which future improvements can be measured.

1.3 Population: 30 companies
The risk paragraph thematic review has been conducted on the 2013 financial reporting of public companies incorporated under Dutch law whose shares are listed on a regulated market in the Netherlands. We selected 30 companies on the basis of sectoral classification. The sample consists of seven or eight companies from each index (AEX, AMX, AScX and Local).

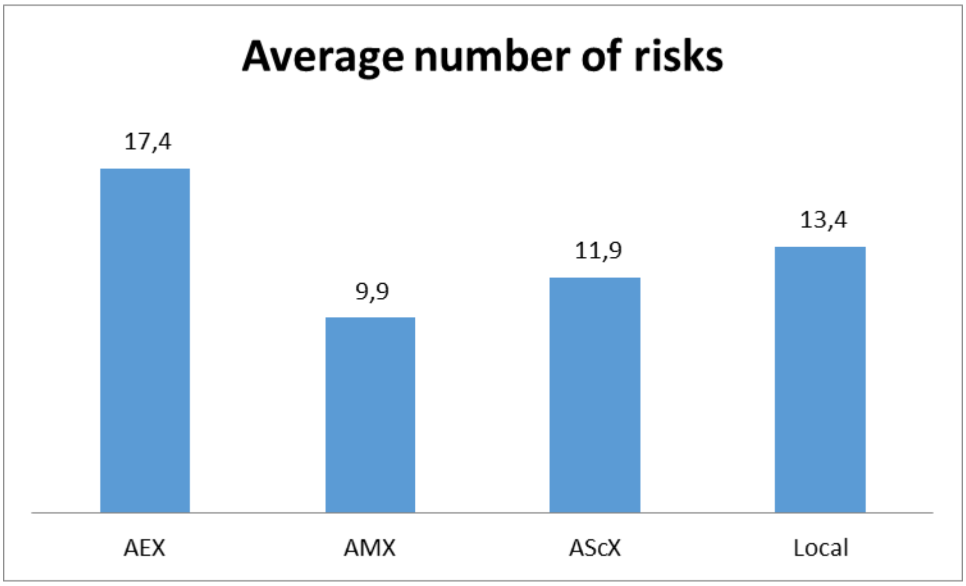
2 Key review results

The results are given below. This section also lists certain ‘good practices’. These good practices are intended to provide examples of how a company can report on the risks it faces in a manner specific to its own situation. The AFM hopes these good practices will inspire companies and assist them in the transparent disclosure of their risks.

2.1 The prioritisation of risks can be improved

Looking at the risks described, it is notable that it is mostly the AEX companies that describe a large number of risks and the AMX companies that describe the fewest risks.

Figure 1: Average number of risks



In most cases, the description of risks seems complete. As stated in the COSO framework, the Dutch Corporate Governance Code and the DASB Guideline 400 Annual Report[24] the following categories are important in the identification of the principal risks:

- Strategy
- Operational activities
- Financial risks
- Legislation and regulation
- Financial reporting

[24] Guidelines for annual reporting, 400 Annual Report (amended in 2014).

Table 1 shows the extent to which companies describe principal risks in their reporting. Strategy, operational and financial risks score relatively high. Almost all the companies describe these risks. Risks relating to legislation and regulation and financial reporting risks receive relatively the least attention.

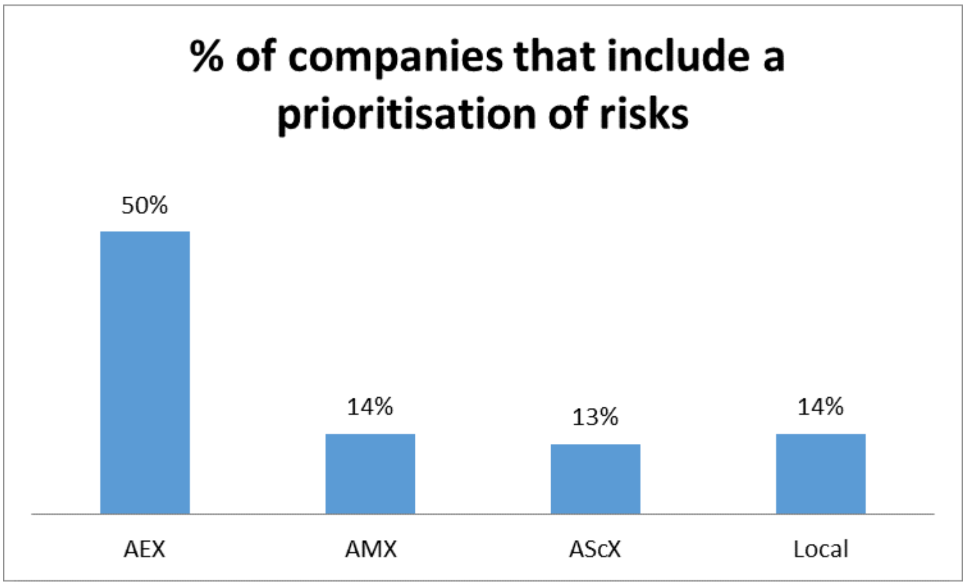
Table 1: % of companies that describe risks

% of companies that describe risks	**AEX**	**AMX**	**AScX**	**Local**
Strategic risks	88%	100%	75%	100%
Operational risks	100%	100%	100%	100%
Financial risks	100%	100%	75%	100%
Risks relating to legislation and regulation	75%	71%	50%	86%
Financial reporting risks	88%	43%	50%	71%

However, it is also very important to users that companies explicitly state which risks are the most significant. This enables the user of the annual report to form a good impression of potential events or developments that could significantly affect the company's result, financial position or continuity.

Our review (see figure 2) showed that AEX companies relatively frequently include a prioritisation of risks. Only a few of the AMX, AScX and local companies explicitly state which risks are most important to them.

Figure 2: % of companies that include a prioritisation of risks



The AFM takes the view that the information value of the risk paragraph could be enhanced by making it clearer which risks are the most important rather than simply providing a list of all potential risks without any prioritisation.
In our opinion, the company does not however have to restrict itself to listing its top 5 risks, since in that case information on other real risks may be lost. To avoid this, the principal risks can be made visible in other ways, by mentioning them first or printing them in bold type.

2.2 The disclosure of the risk appetite can be improved

The extent to which companies are willing to take risks is very important to users. This shows the amount of risk a company is willing to take to achieve its goals. The risk appetite is also a guideline for whether measures are taken to manage risks and uncertainties or not.
In table 2, one can see that the AEX companies devote relatively the most attention to risk appetite. This is due to the fact that the AEX companies include a number of financial institutions that are obliged to devote more attention to risk appetite under the Banking Code.

Table 2: % of companies that describe risk appetite

% of companies that describe risk appetite	AEX	AMX	AScX	Local
Strategic risks	50%	29%	25%	57%
Operational risks	50%	29%	13%	57%
Financial risks	63%	29%	25%	57%
Risks relating to legislation and regulation	50%	29%	13%	29%
Financial reporting risks	50%	14%	25%	14%

Among the locally listed companies as well, more than 50% devote attention to their risk appetite. Only a limited number of AMX and AScX companies include information in the risk paragraph on their attitude to the risks described. The AFM sees clear room for improvement here.

The following example of good practice concerns a disclosure with respect to risk appetite. By using a ranking from low to high, the extent to which the company is prepared to take certain risks is made clear.

Good practice 1: Risk appetite (Koninklijke Vopak N.V. 2013 annual report page 75)

Risk category (COSO)	Strategic pillars Vopak	Vopak's risk-reward appetite
Strategic risks	Growth leadership Customer leadership	**Moderate to high:** right balance between risk and long-term reward
Operational risks	Operational excellence	**Low:** on safety issues **Moderate:** on other areas/topics with alignment of targets and related cost, and a clear focus on sustainable EBIT growth
Compliance risks	Operational excellence	**Low:** full compliance with legal, regulatory and political environments
Financial reporting risks		**Low:** full compliance with financial reporting rules and regulations

2.3 More attention to the quantification of risks and sensitivity analyses is needed

Based on the information shown in table 3, the AFM notes that only a limited number of companies quantify the potential or actual effects of one or more risks. In cases where a company has included a quantification, this mainly concerns financial risks, which is due to the obligations under IFRS to provide further quantification of financial risks in particular.

Table 3: % of companies that quantify risks

% of companies that quantify risks	AEX	AMX	AScX	Local
Strategic risks	25%	14%	0%	14%
Operational risks	13%	0%	0%	0%
Financial risks	50%	43%	0%	29%
Risks relating to legislation and regulation	25%	14%	0%	0%
Financial reporting risks	13%	14%	25%	29%

In addition to quantification of risks, a sensitivity analysis can also increase the information value. Our review shows that companies provide sensitivity analyses to only a limited extent. If a sensitivity analysis is provided, this usually concerns the category of financial risks as a result of the application of IFRS 7. The AFM recommends that companies should also provide sensitivity analyses for other risk categories such as strategic and operational risks if appropriate.

This could be presented in a combined overview as shown in the example of good practice cited below. The overview below shows both a sensitivity analysis for financial risks and the sensitivity in relation to operational risks.

Good practice 2: Sensitivity analysis (Randstad Holding N.V. 2013 annual report page 84)

sensitivity

amounts in millions of €

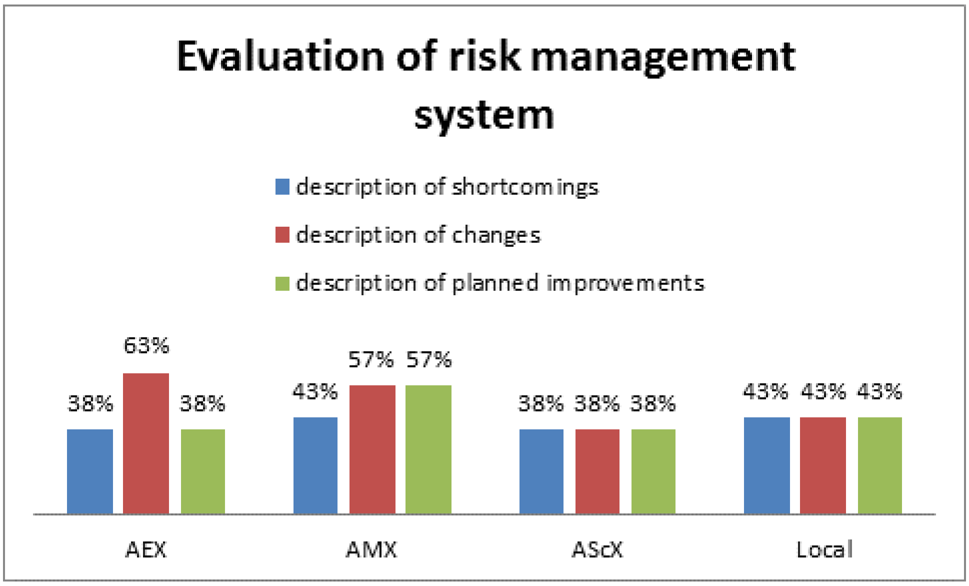
	change	impact	on	assumption FY 2013
Revenue	+/-1%	+/- € 30 million	EBITA	Flat gross margin and no change to cost base
Revenue	+1%	+ € 15 million	EBITA	Flat gross margin and target 50% conversion
Revenue	-1%	- € 15 million	EBITA	Flat gross margin and target 50% recovery
Gross margin	+/-0,1%	+/- € 17 million	EBITA	Flat revenue and no change to cost base
Gross margin	+0.1%	+ € 8 million	EBITA	Flat revenue and target 50% conversion
Gross margin	-0.1%	- € 8 million	EBITA	Flat revenue and target 50% recovery
Operating expenses	+/-1%	+/- € 25 million	EBITA	
USD	+/-10%	+/- € 14 million	EBITA	Stable revenue and margin in US
GBP	+/-10%	+/- € 1 million	EBITA	Stable revenue and margin in UK
JPY	+/-10%	+/- € 3 million	EBITA	Stable revenue and margin in Japan
Interest rate	+/- 100 bp	+/- € 10 million	Financial charges	Average net debt 2013
Net debt	+/- € 100 million	+/- € 1 million	Financial charges	Stable interest rates

2.4 Reporting of the evaluation of the operation of the risk management system needs to be improved

The review shows that apart from one locally listed company, all the companies reviewed describe the measures taken to manage their principal risks and uncertainties. Approximately half of the companies state the framework or system of standards (for instance, the COSO framework) used in the evaluation of the internal risk management and controls system. It is mainly the AEX companies that disclose which framework is used.

Under the Dutch Corporate Governance Code, the management board has to evaluate the design and operation of the risks management system and any significant changes thereto at least once a year. The DASB Guideline 400 Annual Report also states that companies must state whether and if so what improvements have been made to the company’s risk management system.

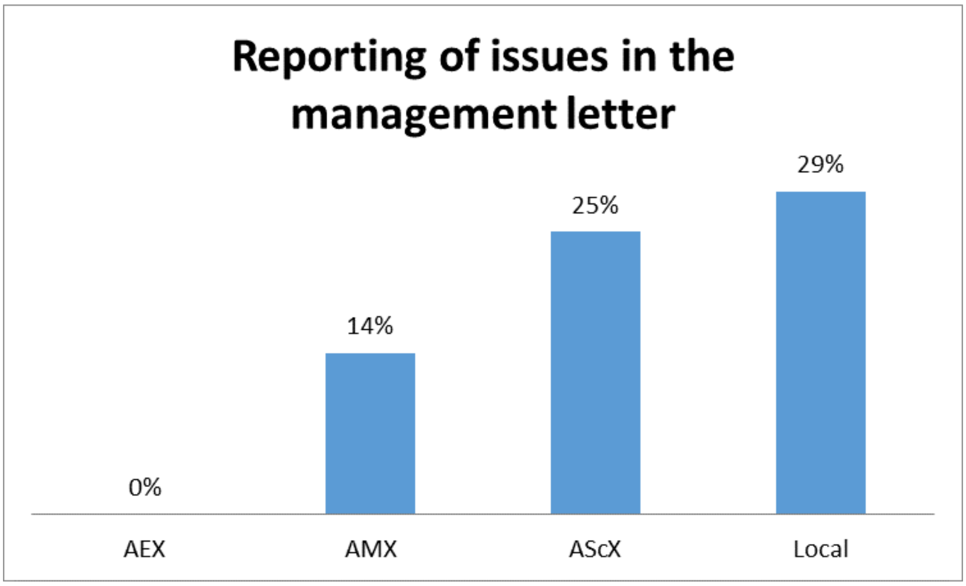
Figure 3: Reporting of evaluation of risk management system



Looking at how companies report their regular evaluation of their risk management system, the descriptions of the results of the evaluation are limited. There is little attention paid to any shortcomings, significant changes and any important changes that are planned.

In the context of the evaluation of the risk management system, it could also help users if companies were to address the issues in the management letter in the risk paragraph. We accordingly included consideration of the management letter in our review. As can be seen from figure 4 on the next page, transparency with respect to the management letter is limited.

Figure 4: Reporting of issues in the management letter



Nearly all the companies state that their risk management and controls system gives a reasonable degree of certainty that the financial reporting does not contain any material misstatements and that the system has operated effectively.

The results of the evaluation of the operation of the risk management system must be discussed with the supervisory board or the audit committee. Although a large number of companies do not discuss the results of the evaluation of the risk management system, they do state that the evaluation has been discussed with the supervisory board. The substance of the evaluation and the results of these discussions are however seldom stated.

The AFM concludes that the reporting of the evaluation of the operation of the risk management system by companies is too limited, even though this concerns information that is relevant to users. The AFM accordingly recommends that companies devote more attention to reporting the evaluation of their risk management systems, including any important shortcomings and important planned improvements.

An example of good practice regarding planned changes is cited on the next page. The company in question (Heijmans) provided an overview of measures and actions to be taken in 2014 in addition to its evaluation of the risk management system and the changes implemented in 2013:

Good practice 3: Planned improvements (Heijmans N.V. 2013 annual report page 75)

Focus of risk management in 2014
Many of the items of attention and actions in 2013 will be followed up in 2014, with the addition of certain other actions and/or measures. In practice, this means:

- Risk management with respect to complex projects in all segments will be further intensified, with adequate attention from the Executive Committee and corporate control;
- Continuation of the 'Fit for Cash' programme and the realisation of the divestment programme at Property Development;
- Continued implementation of the 'Improve the Core' programme with respect to tender management, project management, procurement and sales;
- Continuation of the GO! safety programme;
- Improvement of the reporting structure with respect to cross-sector projects or projects involving parties outside the Group;
- Review of the risk framework with input from the 'Improve the Core' programme;
- Working out the practical details for rolling out the ERP system to other sectors (after Roads);
- Intensification of the central risk function;
- Certain refinements in the prevention of fraud and integrity issues;
- Continued strengthening of the role of project administrators and project controllers;
- Continued attention to the observance of control measures with respect to illegal labour/WKA with additional attention to observance by sub-contractors of statutory requirements regarding pay and working conditions for the workforce.