Netherlands Country Report

1. Economic and Financial Background

Table 1: Key economic and financial indicators	2013	2014
Population (million)	16.8	16.9
GDP (EUR billion)	627	633
Real GDP growth (%)	1.0	0.8
Inflation rate (%)	2.5	1.0
Unemployment rate (%)	6.75	6.8
Stock market capitalisation (EUR billion)	749	879
Stock market capitalisation (% of GDP)	123	139
Bond market capitalisation (EUR billion)	905	892
Bond market capitalisation (% of GDP)	149	141
Household gross savings ratio (%)	14.7	14.9
Household financial wealth (EUR billion)	1,197	1,308
Average per capita financial wealth (EUR)	71,140	77,722

* Stock market capitalization of publically traded Dutch institutions listed on the Amsterdam stock exchange (while previous figures also included the market cap. of investment funds, these values are presented in parenthesis).

Table 2: Main assets of households (EUR billion)	2013	2014
Currency & Deposits	412	417
Debt securities	12	10
Quoted shares	27	33
Life & Pension funds	1,146	1,386
Investment funds	n.a.	n.a.
➢ Direct ownership	22	24
➢ Via life ins. policies	n.a.	n.a.
Other (money market + foreign funds)	37	45
Total financial assets	1,879	2,133
Total net wealth	1,057	1,308

Table 3: Net Acquisition by Households (EUR million)	2013	2014
Currency & Deposits	3,374	6,245
Investment funds	-1,645	935
Total financial assets	25,601	28,017

2. Data on funds under management and portfolios

Table 4: Net assets by the fund industry in the Netherlands (EUR billion)	2009	2011	2012	2013	2014
Home-domiciled UCITS	65.0	53.2	57.7	61.8	61.7
Real estate funds	14.0	10.6	10.9	10.6	10.9

Total AuM	79.0	63.8	68.6	72.4	72.6

Table 5: UCITS assets by fund type (EUR billion)					
	2010	**2011**	**2012**	**2013**	**2014**
Equity	28.2	24.6	25.6	27.9	26.1
Bond	12.1	12.0	15.8	16.9	17.0
Balanced	11.2	10.9	11.4	11.8	10.8
Money Market	-	-	-	-	-
Fund-of-Funds	-	-	-	-	-
Other	13.5	5.7	4.8	5.2	7.9
Total	65.0	53.2	57.7	61.8	61.7

3. Key trends in flows and assets under management

Table 6: Net sales of investment funds in the Netherlands (EUR millions)					
	2010	**2011**	**2012**	**2013**	**2014**
Home-domiciled UCITS	-441	-6,953	-788	555	61.7
Real estate funds	349	22	-27	292	10.9
Total net sales	-92	-6,931	-815	847	72.6

Table 7: Net sales of UCITS by fund type (EUR million)					
	2010	**2011**	**2012**	**2013**	**2014**
Equity	-2,090	-1,093	-1,659	-1,440	-2,685
Bond	438	524	1,853	846	18
Balanced	402	1,054	-743	581	-1,715
Money Market	-	-	-	-	-
Fund-of-Funds	-	-	-	-	-
Other	809	-7,438	-239	568	262
Total	-441	-6,953	-788	555	-4,157

4. Product developments

The Euronext Fund Service is the leading order platform for daily fund clearing and settlement in The Netherlands. The advantages of the Euronext Fund Service are the quick, low cost, fully STP clearing and settlement procedures according to international T+2 securities standard for settlement free from administrative errors. All financial institutions do have internet access to the Euronext Fund Service, thus enabling an open architecture model.
The Dutch market already had an open architecture market before MiFID. The large banks in The Netherlands do offer third party funds on the basis of guided architecture. System and personnel (proper advice) limitations do not allow for an offer of the vast majority of the European fund families.
In 2013 commissions were prohibited for all distribution of investment funds, including execution only distribution, in the retail market. So MiFID firms and banks may not receive commissions anymore, but an intermediary who is not required to have a financial license, such as a financial planner, may still receive commissions.

5. Regulatory and self regulatory developments (including tax)

The Alternative Investment Fund Managers Directive (AIFMD) was implemented on 22 July 2013.

From 22 July 2014 non-EU managers are bound by the AIFMD rules for marketing without a passport. All relevant co-operation agreements between the regulator in the non EU country and the regulator in the EU country are in place. The Netherlands require in addition an attestation from this non-EU regulator stating that it is indeed able to comply with the agreement to share information on the non-EU manager. Notification with a prescribed notification form is necessary prior to marketing.

The Dutch regime for collective investment schemes is quite flexible. It is possible to have a Dutch based UCITS or non-UCITS either in the form of a legal person (NV, BV, CV, etc.) or as a contractual type fund, an 'FGR' (fonds voor gemene rekening). The FGR is the vehicle that is often used by pension funds for asset pooling purposes, and multinationals also use the popular FGR for their in-house pooling purposes, managing their international assets in a fully tax transparent manner.

All of these types of investment funds can have the tax neutral status of an investment vehicle called '*Fiscale Beleggingsinstelling*' (FBI) or a '*Vrijgestelde Beleggingsinstelling*' (VBI).

Also for alternatives, Dutch financial regulation offers good access to a licence.
Obtaining a Dutch license to offer or manage an undertaking for collective investment in transferable securities (UCITS) or an alternative investment fund (AIF) is not difficult. Fast track procedures exist for investment funds, reducing time-to-market.

DUFAS Code of Conduct
The DUFAS Asset Managers Code is one of the concrete action points undertaken by the asset management industry to help restore public trust in the financial sector. The Code has been designed to achieve this purpose both by its content (clear principles presented in easy to understand language) and by its meaning (a quality mark for the conduct of prudent asset managers). Besides taking this first step to clearly demonstrate the commitment to integrity and accountability, DUFAS also strives for greater recognition of the asset management sector with the general public, politicians and the media. The Dutch authorities have by now commended the DUFAS Asset Managers Code as being well-substantiated and accessible to a wide audience.

Pensions
The implementation of the IORP Directive, introduced the possibility of a 'general pension institution' with a European passport for defined contribution purposes to facilitate the cross-border pension business. The Dutch version is the in 2011 introduced the premium pension institution (premiepensioeninstelling, "PPI"). The Netherlands have built up a great expertise in retirement provisions since 1948, when state, industry and corporate pension funds were first introduced in the Netherlands. The Dutch pension funds are among the largest pension funds in the world, investing worldwide and applying a wide range of modern investment techniques. The Dutch skills in the area of retirement provisions include services on solvency and fiduciary management, liability driven investments, asset liability matching, actuarial techniques, pension fund management, administration and pension communication.

DUFAS Principles of fiduciary management
DUFAS has developed a set of Principles regarding fiduciary management. The main driver is to add professionalism to the pension fund organization. An asset manager normally only looks at the asset side of the equation. Because fiduciary management requires advising on both the asset and liability side of the pension funds' balance sheet, specific expertise and tasks have to be implemented by the external manager. Fiduciary management refers to the outsourcing of pension fund management to a single third party. This provider typically takes control of the pension fund from the scheme's trustees with responsibility for advice and implementation thereof, portfolio construction, asset manager selection, monitoring and reporting. Once the trustees adopt an overall investment strategy, the fiduciary manager takes responsibility for the asset mix, benchmark selection, risk budgeting and the hiring and firing of managers. Therefore, integrity and good governance of the fiduciary manager play also an important role in the DUFAS Fiduciary Management Principles. At the moment the Principles are under review, to reflect the current views on risk management and cost transparency. DUFAS has also developed a template for a fiduciary management agreement, which can be found together with the Principles at www.dufas.nl

Taxes
The Netherlands has a favourable tax climate, which is attractive to both Dutch and foreign companies and investment vehicles. The advantages are:

- An extensive network of bilateral tax treaties all over the world with all major countries
- Corporate tax rate of a maximum of 25%
- Return or exemption of foreign withholding tax (interest, dividends, royalties)
- Tax exemption for any holdings over 5%, meaning that any profits, losses, dividends and stock price gains can be received without withholding tax.

- Tax neutral fund solutions: Fiscale beleggingsinstelling (FBI) and Vrijgestelde Beleggingsinstelling (VBI)
- Tax incentives for certain foreign employees (30% arrangement)

From a tax perspective, the VBI is an alternative for the FBI. The FBI has an effective 0% corporate tax rate, which is tantamount to a tax exemption. There are certain conditions that have to be met by an 'FBI' in order to qualify for the 0% corporate tax: a.o. the net profits of the fund have to be passed on to shareholders annually. Most foreign shareholders are able to reclaim the dividend withholding tax. The FBI is protected by the Dutch tax treaty network, which is especially important with respect to dividend withholding tax. All foreign withholding taxes, including dividend withholding taxes, are deducted from the Dutch dividend withholding tax. There is no capital tax ("taxe d'abonnement"), wealth tax or any other tax on the assets of a fund in the Netherlands. This makes the FBI very appealing to – among others – institutional investors such as pension funds.
The VBI is exempt from corporate tax, capital tax and dividend withholding tax. There are no shareholder requirements or leverage limits, but the VBI must be an open-ended fund, investing in liquid assets (no real estate). The VBI is however not protected by the Dutch tax treaty network. This makes the VBI an interesting option for investments on which little or no withholding tax is levied. The VBI is especially popular for tradable bonds and financial derivatives, such as options, futures, forwards and swaps. An excellent neutral tax regime for alternatives.
Neither the VBI nor the FBI demand costly substance requirements, such as a fund manager based in the Netherlands, nor an accountant, administrator or custodian based in the Netherlands.

With regard to the American Foreign Account Tax Compliance Act (FATCA) the Dutch government has signed an Intergovernmental Agreement (IGA) with the United States, which provides Dutch parties with an administratively manageable way to comply with FATCA while avoiding the burdens and expenses associated with the development and maintenance of FATCA withholding systems. The same trajectory is envisaged for the exchange of information arising from the international common reporting standard CRS.

6. Corporate governance - major developments

In The Netherlands, all institutional investors, including asset managers, have the obligation to publish their voting policy. Although this implies that one's policy can be not to vote, it is widely accepted to exercise voting rights. Asset managers and pension funds in The Netherlands have incorporated a corporate governance network, called Eumedion, in which they deliberate about all kinds of governance issues:
To counteract empty voting all investors have to report gross short positions (in addition to net short positions) to the regulator, who publishes an aggregate number.

7. Fund governance

Early 2008, DUFAS introduced a set of Fund Governance Principles, which allows flexible solutions for internal fund governance, as inventoried by IOSCO in its governance report of June 2006. Execution of the fund governance principles is based on periodic review and reporting to the daily management, which are customary structures within fund management organisations already. Thus, additional administrative burden is limited as much as possible.
In The Netherlands, fund governance can either be implemented at the level of the fund management company, in order to obtain a full overview of all kinds of governance issues within the organization and its funds, or at the level of the individual funds.
Clear fund governance topics are identified to focus attention of the oversight entity. Among others, the management of conflicts of interest, the segregation between investment decisions, settlement & administration and control, soft dollar arrangements and securities lending are topics for which a transparent policy needs to be developed by the fund manager. The implemented fund governance policy should be published on the website of the fund manager. Oversight on compliance with these self-binding rules needs to be executed by an oversight entity, which can vary from supervisory directors, to non-executive board members, depositary or external auditor. In terms of the application to day-to-day operations, the fund manager has the freedom and flexibility to tailor the most appropriate model and oversight entity for his organization. The appointed oversight entity can effectively use the already existing periodic review and reporting lines within the organization as an important source for its compliance assessment. The DUFAS Fund Governance Principles were approved by the Dutch government. Nowadays, the DUFAS Fund Governance Principles are incorporated in current regulation. The starting points of these principles are, however, still up to date.

8. Other major issues and developments

Globalization and developments at financial institutions have led to a period of exciting and dramatic change in the financial sector that was unimaginable only a few years ago, as financial centers around the globe attempt to gain an increased share of the world's economy. Although The Netherlands has traditionally enjoyed a great deal of success in this area, there is a growing awareness that maintaining a high quality, competitive financial sector that can also grow, requires new tools, methods and solutions.

The Netherlands is a location of choice for funds and fund management:

- Little substance requirements;
- Very mature institutional market place;
- The Netherlands has tax treaties with a large number of other jurisdictions worldwide, reducing withholding taxes to zero in most cases;
- Short time to market for new funds due to efficient licensing procedure;
- Service providers to the financial sector with great expertise and competitive rates;
- Wages in the financial sector are quite competitive on an international level
- The Dutch financial regulator, the ‘AFM’, is easily accessible;
- The AFM is held in high regard internationally;
- Good and large financial infrastructure with highly qualified specialists.