In Balance 2015

Report on financial reporting

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The Netherlands Authority for the Financial Markets (AFM)

The AFM is a strong proponent of fairness and transparency in the financial markets.

As the independent conduct supervisor, we contribute to sustainable financial prosperity in the Netherlands.

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In Balance 2015

The AFM contributes to the promotion of the fair and efficient operation of the capital markets. By bringing together supply and demand of capital and risk, the capital markets play an important part in the generation of economic growth. They thus contribute to sustainable prosperity in the Netherlands. Especially at a time of increasing demand for market funding, it is important that listed companies have and retain the confidence of investors and give proper account of their activities in their annual reports, and that these reports are honest and complete.

Our report 'In Balance 2015' shows that investors still do not have the information that they need in all cases. The quality of financial reporting has been increasing for several years, however this did not continue in 2015. Stagnation implies the risk of deterioration. It is in the interests of investors and companies themselves to prevent this and to continue to work on further improvement.

Each year, the AFM reports its relevant (preliminary) findings from its reviews of the financial reporting and the key findings of the thematic reviews it conducted in 2015. This gives companies and auditors sufficient time to include the items of attention mentioned in the preparation and auditing of their future financial reporting.

Based on our risk selection of the financial statements to be reviewed and the thematic reviews, we have a relatively large number of (preliminary) findings to report. The quality of the financial reporting is not satisfactory in certain respects. Compliance with the reporting standards for pensions in particular is inadequate.

The AFM notes that its findings concern a multitude of items, ranging from complex to simple. The AFM has identified a number of deficiencies that it had already mentioned in its review of financial reporting in the previous year. This repetition is surprising.

A relatively large number of findings concern the method of reporting of changed situations, such as the acquisition or disposal of business divisions, changes in ownership interests in other companies and the classification of newly issued loans as equity or as a financial liability.

The AFM will also conduct regular reviews and thematic reviews of the financial reporting of listed companies for 2015. The AFM calls on companies and their auditors to devote attention to a number of specific items in the preparation and auditing of their financial reporting for 2015. These concern the effect of the current economic conditions on the financial reporting, the cash flow statement and related disclosures and the determination of the fair value of non-financial assets and the related disclosures.

In 2016 the AFM will devote attention to companies' application of guidelines for the use of alternative performance measures that will become mandatory on or after 3 July 2016. The same applies to the legislation and regulation in preparation for auditors which is expected to take effect in 2016.

The AFM will moreover continue to support the development and application of integrated reporting in the coming years.

We expect this report to contribute to improved quality of financial reporting as prepared by companies, in the auditing of this reporting by auditors and thereby to transparency of the information provided to investors to support their investment decisions.

Gerben Everts

Member of the Executive Board of the AFM

1. Introduction

Each year, the AFM reports its relevant (preliminary) findings from its reviews of the financial reporting conducted after publication of 'In Balance 2014' and the key findings of the thematic reviews it conducted in 2015. The full results of the thematic reviews were published in separate reports on 29 October 2015. This gives companies and auditors the opportunity to promptly include these items of attention and areas requiring improvement in the preparation and auditing of their future financial reporting (for the 2015 financial year and beyond). The AFM expects this focus on specific elements to contribute to improving the quality of financial reporting. In addition, this report addresses current developments in the field of reporting, auditing and governance.

The supervision conducted by the AFM is risk-driven. The AFM analyses market developments and external risks in order to set the right priorities in our supervision. The AFM also devotes extensive attention in its supervision to signals and incidents that indicate potential erroneous financial reporting. The AFM deploys its reporting expertise in supervisory activities throughout the life cycle of companies actively in the capital markets: from the initial public offering (IPO) and issuance of new securities (prospectus supervision), to ongoing trading (supervision of price-sensitive information and market abuse), to regular obligations (supervision of financial reporting and the audits of this reporting) and finally to delisting as a result of a bid for securities (supervision of public takeover bids). The items of attention in this report are based on these reviews.

The AFM aims to contribute to the promotion of the fair and efficient operation of the capital markets. This is one of the strategic objectives of the AFM. The proper functioning of the capital markets depends on the conduct of the players in those markets. The critical roles of the preparers of reporting, audit committees, shareholders and auditors are essential for the reliability of the reporting and the accountability embedded therein. The AFM is keen to ensure that audits and reporting meet the relevant regulatory requirements and the expectations of the public, and monitors that these continue to correspond to each other. The items of improvement the AFM refers to in this publication mainly concern the disclosures. This should not be taken to mean that there is no need for improvement in the measurement and the determination of the result. The AFM's supervision of financial reporting 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 view of the size and composition of the results, capital and cash flows is primarily the responsibility of the external auditor.

The AFM does not intend to repeat the work of the auditor. Management estimates and assumptions can only be tested to a limited extent by the AFM.

This year as well, the AFM's reports of the thematic reviews include a number of examples of disclosures in financial statements. The AFM cites these passages as good practices[1] as inspiration for the inclusion of company-specific and relevant information in the disclosures. By citing these good practices, the AFM intends to inspire companies and help them to improve their disclosures.

[1] The good practices cited in this report are examples of specific disclosures in existing financial statements. The AFM hopes that other companies will be inspired by these good practices to improve the quality and relevance of their disclosures. The good practices should not be seen as a standard or as the only correct substance of existing or future disclosures. Other content may be used to comply with legislation and regulation. The quotation of good practices in this report does not imply any statement by the AFM regarding the financial statements in question as a whole.

2. Findings from regular reviews

This section deals with the findings from the ongoing and completed reviews of IFRS financial reporting carried out by the AFM since the publication of 'In Balance 2014'. The AFM's intention here is to promote compliance with the reporting standards. The AFM expects companies and auditors to devote attention to these items in the annual financial reporting for 2015 and the auditing thereof.

The AFM calls on companies to devote special attention to the following items:

- The recognition and measurement of assets. The correct recognition and measurement of assets and transparent disclosure are still very important.
- Classification of equity instrument versus financial liability. Transparency with respect to classification increases insight into the financial resilience of a company.
- Classification of ownership interests in companies. Companies do not in all cases clearly explain why ownership interests of 20 per cent or more do not lead to significant influence and why in some cases ownership interests of less than 20 per cent do lead to the conclusion that there is significant influence.
- Remuneration of directors The AFM notes that many companies still do not state whether the targets set for the award of bonuses have been met or not. With respect to severance payments, nearly all companies comply with best practice provision II.2.8.

In addition, in 2015 the AFM carried out an exploratory review with respect to integrated reporting among listed companies that form part of the AEX and AMX indices. This review provided valuable insights into the application of integrated reporting, a subject that is becoming increasingly important.

The reviews carried out by the AFM of the financial reporting of selected listed companies led to relatively numerous (preliminary) findings. These concern numerous items, both complex and relatively simple. Questions were put to both AEX and AMX companies and smaller listed companies, whereby it did not appear to make a difference whether the AFM had put questions to these companies in previous years or not. The AFM also notes that relatively numerous findings concerned the reporting approach used in relation to changed situations such as the acquisition or disposal of business divisions, changes in ownership interests in other companies and the issuance of loans. Furthermore, not all the findings involve formal supervisory measures. Also in situations where no formal supervisory measures are taken, the AFM can make agreements with companies that they should improve their future financial reporting with respect to certain items. This leads to greater transparency and thus contributes to the fair and efficient operation of the capital markets.

Recognition and measurement of assets

As in previous years, the AFM had findings with respect to the recognition and measurement of financial and non-financial assets for a number of companies in 2015.

The AFM had findings in relation to the capitalisation of development and start-up expenses and other asset items, such as the measurement of trademark rights, goodwill and the debtors item. With reference to these other assets, the AFM had questions regarding the substantiation of assumptions (for example, the growth rates applied) that underlie the measurement of the asset.

At one company, the AFM found that the surplus of a pension plan was not fully recognised in the statement of financial position, although the company had an unconditional right to repayment of the surplus. The company concerned has recently adjusted this.

In addition, the assumptions underlying the determination of the fair value of investment property and ownership interests in listed companies were not transparently disclosed in all cases. While the Dutch economy is showing signs of recovery, the AFM also notes there have been a number of companies that have recently gone bankrupt or have come close to doing so. The overvaluation of assets continues to be a risk. It is and remains important that companies apply the rules for recognition and measurement applying to assets correctly and thus give appropriate and transparent disclosure. It is therefore important that companies provide insight into the key quantitative and qualitative assumptions (such as rates of growth and discount rates) underlying the measurement of specific assets.

Classification of equity instrument versus financial liability

For investors and other users of financial statements, it is important to know whether from the perspective of the issuing institution financial instruments should be classified as equity instruments or as financial liability. This provides insight regarding the financial resilience of a company.

Based on the information as provided in the financial statements, it is not always clear to users whether financial instruments are classified as equity instruments or as financial liability. Hybrid instruments for which the interest is deductible are similar to borrowed capital, but the recognition of these instruments as equity in the statement of financial position does not contribute to clarity. The AFM calls on companies to clearly disclose why they believe that certain financial instruments should be considered as equity or as financial liability.

Classification of ownership interests in companies

The AFM notes firstly that companies do not in all cases clearly explain why ownership interests of 20 per cent or more do not lead to significant influence, and secondly why in some cases ownership interests of less than 20 per cent lead to the conclusion that there is significant influence.

If an investor has a direct or indirect (for instance, through subsidiaries) holding of 20 per cent or more of the voting rights in a company, it is assumed that this investor exercises significant influence. The company is then considered to be an associate, which has to be measured according to what is known as the equity method. The initial measurement of the investment is made at cost and is subsequently adjusted to take account of the change of the investor’s share in the net assets of the associate. Ownership interests in companies of less than 20 per cent are measured at fair value (whereby changes in fair value are recognised either through profit and loss or through equity). In some cases, a company may take the view that an ownership interest of 20 per cent of more does not entail significant influence. On the other hand, a company may also conclude that an ownership interest of less than 20 per cent entails significant influence. In both cases, the company must clearly demonstrate that its assessment is correct. It is very important that the company's deliberations are carefully disclosed. The difference in classification of the ownership interest may indeed have a significant effect on the existing and future value of the ownership interest, as described above.

Remuneration of directors

The AFM carried out a thematic review of directors' remuneration in 2014. One of our observations was that companies often did not state whether the targets set for the award of bonuses had been achieved or not. The AFM notes that some companies still have not reported in their recent financial reporting whether these targets set were achieved or not.

For investors and other users of the financial statements, it is relevant to be able to know whether the set targets were achieved or not, since this enables them to understand the targets that directors strive to achieve in the short and the long term, the extent to which these targets were realised in the reporting year and whether this has led to the award of a bonus.

It is a regulatory requirement that the disclosure of directors' remuneration should state the costs incurred by the company for directors' remuneration in the reporting year. If a company decides to include both the costs of directors' remuneration as well as the directors' remuneration actually paid, it is important that the company makes a clear distinction between costs and disbursements. This distinction is not clear in all cases. The AFM has once again written to companies on this matter in 2015.

<u>Severance payments</u>

The Dutch Corporate Governance Code describes the principles of good corporate governance. These principles are developed into best practice provisions, including the amount and composition of remuneration. For instance, best practice provision II.2.8 [2]concerning severance payments states that these must not exceed one year's salary (based on the 'fixed' part of the remuneration), and in certain cases for directors serving their first term of appointment they must not exceed twice the annual salary. Companies must state in their annual report how they have applied the principles and best practice provisions of the corporate governance code, and, if applicable, provide detailed reasons why a provision has not been applied.

The AFM called on companies to devote extra attention to their disclosures relating to severance arrangements for directors in 2014. In the opinion of the AFM, obvious deviations from the maximum payment must be clearly disclosed.

Based on public information, the AFM has established that 90 per cent of the companies in such cases (20 in number) explicitly state in their 2014 annual reports that they comply with best practice provision II.2.8 or state that they do not comply with this provision. In their further disclosures on directors' remuneration, the companies are, with one exception, transparent

[2] http://commissiecorporategovernance.nl/document/?id=606

regarding the calculation of the severance payment. In some cases the specific notice period for directors is also disclosed that has to be taken into account when determining the amount of the severance payment.

Integrated reporting

In 2013 the AFM made a baseline measurement of the application of integrated reporting by listed companies[3]. In 2014 and 2015, the AFM focused on monitoring developments in the area of integrated reporting, raising awareness and participating in debates on integrated reporting, such as the Dutch Accounting Standards Board, the International Integrated Reporting Council (IIRC), the International Corporate Governance Network (ICGN), the Council for Institutional Investors (CII) and the International Organisation of Securities Commissions (IOSCO).

In addition, in 2015 the AFM carried out an exploratory review among listed companies that form part of the AEX and AMX indices. This involved letters being sent to both the CFO and the Investor Relations department. Just over half of those contacted responded. The review offered valuable insights into the application of integrated reporting by the companies concerned. The main findings of the review were:

- Half of the respondents stated that they applied integrated reporting. Integrated reporting was applied because stakeholders demanded it and better account was given of the company's reason to exist. To a lesser extent, integrated reporting was applied in order to improve business operation and processes. A further positive factor was that most other companies that did not yet apply integrated reporting were considering doing so. The AFM expects a further increase in the coming years.
- Three quarters of the respondents expect non-financial reporting to become more important in the near future, so that the wishes of the stakeholders can be met.
- The main experienced benefits of integrated reporting were the provision of a more complete picture of the company, better cohesion within the report as a whole and the implementation and streamlining of the strategy. A small minority of the respondents saw no direct benefits in integrated reporting. Disadvantages of integrated reporting mentioned included additional costs, extra work, lengthier reports, the revision of internal (reporting) systems and the more complete disclosure of business affairs.
- The companies stated that they were having difficulty with implementing the integrated reporting framework of the IIRC, and that it was not always clear to them how the framework should be applied in practice. They stated that there was a need for instructions and guidelines.[4] The collection of non-financial data was also seen as a big problem, since this frequently required significant effort and was not always available.
- Awareness of integrated reporting is high. The respondents stated that the subject is on the agenda of the executive board and the supervisory board, and that the external auditor was also involved.

[3] https://www.afm.nl/~/profmedia/files/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/2013/themaonderzoeken-engels/listed-companies-integrated-reporting.ashx?la=en

[4] The IIRC framework is principles-based and is intended to provide a basis for companies to formulate their own specific content in line with the ideas of integrated reporting.

In connection with the exploratory review and the baseline measurement made by the AFM in 2013, the AFM likes to draw attention to the following two issues.

Integrated reporting versus sustainability information
The concept of integrated thinking is the basis of integrated reporting. Integrated thinking means that the company establishes the relationship between its strategy, the economic context, the environment, the social context, and risks and opportunities. The purpose of this is to create value over the medium to long term. Integrated reporting thus involves more than simply publishing a report containing both financial and non-financial information (sustainability information). The exploratory review revealed that several companies confuse integrated reporting with sustainability reporting. They see integrated reporting as a combination of financial reporting with information on sustainability, or corporate social responsibility (CSR). In the AFM's view, this is an incomplete application of the concept of integrated reporting. Integrated reporting moreover does not replace sustainability reporting. The IIRC framework offers a basis for the application of integrated reporting. Companies can look for information from the various network groups for financial and non-financial companies that have been formed by the IIRC. These network groups have the aim of exchanging experiences and knowledge regarding the practical application of integrated reporting. The IIRC also has a database of integrated reports that can be consulted by companies to obtain inspiration.

Investors and analysts
Integrated reporting enables investors to make investment decisions with a greater degree of confidence and on the basis of considerations with better understanding of long term interests. Integrated reporting presents a more cohesive picture of a company by presenting only material and relevant information that is important for the assessment of a company's ability to create value. However, before integrated reporting becomes common practice, investors and analysts need to acknowledge and recognise its potential and demand that companies provide this information. The responses to the exploratory review confirm this. At the same time, the largest institutional investors have recently stated that they are giving greater weight to criteria other than solely financial considerations in their investment decisions and are adjusting their portfolios. This is expected to lead to a greater appetite for companies, employees and customers to move towards integrated reporting. The AFM calls on business owners, investors and analysts to enter into a dialogue with each other on integrated reporting and their various expectations in this respect.

Section 4 describes further developments in the field of integrated reporting.

Other topics
In addition to the issues described above, the AFM also put questions to companies on other topics. These included questions on reporting requirements for consolidation, joint arrangements and related disclosures (see also the findings of the thematic review of this subject in section 3), the disclosure requirements relating to taxation, whether a provision has been made for restructuring or not, segmentation (segment reporting) and the report of the executive board (compliance of the content with the legal requirements).

3. Findings from the thematic reviews

The AFM carried out thematic reviews of the following subjects in 2015:

- Pensions – Follow-up of the 2014 review into compliance with the reporting standard
- Disclosure of interests in other companies
- Bank covenants

The reviews show that the quality of the reporting on pensions and the disclosure of interests in other companies needs to be improved. Companies also need to provide greater transparency regarding bank covenants.

The follow-up review of the quality of reporting on pensions shows that quality has not improved compared to the previous year. This mainly concerns compliance with the disclosure requirements introduced in IAS 19 in 2013. The AFM also notes that the same multi-employer pension plans are frequently classified differently by different companies, either as a defined benefit pension plan or as a defined contribution pension plan. The AFM wishes to see a clear improvement in the quality of reporting on pensions in the financial reporting for 2015.

Most of the companies involved in the thematic review of the disclosure of ownership interests in other companies could make their disclosure more company-specific. Companies need to take more explicitly into account the (information) principles of IFRS 12.

The review of bank covenants shows that companies could provide greater transparency regarding the calculation methods of their covenants. In cases where companies state the results of the calculation of covenants, the calculation is difficult to make for the users. Furthermore, the review shows that the consequences of breach of covenants are not stated in the majority of cases.

The main findings of the three thematic reviews are described below. The full results of the thematic reviews were published in separate reports on 29 October 2015.

Pensions – Follow-up of the 2014 review into compliance with the reporting standard
The reporting of pension obligations (and expenses) in financial reporting have a high degree of social relevance. The provision of transparency regarding the costs of the current pension plans has contributed to a wide public debate on the substance and sustainability of the (Dutch) pension system. In 2014 the AFM conducted a review into the initial application of new requirements in the reporting standard on pensions (IAS 19). In view of the findings of its first review of application, the AFM announced last year in its report 'In Balance 2014' that it would repeat this review in 2015. The aim of the review is to establish the extent to which companies have taken note of the comments by the AFM and whether the quality of reporting on pensions in the Netherlands has improved as a result.

The main conclusions of the review are:

- Compliance with the disclosure requirements introduced in IAS 19 in 2013 has not improved in the financial reporting for 2014. There are virtually no differences in the findings of this year's review compared to last year's review.
- The same multi-employer pension plans are frequently classified differently by different companies, either as a defined benefit pension plan or as a defined contribution pension plan.

The AFM notes that the market has not independently achieved an improvement in its compliance with the provisions of IAS 19 as a result of its report in 2014. The AFM will accordingly take action against companies in the coming months with the worst compliance with the disclosure requirements in IAS 19, also taking account of the size of their pension obligations. Where necessary this requires adjustment. The AFM considers that there needs to be an improvement in the quality of the reporting on pensions in the financial reporting for 2015.

Regarding the inconsistency in classification of multi-employer pension plans, the AFM will contact both the companies concerned and the audit firms concerned to discuss how this can be removed.

Disclosure of interests in other companies

The initial application of IFRS 10 (Consolidated financial statements), IFRS 11 (Joint arrangements) and IFRS 12 (Disclosure of interests in other entities) entails significant changes in financial reporting for various companies and became mandatory for companies with effect from the 2014 financial year.

The aim of this review is to establish how the disclosure objectives of IFRS 12 are applied and whether the users of the financial statements have better insight into the composition of companies and the associated risks. IFRS 12 consists of disclosure objectives regarding all interests in other companies, including the consolidated interests under IFRS 10 and the joint arrangements under IFRS 11.

The AFM has selected the companies to be reviewed on the basis of the nature of their activities and whether they are expected to experience (significant) effects from the application of IFRS 10, 11 and 12. A total of 31 companies spread across all market segments are included in the review.

The AFM notes that the majority of the companies reviewed can still make progress in making their disclosures more company-specific. Companies need to be guided by the (information) principles of IFRS 12. This will provide users with better understanding of the structure of the company and the effect of its interests in other companies.

The specific areas in which companies can improve their disclosures are:

- The disclosure of the company structure: it is not always clear which segments and operations are connected to which interests - minority interests, joint arrangements (joint ventures and joint operations).

- Joint operations and their effect on the company are frequently given only cursory disclosure.
- There could be clearer explanation of which minority interests, interests in associates and joint ventures are material for the company in question.

Bank covenants

It is particularly important for users that companies provide transparent reporting of their bank covenants. The ratios agreed, the exact methodologies used for the calculation of these ratios by credit providers, the results at year-end and the potential sanctions if the covenants are breached by the companies all constitute very relevant information for investors. Given the recent financial problems at a number of companies, transparency with respect to bank covenants is an important and current theme. The information relating to bank covenants is crucial if the company is in a weak financial position. Based on risk-driven supervision, we have decided to focus our review on companies that are in a weak financial position and therefore exposed to the risk of breaching their covenants. In these cases, transparent disclosure regarding the covenants is essential information for investors. In this context, it is also the case that for companies in a strong financial position (for instance, with a net cash position) the disclosure with respect to covenants is less relevant to investors.

For our thematic review of bank covenants, on the basis of a risk analysis we selected eight companies from the AEX, AMX and ASCX indices with a weak financial position and a risk of breaching their bank covenants. Based on its review of the financial statements of these companies, the AFM notes the following:

- Greater transparency is needed on the calculation methodologies of these covenants.
- The results of the calculation for the covenants is stated, however the calculation is difficult to make for the users.
- Disclosure of the consequences of breaching the covenants is lacking in the majority of cases.

4. Outlook

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

- Changes in the capital markets
- International perspective
- Role of the auditor
- Auditor's opinion
- Role of the audit committee
- Integrated reporting
- Scope and quality of disclosures
- Alternative performance measures
- Standard Business Reporting

Changes in the capital markets

By bringing together supply and demand of capital and risk, the capital markets play an important part in the generation of economic growth. They thus contribute to sustainable prosperity in the Netherlands. The need for efficient capital markets has increased further in recent years. This is because banks are less able to meet this funding requirement as a result of tighter capital and liquidity requirements. Ideally, the capital markets should fill this funding gap. For the issuers of shares and bonds, this transition from bank to market funding means that it is essential that listed companies enjoy the confidence of investors and that they comply with the reporting standards.

International perspective

The European Securities and Markets Authority (ESMA) promotes the correct and consistent application of the International Financial Reporting Standards (IFRS) in the consolidated financial statements, with the aim of protecting investors. In this context, it coordinates supervision of financial reporting that in Europe is carried out by the National Competent Authorities (NCAs), such as the AFM. In order to increase convergence in supervision, ESMA has a range of instruments at its disposal, such as the publication of opinions and guidelines.

If IFRS are applied differently in similar cases, or there is a threat that this will occur, ESMA can publish an opinion.

Publication of opinion[5] by ESMA on 25 September 2015 on the application of IFRS in relation to the contributions of banks to Deposit Guarantee Schemes (DGS).

In its opinion, ESMA confirms that in situations involving a so-called 'point in time' obligation, in line with the provision of IAS 37 and IFRIC 21 a provision must be recognised for the full amount of the obligation on the date on which the bank's contribution is due. The date on which the contribution is due follows from the way in which the national legislator has implemented the DGS Directive (Directive 2014/49/EU) in the national legislation. In most countries the contribution is due on 1 January of any year. In the Netherlands, implementation in national legislation is not yet complete.

The opinion also devotes attention to the debit side of the entry of the contribution due. ESMA concludes that there is no asset for the bank, since the benefits ensuing from mandatory participation in the DGS cannot be separated with respect to other banks. Moreover, any disbursements do not accrue to the bank, they accrue to the depositor.

ESMA published the 'guidelines on the enforcement of financial information published by listed entities in the European Union'[6] on 10 July 2014, with the aim of achieving more consistent enforcement and application of IFRS in financial reporting in Europe. The AFM is obliged to apply these guidelines in its supervision of financial reporting with effect from 1 January 2015.

European Common Enforcement Priorities for financial statements for 2015

On 27 October 2015, ESMA and the European financial reporting supervisors, including the AFM, collectively established the European Common Enforcement Priorities[7] for financial statements for 2015 (ECEP 2015). The publication of ECEP 2015 is intended to promote consistent application of IFRS in the EU.

In the ECEP 2015, ESMA identifies a number of issues that companies and their auditors need to devote attention to in the preparation and auditing of their financial reporting for 2015. This concerns (i) the effect of the current economic conditions on the financial reporting, (ii) the cash flow statement and the related disclosures, and (iii) the determination of the fair value of non-financial assets and the related disclosures.

Effect of current economic conditions on the financial reporting

The economic conditions have changed significantly recently. The prices of commodities such as oil and metals have fallen sharply. The same applies to interest rates, which in some cases have been or are negative. The economic outlook has also deteriorated for a number of countries. ESMA expects that these changed conditions will affect the application of certain reporting standards. The AFM expects companies to take account of this in their financial reporting for 2015. In this context, EMSA refers to the application of a number of disclosure requirements in IAS 1 *Presentation of the Financial Statements*. In particular, this concerns the obligation to state

[5] http://www.esma.europa.eu/news/ESMA-publishes-opinion-accounting-cash-contributions-Deposit-Guarantee-Schemes?t=326&o=home

[6] http://www.esma.europa.eu/system/files/2014-807_-_final_report_on_esma_guidelines_on_enforcement_of_financial_information.pdf

[7] https://www.esma.europa.eu/news/ESMA-sets-enforcement-priorities-listed-companies%E2%80%99-2015-financial-statements?t=326&o=home

the key estimates and assumptions (IAS 1.122) made by the management in the preparation of the financial statements, including the main causes of estimate uncertainties (IAS 1.125). ESMA also refers to the standards for which the interest rate applied plays an important part, such as IAS 19 *Employee Benefits*, IAS 36 *Impairment of Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Lastly, ESMA refers to IFRS 7 *Financial Instruments: Disclosures*. Among other things, this standard requires disclosure of the market risks and sensitivity analyses.

The cash flow statement and related disclosures
The cash flow statement is an important primary statement in which European supervisors regularly encounter errors and/or incorrect application of the relevant standard (IAS 7 *Statement of Cash Flows)*. This observation corresponds with the findings of a thematic review published by the AFM two years ago[8]. In the ECEP 2015, ESMA calls for correct classification of cash flows. Two regularly occurring deficiencies concern (i) the incorrect inclusion of so-called 'non-cash' transactions and (ii) the incorrect classification of financial instruments (deposits) as cash and/or cash equivalents. ESMA also notes that cash flows from extraordinary and/or unusual transactions must be recognised as operating cash flow, unless they quality as financing or investment cash flow. Lastly, ESMA calls on companies to provide a specification of the changes if there have been major changes in their working capital.

Determination of the fair value of non-financial assets and related disclosures
In this area as well, ESMA and the European supervisors note that there is still much room for improvement. Next year, the European supervisors will focus on the determination of fair value in the application of IFRS 3 *Business Combinations*, IAS 40 *Investment Property* and IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*. ESMA notes that in the determination of fair value companies must take account of IFRS 13 *Fair Value Measurement* and that in the application of measurement techniques they should use observable market data as much as possible. In this context, ESMA notes that there is an obligation to include disclosures that assist users in the assessment of (i) the measurement techniques that have been applied, (ii) the input that has been used and (iii) the effect of the application of fair value on the result or the results not recognised in the income statement. This last obligation only applies if significant non-observable input data are used (level 3).

ESMA notes that in their assessment of the financial reporting for 2015 the European supervisors could also focus on other issues that are relevant in their jurisdiction and/or to the company concerned. In this context, ESMA also refers to the standards that came into effect in 2014: IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements) and IFRS 12 (Disclosure of Interests in Other Entities). The AFM carried out a thematic review of the disclosure of interests in other entities in 2015. The findings are stated in section 3.

Role of the auditor
An auditor's opinion by an external auditor increases the reliability of financial reporting and contributes to confidence in this reporting for a large group of users. The audit therefore contributes to the fair and efficient operation of markets by increasing the reliability and

[8] https://www.afm.nl/en/professionals/doelgroepen/effectenuitgevende-ondernemingen/financiele-verslaggeving/publicaties

usefulness of financial reporting. The reviews carried out by the AFM in recent years show that company managements, their supervisory bodies and their external auditors can and must exercise their role with a more critical attitude. The audit firms that perform statutory audits of public interest entities (the PIE audit firms) have announced measures as a result of the reviews by the AFM. Furthermore, in its report ‘In the Public Interest’ published in September 2014, the ‘Future of the Accountancy Profession’ working group set up by the Netherlands Institute of Chartered Accountants (NBA) put forward measures designed to improve the quality and independence of audits. In 2015 the AFM carried out a review of the design of the changes initiated and the future-oriented measures. The review published on 15 October 2015[9] shows that audit firms are taking serious steps to bring about fundamental change and improvement. The five largest audit firms (the so-called Big 4 and BDO) are leading the way with the development of improvement measures in relation to vision, policy and procedures and the approach to a change in culture and conduct that is needed. Three other PIE audit firms are following, at some distance, while one audit firm is lagging seriously behind.

There are two parliamentary bills in preparation relating to audit legislation, both of which are expected to take effect in 2016.

The first of these bills concerns the implementation of European legislation in the field of the quality of statutory audits by auditors (Directive Implementation Act and the Statutory Audits of Financial Statements Regulation). The main changes in the Audit Firms (Supervision) Act (the Wta) will be in the area of independence, objectivity and the auditor’s attitude of professional scepticism, the audit standards, the audit opinion and the powers of the AFM. A number of subjects will be further developed in the Audit Firms (Supervision) Decree.

Secondly, the Minister of Finance has prepared a bill entitled the ‘Audit Firms (Additional Measures) Act’. This bill consists of measures designed to strengthen the governance of audit firms and improve the quality of statutory audits. The bill moreover provides for a number of new powers for the AFM.

In anticipation of the statutory obligation, various audit firms have recently instituted a supervisory organ. After the change to legislation, the AFM expects to be testing the suitability of executive and supervisory directors with effect from 2016, in addition to the current integrity screening.

The bill ‘Audit Firms (Additional Measures) Act’ will add two sections to the Wta that will deal with the responsibility of both the audit firm and the external auditor to repair deficiencies in the conduct of statutory audits. If deficiencies are identified, the audit firms and external auditors will have to take appropriate measures to repair any past infringements and prevent these occurring in the future. These deficiencies may be identified either during the conduct of the statutory audit or at a later date. The deficiencies may relate to individual statutory audits or the system of quality control. The deficiencies may have consequences for the audited reporting. The external auditor and the audit firm will have to check whether any audit opinion issued was correct and

[9] https://www.afm.nl/en/professionals/nieuws/2015/okt/dashboard-accountantsorganisaties

also take reparative measures if necessary. Deficiencies may be identified by the AFM, but also for example by another (external) supervisor, or by the audit firm or the external auditor himself.

The AFM considers it important that audit firms and auditors should have a legal obligation to take appropriate measures in the event that deficiencies are identified. After all, the audit opinion adds certainty to the financial reporting. This contributes to the confidence of users such as investors and other stakeholders in the financial reporting and the auditor’s assessment expressed in the audit opinion attached to this financial reporting.

On 25 September 2014, the AFM published the findings of its review of the quality of statutory audits performed by the Big 4 audit firms. In 2015 the AFM obtained insight into the reparative measures for each ‘inadequate’ statutory audit by assessing the reparative plans. The AFM’s review showed that the implementation of reparative measures involves a number of challenges, such as the cooperation of the audit client and the evaluation of the opinion issued. This last item may apply for instance if material errors are identified or certain procedures can no longer be carried out at a later date, such as attendance at inventory counts. The AFM considers it important that the new legislation provides clarity regarding the reparative measures and their effect on the issued opinion.

The EU Directive no. 537/2014 of the European Parliament will become law in the Netherlands on 1 January 2016. This states that with effect from 1 January 2016, mandatory rotation will apply to audit firms with respect to statutory audits of public interest entities (PIEs). This is known as auditor rotation. The EU Directive assumes a rotation term of ten years and a cooling off period of four years. For PIEs, including listed companies, the direct effectiveness of the Directive may mean that they have until 2024 to change their audit firm.

Auditor's opinion

The Netherlands Institute of Chartered Accountants (the NBA) formulated new texts for audit opinions in 2014. These new texts are based on proposals from the International Auditing and Assurance Standards Board (IAASB). The underlying aim of the new audit opinion is that statements by the auditor will be more relevant and transparent and will give stakeholders greater insight into the audit and the auditor’s findings. In the new audit opinion, the auditor must devote attention to the key items in the audit, materiality and the scope of a group audit. The new and expanded audit opinions are mandatory for statutory audits of PIEs for financial years ending on or after 15 December 2014. PIEs include listed legal entities, banks, insurers and reinsurers. At international level, the new audit opinions will only be mandatory from the IAASB from the 2016 financial year. Together with a number of other countries, the Netherlands is leading in this respect.

In the key items in his audit opinion, the auditor refers to information in the financial statements or the report of the company management. The company management of course is and remains responsible for clear and transparent reporting. The introduction of the new audit opinion is expected to lead to consistency between the annual reporting and the audit opinion. The new audit opinion is also a next step in communication with stakeholders. Communication already takes place regarding the audit procedures at the shareholder meetings. The new audit opinion will give greater insight into the audit and specific information regarding the company.

Role of the audit committee

The duties of audit committees with respect to reporting and auditing are described in the law[10] and the Dutch Corporate Governance Code. In 2015, the AFM published a report[11] on an exploratory review it conducted into how audit committees exercise their roles with respect to financial reporting and auditing. The supervisory directors on audit committees are increasingly aware of the greater importance of fulfilling their duties as an internal supervisor with a critical attitude. Supervisory directors also acknowledge that more is expected of them.
Audit committees have an important role in the corporate governance of companies. Fulfilling this role with a critical attitude is also crucial from the point of view of investor protection. The AFM expects audit committees to exercise a positive influence on internal control and specifically on the quality of the financial reporting and the audit.

The European audit regulation, which comes into effect in mid-2016, will further strengthen the role of the audit committee. From then on, the AFM will be tasked with monitoring this role. The AFM is keen to enter into dialogue with audit committees, and calls on auditors and investors to do the same.

Integrated reporting

Integrated reporting has become a topic of interest at national and international level. For instance, in its key items letter for 2015[12] Eumedion has stated that integrated reporting is an important subject for institutional and retail investors. It calls on listed companies to take practical measures in the area of 'integrated reporting', so that investors have a more cohesive overview of the earnings model, the company's ability to create value and the company's requirement for various types of capital (such as human capital, natural capital and financial resources) in order to create this value. Recent fraud and corruption scandals in the Dutch capital markets emphasise that it is important that reporting does not focus only on financial matters but that it also addresses non-financial matters. Volkswagen is another example of this.

At international level, an increasing number of companies are adopting integrated reporting. According to the International Integrated Reporting Council (IIRC), there are currently between 1200 and 1500 organisations that are reporting on the basis of integrated reporting worldwide. In South Africa, integrated reporting is actually mandatory for listed companies. This is also an agenda item among the international supervisory organs. Besides financial information, information on strategy, the business model, risks, environmental matters, social and personnel matters, (good) governance, respect for human rights and combating corruption and bribery can be of great importance to investors and analysts.

As a consequence of the implementation of the EU Directive 'Publication of non-financial information and diversity', from 2017 listed companies will be obliged to describe their policies with respect to the environment, human rights, diversity and anti-corruption measures in their

[10] The standards for audit committees of Dutch listed companies are stated in Book 2 of the Dutch Civil Code (Burgerlijk Wetboek), the Audit Firms (Supervision) Act (the Wta) and the Audit Committees Decree.
[11] https://www.afm.nl/en/professionals/nieuws/2015/mrt/rapport-auditcommissies
[12] http://www.eumedion.nl/nl/public/kennisbank/speerpuntenbrief/speerpuntenbrief-2015.pdf

annual financial reporting. The implementation of the directive can make a positive contribution to the further application of integrated reporting.

The AFM takes the view that it is primarily market parties that should take the lead in the further development and formulation of integrated reporting, while the role of the supervisors for now is limited to encouraging the development of integrated reporting. Enforcement will only be appropriate once the concept of integrated reporting has become more mature. The AFM supports the development and application of integrated reporting and will use the results of this review to follow developments.

Scope and quality of disclosures

Several companies, including TomTom and Vopak, have responded to the AFM's appeal (see 'In Balance 2014') to further improve the quality of their disclosures in their financial reporting for 2014. The AFM welcomes this and calls on other companies to follow this example.

The International Accounting Standards Board (IASB) is also involved in the quality and scope of the disclosures in the financial statements. The IASB started with the Disclosure Initiative in 2013, which studied ways in which the quality of disclosures could be improved. Within a few months, the IASB will publish a 'Practice Statement' with guidelines for the interpretation of the term materiality. Moreover, the IASB is engaged in developing a set of principles for disclosures in financial statements. The Discussion Paper 'Principles of Disclosure' is expected to appear in the first quarter of 2016. The project may lead to a new IFRS standard.

The IASB published amendments to IAS 1 *Presentation of financial statements* in December 2014. The amendments emphasise the materiality principle and among other things concern the disclosure of the accounting policies and the structure of the disclosure. The amendments apply to financial years starting on or after 1 January 2016.

Finally, on 27 October 2015 ESMA published its public statement 'Improving the quality of disclosures in the financial statements'[13]. By calling on companies to base the preparation of their financial reporting on a number principles, ESMA hopes to enhance the quality of disclosures in IFRS financial statements. Like the AFM, ESMA stresses that it is crucial that the company tells its own story and that the relevant information in financial statements is presented in an accessible and readable way. In this context, it is important that companies take materiality aspects into consideration. Lastly, the information in the financial statements has to be consistent with information in other documents, such as the report of the company management.

Alternative performance measures

ESMA published its definitive translations of its guidelines for the use of alternative performance measures (APM)[14] on 5 October 2015. Examples of APM include underlying EBITDA, autonomous growth and net debt. These guidelines have to be applied by companies on or after 3 July 2016, if they publish APM in regulated information (such as prospectuses, price-sensitive press releases

[13] http://www.esma.europa.eu/news/ESMA-urges-companies-improve-quality-disclosures-financial-statements?t=326&o=home

[14] http://www.esma.europa.eu/system/files/2015-esma-1415nl.pdf

and management reports). The guidelines do not apply to financial statements or semi-annual financial statements.

The aim of the guidelines is to increase the usefulness and transparency of the APM included in prospectuses or other regulated information (such as semi-annual and annual management reports and price-sensitive press releases). In this context, the guidelines state that the definition of and calculation methodology for the APM must be disclosed, a relationship must be made between the APM and a relevant item in the statement of financial position, the statement of income or the statement of cash flow, and that application must be consistent.

Compliance with the guidelines will benefit the comparability, reliability and/or comprehensibility of APM. The AFM ensures compliance with these guidelines on the basis of the requirements of the Transparency Directive, the Prospectus Directive and the Market Abuse Regulation.

Standard Business Reporting

In the Standard Business Reporting (SBR) Programme, Dutch parties from the government and the market work together on simplifying the composition and exchange of financial and other reporting. SBR can play an important role, especially in a dynamic market for SME funding (also in Europe). At national level, important progress is being made in the field of the 'assurance' in relation to SBR and the statutory framework, whereby the use of SBR will become mandatory for the filing of financial reporting by companies at the Trade Register of the Chamber of Commerce. On 8 October 2015, ESMA presented a consultation document[15] to the market on electronic annual reporting by listed companies. The Dutch legislator has decided to exclude listed companies that have to file with the AFM from the SBR obligation.

[15] http://www.afm.nl/nl-nl/professionals/nieuws/2015/okt/consultatie-esma-verslaggeving

5. Changed regulation

The following section deals with:

- Parliamentary bill for the Transparency Directive (Implementation) Act
- Changes to Title 9 Book 2 of the Civil Code (BW)
- The exemption from consolidation for venture capital companies and investment entities
- New IFRS standards and changed IAS/IFRS standards
- Solvency II

Parliamentary bill for the amended Transparency Directive (Implementation) Act

The parliamentary bill for implementation of the amended Transparency Directive was submitted to the Dutch House of Representatives on 18 June 2015[16]. The bill is currently being debated in the House of Representatives. The amended Transparency Directive has to be implemented by 26 November 2015. Among other things, the bill concerns the following points:

- The obligation for issuing institutions to publish interim statements twice a year (quarterly reports) will be removed. The obligation with respect to price-sensitive information will remain in full effect.
- Issuing institutions that are engaged in the extractive industries or the logging of primeval forests and whose securities are admitted to trading on a regulated market will be obliged to make reporting on payments to governments publicly available.
- The definition of member state of origin has to be clarified.
- The semi-annual report has to be published within three months after the end of the first six months of the financial year, instead of two months.
- Annual and semi-annual reports have to be kept available to the public for ten years instead of five years.

Changes to Title 9 Book 2 of the Civil Code (BW)

The Financial Statements Directive (Implementation) Act[17] published on 9 October 2015 will among other things lead to a number of changes to Title 9 Book 2 of the Dutch Civil Code (Title 9)

[16] Amendment of the Financial Supervision Act, the Dutch Civil Code and certain other legislation relating to implementation of Directive no. 2013/50/EU of the European Parliament and Council of 22 October 2013 for the amendment of Directive 2004/109/EG of the European Parliament and Council concerning the transparency requirements that apply to information on issuing institutions whose securities are admitted to trading in a regulated market, Directive 2003/71/EG of the European Parliament and Council concerning the prospectus that must be published when securities are offered to the public or admitted to trading and Directive 2007/14/EG of the Commission for the establishment of actual provisions concerning the implementation of a number of provisions of Directive 2004/109/EG (PbEU 2013, L 294) (Amendment of Transparency Directive (Implementation) Act), Parliamentary Papers II 2014/15, 34232, no. 2.

[17] Act of 30 September 2015 to amend Book 2 of the Dutch Civil Code for the implementation of Directive 2013/34/EU of the European Parliament and Council of 26 June 2013 concerning the annual financial overviews, consolidated financial overviews and related reporting of certain types of enterprise, to amend Directive 2006/43/EG of the European Parliament and Council and to withdraw Directives 78/660/EEC and 83/349/EEC of the Council (PbEU 2013, L 182) (Financial Statements Directive (Implementation) Act), Bulletin of Acts and Decrees 2015, no. 349.

that are needed to bring this Title into line with the new European Financial Statements Directive (Directive 2013/34/EU).

These amendments are important for listed companies that fall under the scope of Title 9 and have to prepare their consolidated financial statements according to IFRS. Listed companies are obliged to state the following items in their financial statements: (i) any write-downs on loans granted to directors, (ii) certain information regarding participating interests as prescribed in Section 2:379 of the Dutch Civil Code that is not required under IFRS 12 and (iii) the company's registration number in the Trade Register. Section 7 'Report of the Company Management' includes a principle for an order in council in which the arrangement of the reporting of payments to governments is elaborated. This therefore also applies to companies that prepare their financial statements according to IFRS.

The group exemption for listed companies in Section 2:403 of the Dutch Civil Code will lapse. It will thus no longer be possible for listed companies to prepare separate financial statements on the basis of Title 9 Book 2 of the Dutch Civil Code taking into account Section 2:403 of the Dutch Civil Code.

One of the effects of the Financial Statements Directive (Implementation) Act is that the external auditor will have an active obligation to investigate and call attention to material inaccuracies in the report of the company management and to mention these in his audit opinion. This concerns for instance the information on risks and corporate governance reported by the company management, including the 'in control' statement with respect to the control of financial reporting risks.

The Financial Statements Directive (Implementation) Act does not devote any attention to AFM's request in its 2015 Legislation Letter to restrict the options available in Title 9 and thereby increase the transparency of the financial reporting. A significant conflict with EU law, namely the requirement that an obligation to consolidate only applies to a group as defined in Section 2:24b of the Dutch Civil Code, has therefore not been removed. The same applies to an important omission in Section 2:362 (4) of the Dutch Civil Code, which does not restrict the option to deviate from the special provisions to exceptional situations. The Financial Statements Directive (Implementation) Act only aims to implement the amendments to the Financial Statements Directive (Directive 2013/34/EU) in Title 9 Book 2 of the Dutch Civil Code. The AFM supports the scrapping of the extensive optionality permitted in Dutch legislation simply from the perspective of reducing the administrative burden. We have a strong preference for simple and less equivocal reporting. This reduces the costs of interpretation, auditing and advice and reduces the costs of capital for companies.

The Financial Statements Directive (Implementation) Act will apply to financial years starting on or after 1 January 2016.

The exemption from consolidation for venture capital companies and investment entities
After discussing the comments received, at its meeting of 1 July 2015 the Dutch Accounting Standards Board (DASB) confirmed DASB guideline 2015-4: 'Draft guideline for exemption from consolidation for venture capital companies and investment entities' without changes. Directive 217 Consolidation includes an exemption from consolidation for investment entities based on the prohibition of consolidation in IFRS 10. As a result of the publication of this DASB guideline, the

AFM issued a comment letter in which it concludes that the proposed amendment to Guideline 217 Consolidation conflicts with several provisions in Title 9. The AFM considers itself supported in its opinion by the *Commission services' views on the interaction between the amendments to IFRS 10, IFRS 12 and IAS 27 regarding investment entities and the 7th Directive - Groups comprised of only investment entities*[18]. In this document, the Commission Services notes that the 7th Directive (83/349/EEC) and the Financial Statements Directive (2013/34/EU) do not include any prohibition and/or exemption that is comparable to the prohibition of consolidation for investment entities in IFRS 10. Title 9 therefore cannot permit this exemption from consolidation.

According to the AFM, the DASB's opinion (in the form of a recommendation) that an appeal could be made for the application of this exemption from consolidation, on the basis of the exemption stated in Section 2:407 (1) at (c) of the Dutch Civil Code, is not valid. This last-mentioned exemption permits exclusion in the consolidation of the information pertaining to companies *only* (italics by the AFM) if the interest is held for sale. Most investment entities will not be able to meet the condition that the investments are exclusively held for sale. After all, the companies in which the investment company invests are acquired with funds raised from investors and held to have these same investors share in the proceeds in the form of dividend distributions and increases in the value of the investments. In the AFM's view, the test against the indicators stated in this authoritative statement (DASB 217.305) leads to the same conclusion. This is not affected by having the exit strategy required by the DASB in place at the time the interest is acquired.

The AFM attends the meetings of the DASB as an observer and is thus aware of the arguments for setting its comment aside. The meetings of the DASB are not public and its consultations and/or deliberations are not made publicly available in any form, such as in minutes or summary form. No webcasts of the meetings are placed on the DASB website either. The AFM is therefore not able to describe the deliberations of the DASB in more detail.

The AFM has recently been invited to meet to discuss this difference of opinion. The AFM welcomes this opportunity and looks forward to a positive discussion, at which it will also raise the issue of the transparency of the decision-making by the DASB. The AFM is a proponent of greater openness and sees the IASB model as an example.

Lastly, the AFM notes that the DASB sees the exemption from consolidation of venture capital companies and investment entities as an exemption in the consolidation base. This exemption therefore plays no part in the answer to the question of whether a listed company is obliged to prepare consolidated financial statements in accordance with IFRS. If the company has established the obligation to consolidate, the company will establish its consolidation base by applying the provisions of IFRS 10.

[18] http://ec.europa.eu/internal_market/accounting/docs/arc/2013-07-05-staff-working-paper-ifrs10_en.pdf

New IFRS standards and changed IAS/IFRS standards

IFRS 9 (Financial Instruments) and IFRS 15 (Revenue Recognition)
While these standards do not apply until 2018, they are already casting a long shadow. Like ESMA, the AFM calls on companies to prepare thoroughly for the introduction of these standards. The application of these new standards could lead to significant changes in the financial reporting. It may also be necessary to change systems and internal processes.

The AFM also wishes to remind companies that Sections 30 and 31 of IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* apply, despite the fact that the new standards have been approved by the European Commission[19]. These sections state that companies must provide information that enables users to assess the effect of the introduction of the new standards, to the extent that reliable estimates are available. The European supervisors, including the AFM, call on companies to inform users in their financial reporting for 2015 regarding the progress they have made in the implementation process and the main expected effects, such as qualitative information on potential changes in accounting policies and possible early adoption.

Changes to IAS/IFRS applying from 1 January 2015
For the financial statements for 2015, it is mainly changes relating to the regular IASB improvement process that are relevant. The purpose of the regular improvements is to remove inconsistencies or unclear formulations in IFRS. Two sets of changes came into effect in 2015[20].

In addition, the treatment of employee contributions in a pension plan that qualifies as a defined contribution plan has been clarified in IAS 19 *Employee Benefits*. A practical expedient has been introduced whereby employee contributions that are not related to the number of service years will be deducted from the annual pension expenses. It is not necessary to spread these contributions over the duration of the employment, such as in the allocation of the gross benefits from the pension plan.

Solvency II
Solvency II, the new European risk-based supervisory framework for insurers, comes into effect on 1 January 2016. This means that the capital that has to be held by an insurer will be calculated on the basis of the specific risks to which the insurer is exposed. The framework applies to all insurers, with the exception of funeral insurers with in-kind benefits and small insurers (apart from certain exceptions).

The new capital requirements are higher than the current requirements under Solvency I, meaning that solvency will decline. This is also shown by preliminary estimates by insurers that have already been published. The AFM expects insurers to be transparent in their financial reporting (in both qualitative and quantitative terms) with respect to the consequences of the introduction of Solvency II.

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[19] Report:17th Extract from the EECS's Database of Enforcement (Decision ref EECS/0213 -12), ESMA, 29 October 2013
[20] http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-issued-Annual-Improvements-to-IFRSs-2010–2012-Cycle-and-2011–2013-Cycle-December-2013.aspx

The Netherlands Authority for the Financial Markets (AFM)
T +31(0)20 797 2000 | F +31(0)20 797 3800
Postbus 112723 | 1001 GS Amsterdam
www.afm.nl