

Netherlands Government Action Plan



The Netherlands: International Financial Centre

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Strategic Goals

The Netherlands has always been a financial centre with an international character. Nevertheless, increased internationalization and globalization have caused the Netherlands to lose business to London, specialist centres such as Luxembourg and Ireland and new, upcoming economies over the past few decades. This Action Plan has been set up to turn that tide.

The Netherlands is well placed to develop further into a strong secondary financial centre in continental Europe and, moreover, to develop certain niches into first-class leaders. Although globalization is often regarded as a threat, it also creates opportunities. Government policy and regulations have a large impact on the financial services industry. Therefore, like the industry, the government holds an important position for seizing these opportunities. The high mobility of global financial markets makes it imperative to take swift action in order to enhance the international position of the financial sector in the Netherlands.

The starting point for these actions is this Government Action Plan. This Action Plan, which looks ahead at the coming two years, contains the priorities of the ministries involved in enhancing the international competitiveness of the financial industry in the Netherlands. The Action Plan has been drawn up in cooperation with the financial sector and supervisory authorities.

It is important to stress that industry and government are mutually dependent as far as realizing their common goals is concerned. The government has the instruments for creating the environment in which the industry should seize the existing opportunities. Accordingly, both the industry and the government should be committed to this end.

The industry has pulled together in the Holland Financial Centre, and has highlighted its focal areas and commitment in its Report (July 2007). This Action Plan sets out the ambitions and commitment of the government of the Netherlands.

The best way to protect companies is to enhance their performance; the best way to protect national economies is to increase their competitiveness. This is the reason why this Action Plan aims to create a highly competitive financial industry in the Netherlands. In addition, the Netherlands aims to strengthen the financial industry in the Netherlands, to expand cross-border financial business from and into the Netherlands.

This Action Plan is based on influencing the key factors for a competitive financial sector. Several studies have pointed out the importance of, amongst other things, an attractive regulatory environment, a fair and predictable legal environment, the availability of professionals, government's responsiveness to business needs and a favourable tax regime.

This Action Plan therefore contains the following strategic goals:

- A. Working towards world-class regulation: Enhance the current legal framework in such a way that it is competitive and supportive of an internationally oriented financial industry;
- B. Availability of world-class skills: Strengthen the already highly skilled and educated workforce;
- C. Identifying and exploring niche markets;
- D. Encourage innovation and product development within the industry;
- E. Marketing and communication: Work towards an accepted and high profile within the international financial community;
- F. Coordination through the creation of new partnerships and the reinforcement of existing partnerships in and between the private and public sector; and
- G. Improving the fiscal environment.

In order to monitor our achievements with regard to these strategic goals, measuring and benchmarking (H) are also of critical importance.

Each of these strategic goals will be explored in greater detail in Chapters A-H below.

Apart from the above-mentioned strategic goals, changing the mind-set is also of importance. The government is more responsive to business needs, for example by creating easy access to the government through the Financial Markets Office and the Innovation Room. In addition, government and industry join forces to actively enhance the international competitiveness of the financial sector in the Netherlands.

Furthermore, during the coming six to twelve months, the long list of actions compiled by the industry concerning several of the above mentioned strategic goals will be prioritized and weighed, and after the decision is taken, where relevant, executed.

A. Working towards World-class Regulation

Better Regulation: Europe

The goal for the coming two years will be to contribute to and fully support the European Commission's Better Regulation Project. An initial reduction of costs was realized in the period 2002–2006. In our opinion, an operation at the level of European regulations and further European harmonization of supervision and regulations will be more effective than a new cost-cutting-operation in the Netherlands.

The International Financial Reporting Standards (IFRS) have our attention on a more detailed level. To remain competitive, these standards should have a global reach. Additional or divergent European rules would needlessly restrict the international scope of IFRS. Industry and government will stress this point in Brussels.

Better Regulation: the Netherlands

a. Financial Regulation

We have just completed a major legislative project on modernizing the laws and rules on financial supervision. Concerns have been expressed about the cumulative impact of all the combined initiatives and the availability of resources for dealing with the current and future workflows. This sets limitations on our ambitions concerning the regulatory framework for the coming years and calls for a different approach to the legislative process.

In 2008, there will be a limited moratorium on the (broad) consultations of companies and their advisers. During this moratorium, there will be room for more out-of-the-box thinking on ways of improving and innovating the financial regulatory environment. During this period, a number of themes which have an impact on the development and maintenance of a world-class regulatory environment will be elaborated in close cooperation with the financial sector. One of these themes will be a more principle-based regulation. Principle-based regulation needs to build on a broader set of shared values and principles. Government and industry will explore these together. During the moratorium, a few parts of the laws on financial supervision will be analyzed or evaluated with the aim of establishing whether or not the originally intended results have been realized and, thus, whether or not a (future) evaluation will be required.

Bearing in mind the call for a limited regulatory moratorium, this Action Plan does not contain a long list of proposals on how to change the current regulatory framework.

However, the Netherlands will introduce covered bond regulation. Consultations on the Bill will commence shortly.

In addition, and more generally, the Netherlands will put greater effort into implementing European directives on financial services. Timely implementation has proven to be very

important in the past, and will continue to be important in the future.

Furthermore, during the coming six to twelve months, the long list of regulatory fine-tuning compiled by the industry will be prioritized and weighed. After the decision is taken they will be, where relevant, implemented in the regulatory framework.

b. Company Law

The Ministry of Justice will, together with the Ministry of Finance and the Ministry of Economic Affairs modernize company law in the Netherlands.

A few of the topics which will have particular attention during this process are listed below.

The industry calls for the introduction of greater flexibility with regard to shareholder votes, and wants to be allowed to list non-voting shares. Before this complex matter can be evaluated by the government, the industry will need to explain its views in greater detail. A thorough evaluation of this matter is required before any decisions can be taken.

The option of shareholder identification is a topic which has been dealt with in the recommendations by the Frijns Commission. These recommendations will be incorporated in national legislation. This has already been confirmed to Parliament.

At this point, the Ministry of Justice, the Ministry of Finance and the Ministry of Economic Affairs are collaborating on an act which will introduce provisions for a one-tier board in the Netherlands. The industry will be consulted on the draft proposal in due time.

Supervision

The Ministry of Finance and the supervisory authorities are aware of and increasingly committed to cost-effectiveness, responsiveness and the ability to facilitate innovation, competitiveness and growth. Both the DNB (De Nederlandsche Bank (the Dutch Central Bank)) and, especially, the AFM (the Netherlands Authority for the Financial Markets) have taken a number of initiatives designed to increase efficiency and effectiveness. Further improvements may be found in the establishment of specialist units (bearing in mind cost-efficiency) and the elimination of inefficient regulatory reporting.

A good example of a successful, dedicated unit is the prospectus team at the AFM. The AFM is working on the enhancement of the assessment period of prospectuses in order to be on generally the same competitive level as some other European states.

Another subject under consideration at the moment is the UCITS licence for inter-professional investment funds. The various solutions are to be discussed with the industry. The industry will have to indicate which solution it is looking for exactly. Depending on the outcome of this assessment, the required regulations can be amended.

With regard to adequate supervision, the supervisory authorities and the Ministry of Finance are working on a list of criteria which will have to be met in order to be regarded as country with adequate supervision. Also, a list will be compiled of the countries that are to be investigated. Both lists will be completed this fall. After that, the actual investigation of the

country can start in order to supplement the already existing list of countries which have adequate supervision.

Furthermore, both supervisory authorities are committed to the reinforcement of their services to financial companies. For instance, they do so by working on what are referred to as “escalation ladders”, outlines of the steps which the supervisory authorities will take in supervisory matters. The escalation ladders will enhance the predictability and transparency of the performance of the supervisory authorities.

Objectives

General

- 1. Contribute to and support the EU Better Regulation programme;**
- 2. Impose a limited regulatory moratorium in order to assess the improvement and innovation of the regulatory environment;**
- 3. Prioritize, weigh and, where relevant, implement the long list of the industry with regard to regulatory improvements;**
- 4. Set up and publish so-called “escalation ladders”;**
- 5. Prevent restriction of the global reach of IFRS;**

Specific

- 6. Introduce covered bond regulation;**
- 7. Discuss the matter of issuing non-voting shares with the industry;**
- 8. Legislate shareholder identification;**
- 9. Work on legislation concerning a one-tier board;**
- 10. Enhance the assessment period of prospectuses;**
- 11. Discuss the matter of a UCITS licence for inter-professional investment funds with the industry;**
- 12. Supplement the list of countries with adequate supervision;**

B. Availability of World-class Skills

A strong financial services community needs the right people supported by the right infrastructure to enable its success. A competitive financial sector needs high-quality knowledge. This will facilitate innovation in the financial services industry and improve our international position considerably. In order to excel, it is crucial to induce exceptional and highly skilled people to come and stay in the Netherlands. This is also relevant for niche markets.

The interplay between research demand and supply and the development of educational programmes for both undergraduate and graduate students and executives from the business sector offer great opportunities for developing a flourishing and innovative market/business and academic environment.

The business environment, workforce and local amenities determine whether an industry can be competitive on the global stage. Both the ministry and the industry are committed to the enhancement of these areas. The Dutch scientific infrastructure lends itself to a strong initiative towards improving research on finance. Scattered research groups should be integrated to form a critical mass of excellent research programmes and high-level education in order to provide the financial services industry with highly skilled workers. Also, well-conceived programmes for executive education should attract people from all over the world to invest in financial human capital.

The Duisenberg School of Finance aims for these goals. It is crucial to establish such a school in cooperation with the market, regulators and government in order to match demand and supply. The Duisenberg School of Finance complements several existing initiatives, such as Netspar, a national network for research and education in the field of pensions, ageing and retirement. The goal is to join forces where possible and prevent overlap.

In other countries and prominent financial centres, we witness (common) initiatives towards identifying areas of further research on skills requirements. This idea is currently being discussed with the initiative group of the Duisenberg School of Finance.

Objectives

- 1. Promote training and employability initiatives for students and workers in the Netherlands to enhance skills and facilitate progression into employment where appropriate.**

- 2. Promote and stimulate the Duisenberg School of Finance initiative in order to establish first-rate research and education in financial markets, complementary to existing educational initiatives.**
- 3. Examine - in cooperation with the industry - what is needed to increase understanding of the skill requirements of financial companies and workers.**

C. Identifying and Exploring Niche Markets

The main goal is to enhance the Netherlands' position as a secondary financial centre. In addition, the Netherlands should focus on the development of certain niches.

The HFC defines 'a niche market' in its Report: 'A niche market is a focused market where business addresses a need for a product or service which is not being addressed by other providers. A distinct niche market usually evolves out of a market niche, where potential demand is not being met by any supply or where government regulations have created a set-up in which niches can be explored. Luxembourg offers an excellent example of a successful niche in the investment fund administration sector, the result of a joint effort by the government, the regulator and the sector.'

The rapidly increasing globalization calls for rapid exploration of the niches in which the Netherlands could excel. The Ministry of Finance supports the exploration of the industry. The Netherlands has already developed niches in payment services (it has the least expensive retail technology) and pensions (see below).

The availability of exceptional personnel in a certain niche is crucial for the niche market to become a success and grow into a first-class leader.

Pensions

The development of the pension sector and the regulatory tools for facilitating the growth of a rapidly "ageing" sector offer every opportunity for Dutch life-cycle investors (both pension funds and insurance companies) to develop new products and lessen the potential burden of the ageing population. It will probably also lead to developments in financial planning, individuals and groups being offered opportunities for securing their financial well-being in a much more efficient way. The Netherlands occupies an international position in the field of pensions. In order to strengthen this position, the sector should keep product development on a competitive level.

a. Asset pooling

The investment fund 'Fund for joint account' (*Fonds voor Gemene Rekening (FGR)*) which is transparent for tax purposes (in case it is a "closed" fund), is regarded as the ideal vehicle for asset pooling in the Netherlands. Essentially, asset pooling by pension funds involves nothing less than the investment of capital by two or more pension funds for their joint account. The main perceived advantages are benefits of scale and tax efficiency. The Ministry of Finance intends to reach agreement with the individual tax authorities of relevant countries on the fiscal transparency of that vehicle as soon as possible. The model FGR which was recently developed by the industry will be used for that purpose. The Ministry of Finance will continue to work on promoting and building on the success of the FGR.

b. Pan-European Pension Fund

The Ministry of Social Affairs and Employment and the Ministry of Finance put a lot of effort into drafting the laws and regulations which facilitate the establishment of a General Pension Institution (*Algemene Pensioen Instelling (API)*). The API is a pan-European pension fund as provided for in the European Pensions Directive. Although the creation of a pan-European pension fund is generally speaking still a pipedream for multinational employers, they do support the plans for adopting legislation.

c. Strategic Pension Policy

Since economic and demographic trends will increasingly influence the future financial position of pension funds, there is a growing demand among pension funds for advice when determining their optimal strategic policy. In recent years, the Netherlands has also come to occupy a prominent position in these two areas. The Netherlands could export its know-how in this field, thereby enhancing its international profile in the pension world. In this respect, it is up to the market players to seize the existing opportunities. We want to cooperate closely with the parties involved in the Holland Financial Centre in trying to find ways of capitalizing on this knowledge.

Objectives

- 1. Support the exploration of the industry for possible niche markets in which the Netherlands could excel;**
- 2. Continuously promote and build on the success of the FGR, including reaching agreement on the transparency of the FGR in general;**
- 3. Implement regulations which will enable the establishment of an API;**
- 4. Support the explorations of the industry on how to capitalize on and internationalize the knowledge of strategic pension policy.**

D. Innovation and Product Development

The public sector has an important role in making sure the environment supports innovation and enables forward-thinking companies to flourish and keep innovative companies from having to deal with an inefficient bureaucracy. The government exerts a powerful influence on the environment in which the industry operates, affecting issues such as regulation, competition, product design, pensions and the market for savings products. Raising consumer awareness is also of importance, or better yet: a first step on the way to an innovative market. Previous analysis has shown that the financial industry is relatively efficient but not innovative.

Innovation Room

The Netherlands has recently launched an Innovation Room for financial market parties who wish to direct questions to the government regarding their innovative financial products and services. The Innovation Room is complementary to the single point of contact, the Financial Markets Office. Like the Financial Markets Office, it is a joint initiative of the ministries and regulators. Market parties can seek out the Innovation Room when they need guidance on the implications of regulations and supervision for their innovative services and products. They can expect an answer within three weeks, providing – at the very least - insight into the required subsequent steps, as well as an estimate of the time involved. The Innovation Room can help reduce the cost of innovation by offering a single point of entry for regulators and supervisors, and by speeding up the decision-making process within these institutions. Islamic banking is an example of an interesting market which is currently being explored.

Unite Innovation Initiatives

Together with SenterNovem/NFIA and in close cooperation with the market, a project will be initiated which will provide support to the industry and its supply network in the area of innovation and international engagement. All this support will be mobilized to enhance the capacity of suppliers and to enable firms to gain access to practical support for innovation. Evidence suggests that engagement in the global market-place enables innovation and significantly increases the productivity of companies.

Consumer Awareness

Raising consumer awareness is a first step on the way to an innovative market. That is why, in addition to the above-mentioned initiatives, the Ministry of Finance aims to increase the financial literacy of consumers. Consumers should be(come) able to assess existing and increase their capability to make conscious financial decisions. CentiQ, the Dutch platform for financial awareness, was set up in November 2006 with the aim to help people gain control over their financial situation.

Objectives

- 1. Operate and promote the Innovation Room as a way of promoting innovation;**
- 2. Unite several initiatives on innovation and focus on the financial industry in providing a forum through which innovative solutions can be developed;**
- 3. Provide - through the NFIA network - support to companies in the industry and the supply network for international engagement;**
- 4. Enhance investor development**
- 5. Increase consumer awareness of financial products.**

E. Marketing and Communication

Profile

The financial industry's strengths and successes on the domestic and global stages need to be promoted so that the Netherlands will develop the reputation it seeks as an international financial centre. As stated in the HFC report, it will increase our competitiveness by:

- attracting talent to work in the Dutch financial services industry;
- encouraging the financial services community to come, stay and grow in the Netherlands;
- providing the capacity to support companies in their international ventures;
- enhancing the profile of the Netherlands as the first choice for headquarters and strategic operations and specialist operations in asset management and pensions;
- attracting new investment into the Netherlands.

The industry, the HFC and the public sector - also at a regional and urban level - share a responsibility for realizing this strategic goal and are committed to carrying on a dialogue and working together. The Netherlands Foreign Investment Agency (NFIA) of the Ministry of Economic Affairs plays an important role in making the already existing and potential global customer base more aware of the profile and qualifications of the Netherlands.

The market - and this is where the recently established HFC can play an initial role – needs to develop a campaign which stretches out the rich tradition and dynamic future of finance, business and culture.

In this strategy, the positive aspects of doing business in the Netherlands (such as the high quality of life and the low cost of living) should be emphasized.

The Financial Markets Office

The Financial Markets Office was recently opened for the financial sector. The Tax Authorities, the Ministry of Finance, the Ministry of Economic Affairs, the Ministry of Justice, the Ministry of Social Affairs and Employment, the DNB (De Nederlandsche Bank) and the AFM are pulling together in the Financial Markets Office.

It forms a single gateway to the government for the financial sector, providing a quick and effective response to questions about legislation and policy and giving general information relating to financial markets in the Netherlands. The Financial Markets Office caters to parties from within the Netherlands and from abroad. The Financial Markets Office does not replace existing relationships or contacts within the participating organizations. It does offer an alternative route when it is not (immediately) clear to whom a question should be directed, or in the event that another approach did not provide sufficient clarity.

This initiative will continue to support the financial industry.

Objectives

- 1. Develop a clear, consistent message to promote the Dutch financial services industry;**
- 2. Support the development and implementation of a broad marketing and communication programme;**
- 3. Promote the Netherlands as a widely recognized brand for international financial services;**
- 4. Continuity of the Financial Markets Office.**

F. Coordinated Action and Dialogue

Coordination

An effective dialogue between the industry and the public sector is essential. Such a dialogue needs to support the whole of the financial services industry in the Netherlands. These talks should include all the relevant parties, such as the relevant Ministries, the supervisory authorities, the city of Amsterdam and other regional bodies. Given the pace of developments and the threat other cities and centres pose to the ambitions and position of the Netherlands as a financial centre, the dialogue needs to be frank, positive, efficient and pro-active. Working together, all the parties will have to monitor international developments and their impact on the financial sector.

For this reason, several coordinating structures have already been put in place:

- Improved cooperation between the Ministry of Justice, the Ministry of Finance, the Ministry of Social Affairs and Unemployment and the Ministry of Economic Affairs in establishing the Financial Markets Office; and
- Closer cooperation between the aforementioned ministries, the AFM and the DNB in what is referred to as the Innovation Room.

Dialogue

The Ministry of Finance has created a platform for the financial industry to discuss their views on and vision of the Dutch financial sector by starting the Financial Services Strategy Dialogue, formerly known as the HNEO (High Level European Dialogue).

Topics of discussion concern the measures to be taken to improve the investment climate.

The Financial Services Strategy Dialogue is also used to discuss and prioritize the European calendar.

Objectives

- 1. Continue the Financial Services Strategy Dialogue;**
- 2. Influence the future direction, impact and scope of forthcoming EU legislative initiatives with greater efficiency.**

G. Fiscal Environment

Over the past few years, the Netherlands took a number of new (tax) measures, as a result of which it has become more attractive as a place of business. The most noticeable result was achieved with the reduction of the corporation tax rate, which came down from 34.5% in 2003 to 25.5% in 2007. This reduction was partly brought about through the extension of the tax base and, simultaneously, the reduction of the tax burden for companies. Furthermore, capital duties were abolished and the withholding tax on dividends was reduced from 25% to 15%. On August 1, 2007, new tax legislation came into force which is favourable to the financial industry. First of all, the requirements for fiscal investment institutions with an obligation to distribute profits ("old" regime) have been substantially relaxed, allowing investment institutions to develop real estate for their own funds. Secondly, a new regime for investment institutions was presented. As a result, investment institutions may be exempted from corporation tax and - provided that certain requirements are met - will not be obliged to withhold tax on dividend payments.

Furthermore, the Netherlands is committed – at an international level - to the support of the "Besloten Fonds voor Gemene Rekening" (Funds for the Joint Account of Participants) as an instrument for asset pooling. This should lead to a more competitive fiscal environment for pension funds, insurance companies and other large-scale investors.

Advance certainty and working in the present are very important in tax practice. In this respect, we would like to mention our Advance Pricing Agreements (APA) and Advance Tax Rulings (ATR) practice, our International Investors Desk and our pilot supervision agreements with approximately 40 large enterprises.

Moreover, the Netherlands intends to improve the investment climate in other areas as well. By streamlining procedures, the administrative burden for companies can be reduced. Initiatives in this area are in preparation. Within the context of new European Customs systems, the Netherlands will endeavour to bring forward and implement "centralized clearance" so that cargo can be cleared in a country of choice upon arriving at Europe's external borders. Furthermore, the Netherlands will endeavour to raise these initial steps to an even higher level.

The Dutch Tax Authorities have announced their intention to reduce the administrative burden for companies, for example by tying in with the administrative practices of employers to an even greater degree.

Naturally, (international) developments in the fiscal investment climate are being actively and closely monitored. The Netherlands is and will remain competitive when compared to other (European) countries.

H. Measuring and Benchmarking

Measuring

Having set out our vision for financial services in the Netherlands, we need to be able to measure the progress we have made and assess whether our actions are resulting in the desired improvements in terms of competitiveness. A number of indicators, such as the contribution of financial services to the economy (output and employment), are available. In addition, a number of preliminary and relatively adequate but high-level analyses of the Dutch financial sector are available. These provide an initial view on the strengths and opportunities, focusing on the need for improvement and new initiatives. One of the recommendations of the HFC was for other and newly initiated studies to focus on the apparent inability of the Dutch to innovate, the role of the Netherlands as a financial centre in the global economy and the exploration of important niches to focus attention on.

Benchmarking

For continued success, the Dutch financial services industry will need to remain competitive, both domestically and internationally. The industry needs to be forward-looking and innovative, delivering quality products and responding pro-actively in a dynamic market-place. The success of the industry and, successively, its continued contribution to the overall economy will ultimately depend on the competitiveness of its constituent sectors. Since our success hinges on continued competitiveness at a number of levels, in close cooperation with the sector and, for instance, the DNB and Netherlands Statistics, we will develop a score-card approach so that we can measure competitiveness against international benchmarks.

Objective

- 1. Cooperate with the Holland Financial Centre on more enhanced and ongoing analyses of the strengths, weaknesses, threats and opportunities;**
- 2. Support the financial industry in its efforts to benchmark the Netherlands against international competitors.**