

Update Strategic Agenda

HFC's objectives can only be achieved with the cooperation and joint efforts of all participants.

Sjoerd van Keulen

Foreword

In 2012, when HFC celebrates its fifth anniversary, it wants to have achieved real results. Visible, measurable changes. It has been satisfying to note that the HFC's chosen strategy of specialising in a number of priority areas has proven viable, even during an economic crisis. We have refined our strategy regarding the vital role of the major financial companies in the Dutch economy. We continue to stress that HFC's objectives can only be achieved with the cooperation and joint efforts of all participants.

Globally, HFC occupies a fairly unique position with its emphasis on common interests and cooperation between the private and public sectors. Future discussions will increasingly aim to achieve greater involvement on the part of representatives of the business community and the academic world. We hope that by 2012 we can show the world what these innovative forms of cooperation can achieve.

One thing is certain: when the current period of restructuring and reconfiguration is over, the financial industry will still be of vital importance to the Dutch economy. Every new development requires the mechanism of efficient capital allocation and risk distribution that only the financial industry can provide. The key function of the financial industry is to support the real economy, and that involves risk taking. The financial industry takes over the risks of private individuals and companies who want to manage their risk, and redistributes it to those who want or need to earn a profit by taking risks. The financial industry takes the capital surpluses of private individuals and investors and redistributes them to entrepreneurs and consumers who need capital. Every loan, every insurance policy, every savings and pension product therefore has a risk component.

Following recent trips to countries such as China and India, there is a growing conviction that the Netherlands has a lot to gain, provided it

can demonstrate the necessary international, innovative entrepreneurship. Almost every week, company managers tell me that success and international expansion require internationally oriented financial service providers with enough scope to operate on a global scale. As a result of the credit crisis, the future of the financial industry has been widely debated. The crisis has had an industry-wide impact, and the debate has touched on all parties, including banks, insurers, pension funds, asset managers, private equity, national and international regulators, governments, and rating agencies as well as on all related aspects of legislation and regulation, such as the laws governing accountancy and solvency. The debate is highly politicised and is therefore extraordinarily complex. The same discussions are being held in an international context. Solutions that seem relatively simple, such as increased regulation, more stringent standards and higher capital requirements, may in practice have other, unforeseen disadvantages.

Many of the solutions put forward, particularly in the national debate, advocate a sharp reduction or even complete avoidance of any risk at all by banks, insurers and pension funds. However, in the long run risk avoidance inevitably leads to lower yields and hence to higher insurance and pension premiums, higher wages, lower consumer spending power, less credit and higher interest rates on loans and mortgages. In the end this route does lasting damage to the economy, employment and our prosperity. Society, especially Dutch society, has suffered a severe shock. We thought we were doing so well. After 20 or 25 years of steady growth, we were richer than ever before. We became good at cleaning up minor crisis bubbles, and quickly rubbing out the small blemishes, secure in the knowledge that our expertise, our systems, our information provision and technology were superior.

Suddenly we faced the deepest, most all-encompassing worldwide crisis in recent history. One that won't go away. A crisis that now threat-

ens Europe and the euro. Of course we are shocked, uncertain and concerned. Of course we are angry and looking for someone to blame because we have lost faith in our institutions, and want to take measures that will end the crisis and ensure that it never happens again. That we never again take such risks. At the same time we realise that there are no certainties. Economies and economic science are human endeavours, and there are no guaranteed solutions that have no downside. The most frequently asked questions about the Greek crisis is 'but are you certain?'

Moreover, risk avoidance comes at a price: slower growth and less prosperity. Nor is it inherently safer. It is a political choice that shifts costs from one party to another, and to new generations, or leads to higher costs for citizens and the business community. A society that avoids all risk or attempts to redirect it to other parties is a society without dynamism, innovation or entrepreneurship. It eventually becomes a society based on fear of the future rather than on optimism, hope and a healthy level of self confidence.

Prosperity, growth and employment are all inextricably linked to risk. It does not mean that more risk is always better, or that we do not require new laws and greater regulation as a means of redistributing and managing risk. It does mean finding the proper balance between risks and prosperity.

Trust is an essential part of finding a new balance, and trust has been severely damaged by recent events. The financial industry must work to regain that trust and re-establish its legitimacy. It will also have to work at rebuilding its own self-confidence, and that will be a lengthy process. Exemplary behaviour can help the industry to regain lost trust, by which is meant behaviour in the form of solid, relevant products and the efficient provision of services at fair, transparent prices, and remuneration for banks and insurers that is proportional to the services rendered. Corporate clients, political parties and the government must also regain their faith in the financial industry and the financial system. Steps should be taken to reduce the distance between government and business, which are still two sharply divided worlds in the Netherlands. The

two should consult more frequently, come together in concrete projects and exchange programmes, and people should be encouraged to move between the private and the public sectors, and the obstacles that prevent them from doing so removed.

Holland Financial Centre (HFC) was set up at the end of 2007 to strengthen the financial industry in the Netherlands. As a result of globalisation, financial activities and related employment opportunities have shifted to London, Dublin, Luxembourg, Paris and Brussels. Jobs in the financial industry are vital to the prosperity of the Netherlands. At the beginning of 2008 HFC published its strategy and 2008-2009 work programme. Now, two years on, as the debate about the future of the financial industry continues to rage, the time has come to clarify our vision and strategy and to set out our plans and working programme for the next few years. The priority areas and business activities chosen by HFC have a relatively low risk profile. The function of the major financial institutions and their place in the Dutch economy is still the subject of debate.

In the coming period HFC will seek answers to questions about which forms of financial services can be used to provide more support for specific aspects of our country's business activities (see the publications of the Innovation Platform and the VNO/NCW). In other words, it will look at ways in which the financial industry can help Dutch businesses find new opportunities for future growth.

A second question concerns the role of the financial industry in relation to the themes that dominate our future, such as energy, an ageing population, healthcare, and education. Which solutions can the HFC and the financial industry offer to stimulate the business community and help it develop the infrastructure, conditions and competitive advantage it needs to achieve success in the future? Our work programme calls for a gradual shift from an emphasis on consultation and activities to achieving concrete results.

It is important to stress that the objectives of HFC can only be achieved through the combined efforts of all participants and other interested

parties. Holland Financial Centre is more than the association, the HFC office or the HFC managing board; Holland Financial Centre is a public/private joint enterprise encompassing all of its participants, work groups and projects. We cannot achieve results unless we work together. We must think and act for the general good, i.e. the economic and financial development of the Netherlands, in order to meet the competitive challenge we face from other countries.

The coming years are likely to see slow economic growth. Government spending cuts, an economy that invests more of its own money and borrows less will put pressure on growth. That is why it is so important to explore new growth industries and growth regions. The Dutch government and political parties should direct, and even take the lead in the exploration of areas and industries that offers new growth potential. The Netherlands is in competition not only with countries such as China, but also, for example, with France and other countries where a centralized government takes a more active role in the management of the economy. Providing a certain amount of coordination and economic stimulation is the least that the Dutch government can do, and HFC is one of the instruments that can help the government step up its own efforts.

Amsterdam, 2 June 2010

Sjoerd van Keulen
Chairman

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Vision, Mission and Strategy Update

Strategy priority areas

Holland Financial Centre has been operational for just over two years. Years during which the financial industry has undergone more change than ever before. This period has not been easy for an initiative such as Holland Financial Centre, but despite the circumstances, HFC's strategy has enabled it to continue its work. This strategy is based on not trying to compete with London or New York in all areas, and on not getting caught up in the race to be big, bigger, biggest. In 2008, HFC chose a strategy based on specialisation; specialisation in sub-markets where the Netherlands already has a head start and where a high level of international growth is expected. Retirement Management, Financial Logistics, Sustainable Finance and Trading Venue are the priority areas in which HFC wants to achieve its primary objective: the existence and growth of more job opportunities in the financial industry.

This strategy has helped HFC weather the credit crisis. While the crisis has certainly left its mark on Dutch financial institutions, the priority areas identified by HFC have been largely unaffected, and have in some cases emerged stronger than before. Most of the action points set out in the 2008-2009 HFC Agenda have been implemented. High points include the creation of IMQubator, the €250 million fund for asset management start-ups, the successful launch of the Duisenburg School of Finance, the opening of the business start-up centre HFC Plaza, new pension fund legislation currently being debated in parliament, the creation of Retirement Management and Climate & Sustainability knowledge centres, and the organisation of events where representatives of the financial industry and government can meet to debate national and international issues. The pressure brought to bear by the credit crisis has slowed progress on new legislation, but everyone at HFC remains convinced of the importance of this agenda. We have revised our approach, in consultation with the Ministry of Finance, among others, with a view to achieving results more quickly and effectively. Following the announcement of this agenda. HFC will publish a clear list of

legislative objectives per priority area. Successful experiments aimed at involving more experts from the financial industry, and stepping up their level of involvement, will be continued and where possible expanded. Of course, given the nature of the process and the primacy of the legislator, there is no guarantee of success. Even if improvements can be made in the progress and speed at which legislative proposals are prepared.

HFC is poised to achieve real results. The HFC office is fully staffed, financing is available for major projects, the network is in place, and enough projects and leads are in the pipeline. While the first Agenda stressed preparatory activities, this Agenda is result-directed. Concrete business results which reflect HFC's emphasis on growth and job opportunities. Growth can be measured in the number of new financial companies in the Netherlands, the number of Common Good Funds, Pension Fund Managers and Pension Fund Institutions (PPIs and APIs) based in this country, and that will also be the measure of the success of HFC in the coming years. HFC intends to put these plans into operation by cooperating more frequently with its own participants and other parties in smaller groups on a project basis.

	Situation 1970			Situation now			Situation 2020?		
	Local/ National	Regional/ Trade Bloc	Globally	Local/ National	Regional/ Trade Bloc	Globally	Local/ National	Regional/ Trade Bloc	Globally
Retail insurance	█			█					█
Life insurance	█			█					█
Retail Banking	█			█	█				█
Pensions	█			█	█				█
Retail Brokerage	█			█	█				█
Investment/Mutual Funds	█			█	█				█
Corporate Finance	█			█	█				█
Wholesale Insurance	█			█	█				█
(International) payments	█			█	█	█			█
Treasury managements	█			█	█	█			█
Commodity Derivatives	█			█	█	█			█
Private Equity	█			█	█	█			█
M&A	█			█	█	█			█
Equity Issuance	█			█	█	█			█
Asset Management	█			█	█	█			█
Stock Exchange/trading platforms	█			█	█	█			█
Energy/Exotic Deravatives	█			█	█	█			█
Head Offices Financial Institutions	█			█	█	█			█
Clearing & Settlement	█			█	█	█			█
Wholesale Brokerage	█			█	█	█			█
Risk Management	█			█	█	█			█
Asset Liability Management	█			█	█	█			█
Hedge funds	█			█	█	█			█
Custodian Services	█			█	█	█	█		█
Debt trading	█			█	█	█	█		█
Re-insurance	█			█	█	█	█		█
Structured finance	█			█	█	█	█		█
Foreign Exchange	█			█	█	█	█		█

Holland Financial Centre was created as an answer to the Europeanisation and globalisation of the financial industry. In 1970 the financial sector was purely a local for local business. Dutch companies dealt with Dutch financial institutions, which were able to provide everything they needed. As a result of European legislation and regulation and international trade agreements that situation has changed. Financial services are provided at the European and at the global level. Dutch financial institutions have lost market share and abandoned certain activities in the Netherlands altogether as jobs gradually moved to London, Dublin, Frankfurt and Luxembourg. While the export and import of financial services grew by more than 20%, the Netherlands developed a negative balance of trade in financial services, and within just a few years the deficit had reached one billion euros a year. The Netherlands was losing

ground, and HFC was set up to counteract that trend. The credit crisis does not mark the end of the trend towards globalisation, and it may in fact accelerate the process. More regulation is being introduced at the European level, and the G20 have called for faster and more extensive global governance of the financial industry. The tiny Dutch home market cannot afford a defensive, protectionist strategy, which would also go against the grain of our culture. Nor is it necessary as globalisation also offers new opportunities. The Netherlands already has a very strong position in a number of sub-markets with high growth potential, and this is the direct result of Europeanisation and globalisation. These are the areas in which HFC wants to create a specialised, international centre of excellence, and hopes to see the growth of new job opportunities

Priority area	Position in the world ranking	Growth through legislation/trends
Retirement Management	Nr. 3 assets under management	IORP, aging population
Finance & Sustainability	Nr. 2 carbon trading Nr. 3 sustainable investments	Successor to Kyoto, scarcity/price of fossil fuels
Financial Logistics	Nr. 1 price transactions Nr. 1 internet payments	SEPA, Doha
Trading Venue	Nr. 1 derivatives trading Nr. 2 credit insurance	Mifid, WTO

Economic climate and the role of the large financial institutions

The financial industry is extremely important to the Dutch economy. It provides individuals and businesses with access to financing and other financial services, such as savings accounts, insurance, and payment systems. Its strategic importance is self-evident, and people must have safe and reliable access to these services at all times.

With its open economy and international focus, the Netherlands must have a vibrant, internationally oriented financial industry. Many small and medium sized companies have now joined the multinationals on the international stage, and as result there is a growing demand for cross-border financial services. International payments, credit insurance, treasury and currency management, and trade financing are essential aspects of international entrepreneurship and global business activities.

In addition to supporting the Dutch economy and the international activities of Dutch businesses, job creation is the other major benefit of a vibrant financial industry. Jobs are created in the financial services industry itself as well as in the other industries that is helped by the financial services to implement its strategies.

The financial industry in the Netherlands employs approximately 270,000 people (in comparison, London employs 310,000, New York 310,000 and Switzerland 185,000). Research indicates that every job

in financial industry also creates 1 or 2 indirect jobs in the telecom, IT, management support and business services industries. If these jobs are included, direct and indirect employment related to the financial industry amounts to at least 600,000 jobs, 9% of all jobs in the Netherlands.

With its open economy and international focus, the Netherlands must have a vibrant, internationally oriented financial industry.

Jobs in the financial industry and other related industries require a high degree of knowledge and skills, and the average added value per employee is approximately €146,000. Productivity is among the highest of all industries with just over 4% of all employees accounting for more than 7% of the GNP. It is a relatively clean industry employing large numbers of both men and women. Although figures are expected to show that the financial industry contracted during 2009, other industries have also lost ground during the current crisis, and as a result no significant decline in the financial industry's relative share is expected. It is extremely important to maintain job opportunities in the financial industry. Any significant decline would compromise our prosperity, particularly in the major cities where these jobs are concentrated.

The Netherlands must have a strong financial industry in order to keep jobs in the Netherlands, guarantee citizens access to financing and other financial services, and support the international activities of Dutch businesses.

The importance of the big financial institutions for the Netherlands and HFC

The leading Dutch financial institutions play an important role in achieving the objectives mentioned above, i.e. job creation, access to financing and reasonable credit conditions, and access to savings accounts, payment systems and insurance policies.

By 2007 the government was well aware that it needed a specific policy to address the globalisation and Europeanisation of the financial industry. The Netherlands Government Action Plan was the first step in that direction, followed by the creation of Foundation Holland Financial Centre (HFC). The Netherlands must have a strong financial industry in order to keep jobs in the Netherlands, guarantee citizens access to financing and other financial services, and support the international activities of Dutch businesses. This means preserving the big financial institutions which provide the lion's share of all services. The presence of major financial institutions with international or European headquarters in the Netherlands creates a large reservoir of highly trained employees and the economic scope for a range of specialised service providers. They provide the infrastructure for the industry as a whole and in that sense also contribute to the viability of smaller institutions. The size of a financial institution's operations is important, and larger companies enjoy both economies of scale and economies of scope. Big institutions have better access to the labour market, the capital market, and to other international financial institutions, and they are often able to achieve lower cost levels. They may also have a better credit rating, and as a result more competitive prices and better funding. This does not mean that big is always better, and it is certainly not our intention to encourage unbridled growth.

In addition to job creation, the size and quality of the financial industry in the Netherlands also underpins the country's standing in the international bodies that govern and regulate the financial industry. The position and influence of the Netherlands in organisations such as the G20, IMF, World Bank, ECB, CEPS, CEIOPS, CESR and others are closely linked to the health of the industry.

Balancing interests, the concept of managed risk envelope

The interests at stake in the preservation of the financial industry in the Netherlands must be weighed against the risks the industry entails, and the benefits for society of the industry's activities must be weighed against the eventual cost for society of government intervention. The credit crisis has shown that the industry cannot sustain unlimited growth in all areas. Recent events have made it clear that there is a limit to the level of state intervention that the Netherlands is willing and able to undertake in times of crisis. The government's capacity to intervene and act as the lender of last resort is arguably what can be described as the financial industry's risk margin. It is not just a question of the industry's financial base; it is also about its social base and the political will to accept the risk.

The size and growth of the financial industry is therefore limited to what is considered to be a manageable, acceptable level of risk. Of course, that level is not static. On one side of the equation the activities of the financial industry create a demand for a certain managed risk envelope, while on the other side the supply of risk-bearing capacity is expanded or reduced in accordance with the applicable laws and regulations. The individual risk profiles of sub-sectors of the financial industry mean that some face greater risks than others and therefore require a higher level of managed risk envelope.

Lowering the level of managed risk envelope as a matter of principle could damage the Dutch economy. Allowing too great a risk margin leads to unacceptable risks for the government and therefore for society as a whole. The aim is to find the optimum level of managed risk envelope, i.e. the level that is in the best interests of the prosperity of the Netherlands. The risk that a country is prepared to take must be carefully weighed against the return on that risk. This involves a shift in

mentality away from the principal of ‘privatizing gains and socializing losses’ towards one of ‘social risk in service of social gain’. The position of the Netherlands in relation to other countries also plays a role. The level of managed risk envelope, and especially the way in which the Netherlands applies the concept, will affect its competitive position. Raising awareness of the managed risk envelope is necessary, and with time the choices this entails may even generate strategic advantages.

Managed risk envelope is subject to limitations and is therefore a scarce commodity. Distribution of this scarce commodity is determined by more than one axis. One axis is formed by the limits placed on market access (the licensing system of the DNB and AFM), solvency and liquidity requirements, and by the rules governing the market. The second axis is determined by competition in the domestic market between

foreign and domestic parties. When foreign parties gain market share, all or part of the relevant risk is diverted to the other country. While that may seem like a good thing, it also makes one’s country more dependent on the other country’s risk-bearing capacity. Along the third axis, the scarce commodity of managed risk envelope is not distributed at all, because it consists of autonomous developments and growth of market parties in the various sectors where they are active. Using the available risk margin as efficiently as possible requires a joint effort on the part of the government, market parties and regulators.

Linking levels of acceptable risk to the added value that each segment of the industry contributes to the prosperity of the Netherlands can help to clarify the concept. Generally speaking, the activities can be divided into three segments.



We must move from the mindset of ‘privatizing gains and socializing losses’ to ‘social risk in service of social gain’.

The risks in the first and second categories are the most necessary and acceptable, provided that the rules of prudence are observed. It is justifiable that the state should intervene in order to protect these interests in times of crisis, and that the tax payer should bear the risk, because society as a whole benefits from the return on these risks.

The third category is also important, but its impact is narrower as it relates only to job opportunities in the financial industry. The taxpayer is less willing to accept responsibility for risks when the returns, with the exception of normal tax revenues, benefit a smaller group. The risk of the third category are acceptable only if they are limited in nature and can be reasonably balanced against the tax revenue and job opportunities they generate. Both the supply and demand side of the amount of acceptable risk can be influenced by policy.

The following forms of legislation and regulation can affect the supply side.

- Changing the financing of the deposit guarantee system from ex-post to ex-ante
- Progressive capital requirements
- Higher solvency requirements
- Liquidity requirements
- Burden sharing within Europe
- Devolving power to host countries

The nature of the activities of the financial sector and the way in which they are carried out determine the demand side of the concept of acceptable risk. Some activities in the financial industry have a low-risk profile while others require a much greater willingness to accept risk. HFC’s objective is to focus on activities with a relatively lower level of risk, and its priority areas largely fit this profile. Priority areas must meet three criteria:

- High expected growth as a result of globalisation
- A strong starting position for the Netherlands
- Efficient use of the acceptable level of risk

Requiring banks and insurers to use convertible bonds, which may

have commercial advantages as well, is one way to reduce the demand for risk acceptance. Other elements that affect the demand side of the equation include the following.

- Shareholders rights
- Degree of diversification
- Degree of specialisation
- Bond holder rights

Determining the level of risk acceptance on both the supply and demand side should also take the international perspective into account. The specific composition of risk acceptance can influence the competitive capacity of the Dutch financial industry. If there is too little willingness to accept risk, this could have a negative impact the Dutch economy as a whole, and Dutch financial institutions could lose market share to foreign competitors who are active in segments 1 and 2 of the Dutch market. While risks would be diverted to other countries, Dutch citizens and businesses would also become more dependent on the willingness of foreign regulators and foreign government to accept risk or intervene when necessary. This could lead to unacceptable risks for the economy of the Netherlands. Accepting too much risk can lead to losing faith in the financial sector.

HFC's primary strategy is to make optimum use of all facets of risk acceptance to strengthen the Dutch economy as a whole. Job opportunities in the financial industry are of secondary concern. In the coming period, HFC will issue a number of public advisory reports aimed at achieving these objectives.

2010-2012 Work programme Update

Objectives



Products and services

Fields of activity



Summary table activities HFC

Field of activity	Priority areas				
	Retirement Management	Finance & Sustainability	Financial Logistics	Trading Venue	Business climate
Marketing & Promotion	Centre for Retirement Management	Centre for Climate & Sustainability	HFC	HFC	Amsterdam Financial Forum
Innovation & Entrepreneurship	IMQubator, Darwin Platform	Commodity, Biomass trade, Resource Footprint	Innovation program Sii	Dutch Commodity Service	HFC Plaza
Legislation & Regulation	PPI, API, FGR	Level playing field in Europe	VAT Payments	Fast Track IP	Legislative agenda
Education, Research & Development	Innovation program Netspar	Duisenberg School of Finance R&D and Education	Innovation program Sii	Talent Boost	Duisenberg School of Finance

Retirement Management

The credit crisis and other events affecting the capital market have placed pressure on Dutch pensions. However, from an international perspective, the credit crisis also highlights the superiority of a capital-backed system, and of the more stringent financial requirements for pensions introduced by the Financiële Toetsings Kader (FTK). Whilst we are in the midst of the worst crisis in generations, and life expectancy continues to rise, the Dutch pension system is still the strongest in the world.

Our problems pale in comparison with those of most other countries, and that is why the Dutch pension industry has so much potential. The industry is a good example of the need to achieve a proper balance between risk and reward. If we accept too little risk it can, as noted above, have an adverse effect on pension premiums and incomes. Finding the proper balance can generate major opportunities for our pension fund managers to grow, especially abroad.

The process of Europeanisation discussed above has also reached the pension industry. The first EU directive aimed at encouraging cross-border activities (the IORP directive) was implemented in 2003. The European Commission is working on a new, revised version of this directive, and the European market for transgressing company pension provisions can expect to see substantial growth during the coming years.

That is where the Netherlands' opportunities lie. The green paper that the European Commission is expected to publish in 2010 regarding the future design of the European pension system is a first step, and will pinpoint important aspects of the IORPs. It is also expected to include

a Solvency II-like regime for pension funds. HFC's Centre for Retirement Management, a special development and promotion desk for pension and insurance products, is closely monitoring developments in this area. Financing is available until mid-2013 for the centre, which is expected to employ four FTEs.

Now is the time to promote Dutch pension services and -products abroad, and of course this can be done with and via the Premium Pension Institution (PPI). In 2008 and 2009, a great deal of effort went into the design and introduction of this new IORP, and expectations of the PPI are running high, particularly with respect to the growing international market for defined contribution (DC) pension schemes.

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There is still much work to be done. To be competitive in the international market, we need an IORP vehicle which is flexible enough to incorporate the pension traditions of other countries, and which can also offer defined benefit schemes abroad. HFC will be part of the effort to bring the API onto the market as soon as possible.

It is also important to ensure that the tax treatment of pension services in the Netherlands no longer differs from the rest of Europe, and HFC will focus on this issue in the coming period. HFC will develop a visible presence at trade fairs, conferences and seminars, and in trade publications. To support these efforts, it will develop a knowledge bank on international pension system. The primary task of this resource will be to support marketing and sales activities. Pilot projects will be launched in conjunction with the PPI with a view to giving support service providers such as accountants, actuaries and lawyers an opportunity to gain experience of the PPI and in due time of the API.

HFC will be part of the effort to bring the API onto the market as soon as possible.

Financial Logistics

2008 and 2009 saw work on the creation of an innovation programme which is heavily oriented toward IT. The Service Innovation & ICT programme officially started in March 2010. This four-year programme is divided into two separate two-year sections, and is a joint venture involving the Ministry of Economic Affairs, Novay, IIP Create and HFC. A separate foundation has been set up for the programme's activities.

The programme focuses on innovation in the service industry, and particularly on IT-related services. Financial logistics, a prime example of such an area, is one of the two sections of the programme. Over the next few years the programme will work on building an infrastructure that the entire market can use to develop and provide new services. Examples include the digital invoice, the digital transfer of assets and DUPOs (digital signatures at point of sale). iDEAL, the leading platform for internet payments, will be rolled out internationally. There is still scope for more new projects. The overall objectives and ambitions are laid down in the approved programme proposal dated November 2009. The objective is to make the Netherlands a European financial logistics hub. More information is available at www.si-i.nl, Stichting SII's website.

The objective is to make the Netherlands a European financial logistics hub.

Trading Venue

In 2009 also saw the start of activities in this area. The Innovation Fast Track defined several projects which will be carried out over the next few years in order to strengthen the position of the Netherlands as a trading venue. They include helping companies to speed up the listing process (the IPO Roadmap), standardisation in the area of commodities (Dutch Commodity Service) improving the legal certainty of derivatives trading, and exploring the possibility of a role for the Netherlands in the clearing and settlement of OTC derivatives.

A second Innovation Fast Track in 21010 will look at other ways of strengthening the position of the Netherlands as trading venue, this time focusing on physical trading instead of exchange trading, and highlighting financial services related to these markets. The emphasis will be on trade financing, payments and credit insurance.

The Netherlands continues to be a preferred starting point for foreign companies seeking a foothold in Europe or the eurozone.

Finance & Sustainability

In 2008 and 2009 work continued on the establishment of the knowledge centre, the Holland Financial Centre for Climate & Sustainability (CSS), starting with the creation of an HFC development and promotion desk for Finance & Sustainability, which is expected to be staffed at a level of four FTEs by mid-2013. HFC's main focus is not on socially responsible entrepreneurship or on making the financial industry more sustainable; it is concerned with financing a more sustainable economy. This is a huge growth market, ranging from the financing of non-fossil chemicals and energy to energy conservation, climate-neutral buildings, and other forms of clean tech. In terms of financial services, it primarily involves sustainable investment, sustainable financing, carbon trading and carbon based financing.

These activities can be divided into two categories: those aimed at strengthening the home base and international promotion of knowledge and skills related to the area of sustainable finance, and those involving concrete projects carried out in conjunction with HFC's participants. The rate of innovation in this market and relative lack of familiarity with new technologies mean that more education and research is necessary, and HFC will work with the Duisenburg School of Finance to develop a master's programme devoted to these issues.

A state-of-the-art web-based knowledge bank will be set up to promote the Netherlands internationally and act as a gateway to the country's expertise in the area of sustainability and the financing of sustainable economies. Where possible, this will be done in conjunction with existing institutions.

HFC will work with banks to develop a risk analysis method that will make it easier to determine risk on the basis of total resource footprint, and improve financing methods. If necessary, CSS can provide the government with support during future COP negotiations. Another project involved researching the possibility of making better use of the financing capacity of Dutch pension funds as leverage to improve the capacity of off-shore wind farms. Various initiatives aimed at creating a biomass hub in the Netherlands will be extended to include financial services (exchange) and relevant commodities.

Existing buildings are the greatest challenge to energy efficiency. Given the unique structure of the Netherlands, with its housing corporations and strong pension funds, it should be possible to develop innovative forms of financing in this area as well. Initiatives related to carbon trading and carbon-based financing are temporarily on hold, pending post-Kyoto agreements, but promotional activities will resume as soon as the new agreements have been finalised.

Legislation, Regulation and Supervision

Holland Financial Centre was set up in the knowledge that an balanced form of cooperation between government and the financial industry is necessary. That is particularly true with regard to the planning and implementation of rules and regulations. Financial centres and jurisdictions which are able to develop appropriate links between markets and government tend to be the most successful.

It should be noted that in comparison with their foreign competitors, Dutch banks have insufficient savings, and are therefore much too dependent on the wholesale market, and are overleveraged. However, this situation is not the result of a big risk appetite, but of circumstances specific to the Netherlands. Unlike people in most other countries, the Dutch invest their savings in different types of pension and insurance products, and save money via their pension funds, in addition to their savings accounts at banks.

The Dutch mortgage system, which has a built-in encouragement to borrow as much as possible, is one of the reasons that banks in the Netherlands have so much money on their balance sheets. The quality of Dutch mortgages, the low percentage of defaults and foreclosures, the success of the Dutch mortgage securitisations, and the traditional scarcity of affordable homes are all arguments in favour of the situation in the Netherlands as opposed to other European countries.

Regulation is one of the most important factors affecting the stability and success of financial centres, and it was one of the founding principles of HFC in 2007. The strategic plan issued by HFC in 2008 already stressed the importance of sound regulation for the future success of the financial centre. Following the credit crisis and in the current

recession, an effective regulatory framework remains crucial for the success of the financial industry in the Netherlands. HFC's objectives go beyond the need to repair the damage caused by the credit crisis. At this moment there is risk of overreaction in the form of too much legislation and regulation. Regulation cannot eliminate all of the inherent risks in the financial industry, and too much regulation would do unnecessary damage to the economy and society. HFC will be involved in the formulation of appropriate rules and guidelines. The real test will involve looking ahead to the future, identifying opportunities and adapting regulations accordingly.

In order to be successful in a highly regulated environment dominated by European and global interests, the Dutch financial industry must focus even more closely on the international playing field. That is where the framework is drawn up that determines how regulation and oversight are carried out in the Netherlands. National freedom to interpret these regulations is expected to decline even further in the coming years, especially in countries where the economy is as open and internationally oriented as the Dutch economy. Holland Financial Centre remains committed to the principle that a level playing field is essential in Europe, and preferably throughout the world. International cooperation in matters related to governance and regulation should be strengthened, especially now in times of economic crisis. HFC will invest in relations in and with Europe, and will work with representatives of existing interest groups and Dutch representatives to ensure that it participates from the start in the process of formulating rules and regulations.

HFC has achieved some of the objectives it set out in its 2008 – 2009 agenda, and has made progress in the following areas: Introduction of covered bonds; Shareholder identification; The one-tier board; Introduction of an optional regulatory regime for investment institutions; Extension of the list of countries with adequate regulation; Extended application of the ruling on functional currency and proposed legislation on the Premium Pension Institution (PPI). The progress made towards the introduction of the PPI is encouraging, as is the fact that the Ministry of Finance is working more closely with industry specialists to implement new guidelines.

However, less progress has been made on some of the other issues raised, primarily as a result of the enormous pressure that the credit crisis has placed on those who prepare legislation. One of the consequences of the credit crisis in the coming period may be singular focus on legislation aimed at repairing the damage done and preventing a recurrence of the crisis. HFC hopes to prevent that by publishing a special HFC legislative agenda and implementation schedule, drawn up in close consultation with the government and the working groups.

HFC will invest in relations with and in Europe. Together with representatives of existing interest groups and Dutch representatives to European organisations, HFC will ensure that it is involved from the start in the process of developing and implement regulation and oversight. The legislative agenda will be a public document, and we will work to implement as much of it as possible, although HFC is of course dependent on the primacy of the legislator. Where possible, efforts will be made to expand the open dialogue with the government on a basis of shared interests and the non-normative exchange of information.

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Innovation and Entrepreneurship

In 2008 and 2009 a number activities were developed in the area of innovation and entrepreneurship, with a special focus on asset management. In 2009 IMQubator – a fund to help innovative start-up asset managers accelerate their growth – became operational. The Darwin Platform (www.darwinplatform.com) was set up to lower the threshold for new asset management companies by helping them outsource their back office activities. The Darwin Platform seeks to expand assets under management to €400 million.

Acting as a seed or cornerstone investor, IMQubator (www.IMQubator.com) invests in investment funds set up by talented asset managers who recently set up independent companies. These asset managers are highly motivated and anxious to prove themselves by generating above-average yields for early investors such as IMQubator. IMQubator is the initiative of the Active and Innovative Asset Management Work Group set up by HFC at the end of 2007. It has operated independently since November 2008, and has assets under management valued at €250 million, provided by Algemeen Pensioen Groep APG. Talks are ongoing with other institutional fund managers regarding the further expansion of assets under management. Since its launch IMQubator has received just under 200 applications, five of which had been selected as of the end of April 2010. Two of the five funds are managed by predominantly Dutch teams, and the other three by international asset management teams, but all teams have their headquarters at IMQubator's office in HFC Plaza. After IMQubator has invested the first tranche of the assets, it will seek new opportunities for expansion.

HFC Plaza opened its door at the beginning of 2010, providing affordable office space for start-up companies in the financial industry. Some of these companies are first-time entrepreneurs, others are branch offices of international companies entering the Dutch or European market for the first time. Plans for the coming years will focus mainly on the growth of these activities. The concept has proved successful, and HFC Plaza can expect continued expansion.

Marketing and Promotion

With its open economy and history as a trading nation, the Netherlands and the international markets are closely interlinked. The Dutch financial industry's ambition is to carve out a significant position for itself in specific areas of the international market. The activities that identify the Dutch financial industry are activities that make a real contribution to the economy. They correlate to the priority areas selected by HFC: pensions and related services, sustainable investment and financing, payments systems and specific niches in the securities market. These were chosen on the assumption that the Netherlands can use its favourable starting position as a springboard to become a trendsetter and centre of excellence in these priority areas.

Other countries have been organising professional promotional campaigns abroad for several decades. The Netherlands develops generic activities under the auspices of the Agency for International Business and Cooperation (EVD) and the Netherlands Foreign Investment Agency, both of which are part of NL Agency of the Dutch Ministry of Economic Affairs. Activities are carried out by country-specific work groups for China, India and the Middle East. Several trips abroad were organised in 2008 and 2009, including a trip to the Middle East at the beginning of 2009, and to China in early 2010 with the then state secretary De Jager. An HFC work group travelled to China in preparation for the latter trip, and a Dutch Financial Day was held during the World Expo in Shanghai. The India work group travelled with the chairman of HFC to India at the end of 2009. HFC was present during the celebration of the 400th anniversary of New York City, and also gave presentations in London and Ireland. HFC's new Centre for Climate & Sustainability was represented during the Copenhagen Climate Conference and the 2010

World Future Energy Summit in Abu Dhabi. The Ministry of Finance signed a number of tax treaties, notably with countries in the Middle East and Hong Kong. These activities have generated valuable contacts and spin-offs, and demonstrate that there are important prospects for HFC in terms of effective international promotion and market development.

The actual 'selling' of the Netherlands as place of business abroad is the work of lawyers, accountants and tax advisors.

The Netherlands has an active international network that is focused on promoting and selling the country abroad. Our experiences with NIFA and EVD and various embassies have been favourable and point to a substantial pool of unused potential for promoting the Netherlands. HFC's agenda for the next three years calls for maximum utilisation of existing structures, effective international marketing and the steady growth of HFC and its work in the chosen priority areas. Financial companies are active abroad, and are anxious to follow other internationally-oriented Dutch companies into new markets abroad. Several major Dutch companies are active in overseas markets in our priority areas: pension fund managers in China, payment systems in India and investors in the Middle East. The Netherlands continues to be a preferred starting point for foreign companies seeking a foothold in Europe or the euro zone.

As in the past few years, HFC will continue to work with active Dutch companies abroad and support their efforts to explore emerging markets. Holland Finance House is an important instrument in this respect. This concept incorporates joint presentations highlighting what the Netherlands has to offer at international trade fairs, conferences and seminars organised by HFC Bureau in conjunction with HFC participants and/or occupants of HFC Plaza. Examples include the Dutch Night held during Copenhagen Climate Conference and during Point Carbon, and the Holland Investment House during the hedge fund event GAIM.

The actual 'selling' of the Netherlands as place of business abroad is the work of lawyers, accountants and tax advisors. HFC's role is limited to generating leads, providing support in the form of brochures and websites, and helping to open doors in emerging markets.

Overview of the 2010 – 2012 activities and objectives of HFC

Activities

Innovation	Priority area
Expansion of HFC Plaza	All priority areas
Expansion of Darwin Platform	Retirement Management
Expansion of IMQubator	Retirement Management
Services & IT Innovation Programme	Financial Logistics
Pensions Innovation Programme in cooperation with Netspar	Retirement Management
IPO Road Map, Dutch Commodity Service	Trading Venue
Fast Track Trading Venue II	Trading Venue
Legislation and Regulation	
Legislation Agenda	All priority areas
PPI, API	Retirement Management
Equal tax treatment throughout Europe	Retirement Management, Financial Logistics
Legal certainty derivatives	Trading Venue
Quality of regulation	All priority areas
Marketing and Promotion	
Holland Finance House	All priority areas
Expansion of brochures, website, presentations	All priority areas
Missions	All priority areas
Education and R&D	
Foreign pensions knowledge centre	Retirement Management
Finance & Sustainability knowledge bank	Sustainability
Sustainable finance education in cooperation with Duisenberg School of Finance	Sustainability
General policy	
Think tank for optimum risk acceptance	All priority areas
Organisation of meetings to promote networks and influence opinion	All priority areas
At least €1 billion AUM in new PPIs and APIs	Retirement Management

Objectives

	Timetable
Creation of at least 30 PPIs	2012
Creation of at least 10 APIs	2012
25 start-up companies at HFC Plaza	2011
10 new foreign companies a year	2010–2012
More jobs in the financial industry	2011-2012
Growth of the export of financial services	2011-2012

More information

If you want to help create a future for the Netherlands as a strong, open and competitive financial centre or if you would like information about becoming a participant of Holland Financial Centre, please contact us at the address below.

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