5-minute Insight
The Dutch Disadvantage?

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How to get through Dutch screening procedures for board members?

Dutch financial market conduct supervisors the Authority for the Financial Markets (AFM) and the central bank (DNB) screen nominee management board and supervisory board members of financial institutions that operate under their supervision. Candidates can only be appointed and take up their new responsibilities after a positive ruling from AFM or DNB. In a European context, the Dutch assessment is – along with the British screening procedure – relatively elaborate and perceived as tough. It includes a preliminary assessment and often a face-to-face interview with a screening team consisting of officials of one or both supervisors. In other European countries the screening is often limited to an administrative assessment.

The net effect of the more stringent assessment procedures of AFM and DNB on the attractiveness of the Netherlands depends on the form of entry, as the regulation applies to Dutch regulated entities only, not to branches of financial institutions from the European Economic Area.

The screening procedures can lead to higher costs and uncertainty for candidates and more requirements for financial institutions to fulfill when attracting candidates for key positions. A possible positive effect of the screening is that it can increase the quality of executives at financial institutions.

Find a detailed analysis in our report *The Dutch Disadvantage?*, a research into the effects of the Dutch regulation for the financial sector.

The supervisor's screening is on integrity and suitability

- The ***Integrity screening*** consists of an assessment of qualities such as sense of responsibility, abidance of the law, sincerity and discretion, as well as an antecedent check with local and foreign authorities. Supervisors need to establish that the daily policy of the financial institution is determined or co-determined by persons whose integrity is beyond doubt. Unless circumstances or developments require otherwise, the integrity screening takes place only once and not again for new positions.

- The ***Suitability screening*** consists of an assessment of knowledge, skills and professional conduct, which should be evident from the training, work experience and competences of the person concerned as well as the continuous application thereof. It is being assessed on the basis of information provided by the financial institution, the candidate and national or international supervisors. Suitability is assessed for each new position when taking office and also when there are facts or circumstances that create reasonable grounds to reassess the suitability.

Suitability is judged in view of the competences of the board as collective

When a candidate for a board position is assessed, the skill set and heterogeneity of the entire board is taken into consideration. This underlines the policy of the supervisors that not one individual but all board members together should represent all required skills and competences.

In order to assess whether the collective board members jointly possess the competences needed for a financial institution, a suitability matrix will have to be filled out. This is a standard list of competences (although additions may be made) whereby each member indicates his level of awareness and understanding with either an L (low), M (medium) or H (high). Any L's of an individual board member may be compensated by a higher score of one of his colleagues, so that they complement each other. Also, the suitability matrix is used as a starting point for the conversation with the prospective board member that is being interviewed.

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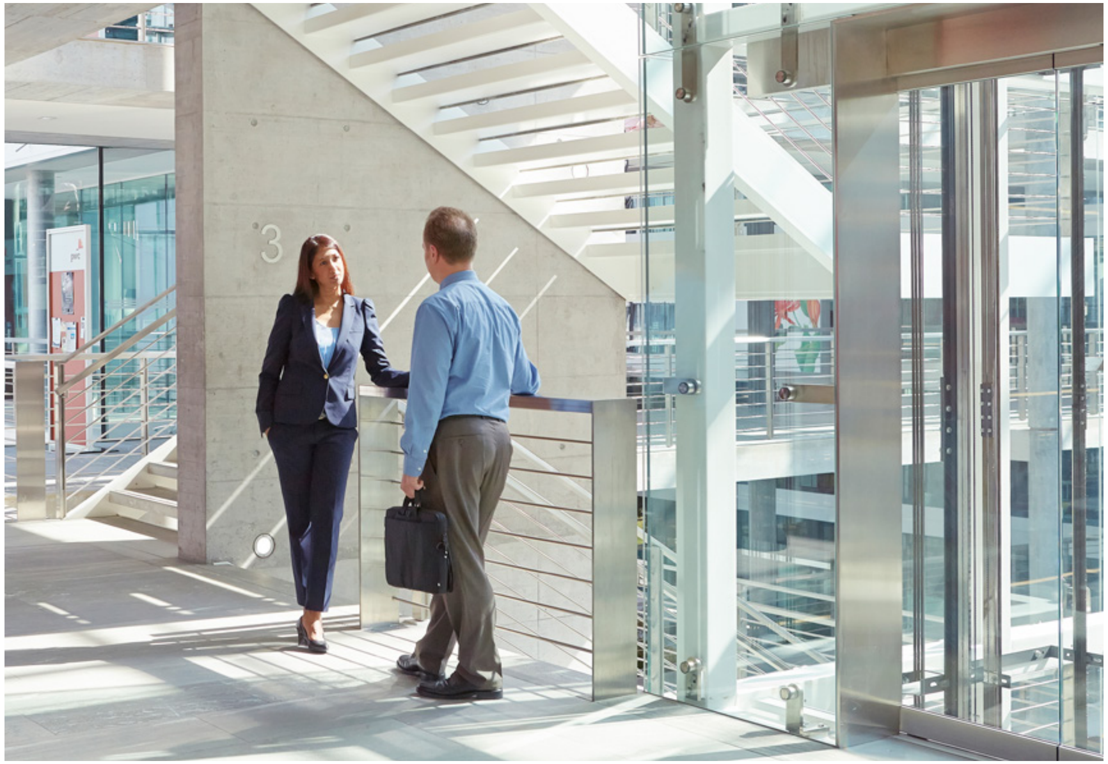


Contact

Jochen Blaffert
T: +31 (0)88 792 10 97
E: jochen.blaffert@pwc.com

PwC: 'Preparation is key'

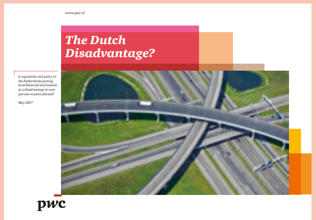
PwC Legal Regulatory partner Jochen Blaffert prepared several nominee executives and non-executives for the assessments of DNB and AFM. 'Candidates rarely look forward to the screening process' he says 'it is perceived as a difficult stage in the onboarding, which sometimes brings back memories from oral exams from their past'. 'However' he continues 'when well prepared, a fit and proper professional would normally pass the screening: preparation is key'.

PwC arranges for individual trainings for prospective board members to prepare for the screening process and the notifications to both AFM and DNB. In these trainings the regulatory context, corporate governance of the financial institution at hand as well as recent insights on supervision and the screening interview are elaborately explained.

The Netherlands is perceived to be strict on the financial sector, but reality is much more balanced

In the Dutch debate it has been frequently suggested that financial regulation in the Netherlands is stricter than the regulation in other countries, and that this leads to unfair competition for Dutch financial institutions and to a lesser attractiveness of the Netherlands as a country to establish local presence. We committed a thorough study into this (perceived) Dutch disadvantage and one of the main conclusions is that, across the board, the Netherlands is not stricter than other countries. Regulation in the Netherlands is actually less strict than other countries regarding some important aspects. For example Dutch banks were not required to split their retail and investment banking, or to issue new equity to improve capital ratios.

In an international perspective, the Netherlands is stricter concerning four areas: remuneration (bonuses), the leverage ratio for banks, the ban on inducements and the assessment procedures for (non-)executives of financial institutions. At the same time we found that the consequences of this strict regulation are not as straightforward as it is often suggested. Each measure has its potential effects but they are not the same for every financial institution or for every legal form. And strictness as such doesn't necessarily affect the attractiveness of the Netherlands. Financial institutions who choose the Netherlands as its location may benefit from it as well.



Our experts have analysed the effects of the Dutch regulation for banks and insurance companies in a very balanced way. Their results are presented in The Dutch Disadvantage?