Monitoring Committee Corporate Governance Code

Postbus 20401

2500 EK Den Haag

Amsterdam, 6 April 2016

Re: Response to the Proposal for Revision of the Dutch Corporate Governance Code

Dear members of the Monitoring Committee,

We are a leading global technology-enabled liquidity provider that specializes in Exchange Traded Products (ETPs). With 268 employees at year-end, we ensure that our trading desks in Europe, the Americas and Asia provide liquidity across all major exchanges, globally, 24 hours a day. Founded in 2004, we continue to cultivate the entrepreneurial, innovative and team-oriented culture that has been with us since the beginning. We were listed on Euronext on 10 July 2015 and were included in the Amsterdam Midkap Index on 21 September 2015.

Flow Traders welcomes the Proposal for Revision of the Dutch Corporate Governance Code (Proposal). As a recently listed company, we acknowledge the importance of good corporate governance and embrace the opportunity to contribute to the formation of good corporate governance practices.

We support the direction of the Proposal, including its main themes. We especially applaud the simplified provisions on remuneration and the introduction of culture as a specific element of corporate governance.

In general, we underline the points raised by the VEUO in their comments to the Proposal. We specifically underscore their viewpoints on risk management accountability and the compliance with the Code. Where we have a different viewpoint or would like to emphasize a comment, we have done so in our input enclosed.

We hope that you will find our input useful and, if helpful, we are available to discuss our views with you.

Yours sincerely

Dennis Dijkstra, Co-CEO

Sjoerd Rietberg, Co-CEO

Eric Drok, Chairman of the Supervisory Board

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Comments to the Proposal for Revision of the Dutch Corporate Governance Code

1 Long term value creation

1.1. Long term value creation

- Striking the right balance between macro and micro is important where it concerns the company's strategy. In that sense, a company's short(er) term strategy should in principle be aligned and fitting within a company's long term strategy (and vice versa). We underwrite the fact that formulating a long term view on the company's strategy is important. However, we do hold the view that formulating an (elaborate) long term strategy may not be relevant, necessary, or even possible, for every type of company. Formulating a long term strategy, and subsequently implementing and monitoring same should at all times be put into the perspective of the company's specific business activities, its risk horizon and its type of stakeholders, i.e. all of the aspects formulated by the Committee on page 7 of the Proposal. The conclusion that a long term strategy may not be relevant, necessary, or even possible, should not by definition be viewed as divergent or "non-compliant". We suggest that the Committee revisits this provision taking the above into account.
- Second of all, formulating a long term strategy should not be at the expense of the company's focus on its short(er) term strategy. The current proposition of the Committee is mainly focused on the long term strategy. The Committee notes in its explanation to the proposals that the long-term focus does not mean that the 'here and now' can be disregarded; depending on the dynamics of the market in which the company operates, the strategy may continually require short-term adjustment. Regardless, we feel that the best practice provisions as proposed may lead to the management board and supervisory board spending a disproportionate amount of time on formulating, executing and supervising the company's long term strategy. We suggest (a) to formulate a best practice provision on the company's overall strategic management plan, including both long term and short term objectives or alternatively (b) to formulate a separate (set of) practice provision(s) on the company's short(er) term strategy.
- What constitutes a long term strategy in terms of timeframe depends on the type of company. We suggest not to put numbers to this horizon (e.g. 5, 10 or 20 years) but to specify that it is up to the company to determine what this horizon should be, taking into account among others its business cycle, risk horizon and business operations.

1.4 Risk management accountability

- As mentioned, we underscore the VEUO's comments where it concerns the best practice provisions on accountability and the proposed in control statement. We would like to emphasize that the obligation to issue these type of statements will lead to an undesired increase of costs and a large amount of work for the company from an operational point of view. It is questionable whether the suggested provisions will truly increase assurance or transparency where it concerns risk management, disclosure and reporting obligations. It seems more likely that these will merely feed a "box ticking" approach. We suggest that the Committee revisits these provisions keeping in mind the practical and cost implications for the company.

1.5 Role of the supervisory board and the audit committee

1.5.1 Duties and responsibilities of the audit committee (seen in conjunction with 2.1.4)

- It is unclear to us why the application of information and communication technology of the company should by default be supervised by the Audit Committee (1.5.1 (iii)). It is clear that technology is an integrated part of the company's (control) systems and that from a risk management point of view this function should be included in the audit performed by the internal auditor and the external auditor. From this perspective technology is an integral part of the audit committee's area of supervision, but it should not necessarily by default be responsible for all aspects of technology operated within the company. We note that this provision was also included in the previous Code. Since then, technology has taken even more of a flight in the day to day operations of any business. The Committee itself quite rightly observes that the world is in constant flux, with an ever increasing pace of change. It notes that board members should be able to respond quickly to the opportunities and risks presented by technological innovations. We agree, and would like to highlight that for some companies technology is a core part of their activities; we believe these type of companies will only continue to grow in number. Where technology is part of a company's core activities this topic may merit being monitored by a specialized committee. Overall, we feel that companies should be encouraged to assess whether their specific business activities may benefit from specialized committees with specific expertise, and the Committee might consider including some wording to that extent. This entails a "made to measure" approach rather than the current "one size fits all" approach. The same comment applies to the proposed best practice provision 2.1.4 on expertise of the supervisory board. There should be flexibility for the company to attract supervisory board members that fit with the specific needs of the company, be it in the field of technology or otherwise.

1.6 Appointment and assessment of the functioning of the external auditor

1.6.2 Engagement (seen in conjunction with 1.7.5)

- We endorse the VEUO's views on the balance of roles of the corporate bodies within the company's corporate governance, specifically where it concerns the role of the management board. We observe that the Committee expects a more active role of the audit committee (and the supervisory board). We would like to emphasize this should not be at the expense of the role and responsibilities of the management board. The company (represented by the management board) should not play a passive role or, even, be surpassed in being provided with information. For example, the proposed best practice provision regarding the engagement of the auditor mentions that the management board should "assist" and "facilitate" in the engagement process. It is unclear what the role and the (formal) responsibility or accountability of the management board is where it concerns the audit following appointment of the auditor: does this now solely lie with the audit committee? The audit committee is not a formal corporate body that can be held accountable - is it the Committee's intention that the responsibility of the audit will lie entirely with the Supervisory Board? Potential - and unwanted - outcome is that the management board will feel less responsible for the entire financial reporting process and the audit. Similar comment applies to the reporting of irregularities: if these are only reported to the audit committee, then how can the management board act / take its responsibility? These are only 2 examples and we suggest that the Committee considers these provisions carefully in terms of responsibilities of the separate corporate bodies within the realm of the company.

1.6.3 Accountability

- The last sentence will not have the desired outcome in practice. The supervisory board will not formally reject the audit committee's advice if it means that it will have to report on this in the supervisory board report. The audit committee and supervisory board will ensure that they are aligned outside of the formal meetings where it concerns the appointment of the auditor. This also means that part of important discussions regarding the capability, experiences and suitability of the prospective external auditor will take place "offline", in bilateral discussions, etc. The provision would potentially add value in crisis situations, but the fact that the provision can be complied with or explained may not be helpful in this respect. We suggest deleting this sentence.

1.7 Performance of the external auditor's work

1.7.2 Audit plan and external auditor's findings

- We underline all of VEUO's comments on the role of the external auditor within the corporate governance of a company. We would also like to emphasize here that we believe it will be difficult, if not impossible, for the external auditor to form a view on (issues surrounding) the company's culture. Because the culture of a company is by definition something that is perceived and understood first and foremost by those *within* the company, it will be difficult for an external party to (fully) understand, review, and comment on. The *internal* auditor may play a useful role in this respect. If a company's culture is at all assessed by *external* parties, and again, we feel this is a challenge (to say the least), we also question whether accountants - from a professional point of view - are properly equipped to perform such assessment. We suggest deleting the last sentence of this provision.

1.7.4 Consultations with the external auditor outside the management board's presence

- Given the suggested (increase of) responsibilities of the audit committee in the Proposal, we hold the view that the audit committee would benefit from having (periodic) informal meetings with the internal and external auditor outside of the formal meeting cycle. In these meetings they will gain a better understanding of the progress of the audit, the issues that may potentially arise, etc. The current wording does leave room for these meetings but we believe that by making this a best practice a higher degree of involvement will be encouraged and facilitated.

2 Effectiveness of Management and Supervision

2.1 Composition and Size

2.1.5. Diversity

- In principle, we endorse the fact that the Committee emphasizes diversity aspects should focus not only on gender but also on nationality, age, education and work experience. We believe that a diverse workforce can supply a greater variety of ideas and solutions to the challenges a company faces. We aim to attract and retain the best talent available, regardless of their gender, age, ethnicity, faith or sexual orientation. We set high selection standards. Qualifications of a particular candidate and fit with the company's needs always prevail when filling a position, whether it concerns the management board, supervisory board, or our employee base. For example, in 2015 only roughly 1 percent of applicants were offered a position in our trading department. We also underscore the VEUO's view that to the extent there is or will be overlap with legal quota, provisions should be deleted.

2.1.6, 2.1.7, 2.1.8, 2.1.9, 2.3.4 Independence of supervisory board and committee members; constitution of committees

- Although the proposition of the Committee is an improvement where it concerns independence of supervisory board and committee members, we believe that these provisions can be liberated further. The profile of supervisory board members is - to a certain extent - always linked to the company's business activities and the way in which it operates. We believe the company's focus should be on constituting a board that fits with this profile, where attention is being paid to striking a right balance between nationality, gender, age, experience, and active or retired backgrounds. The primary focus for the company should be to find board members that fit with the required profile. The ratio of dependent and non-independent board members may also be a relevant aspect to ensure that a certain degree of independent internal supervision is guaranteed; however, we believe that the working principle in the Code should be that the company has the liberty to determine the number of independent supervisory board and committee members, unless laws or regulations require otherwise. This should apply mutatis mutandis to the constitution of the company's supervisory board committees.

2.3 Organisation of the supervisory board and reports

2.3.5 Committee reports

- For practical purposes, we suggest to clarify that "reports" also includes receiving the minutes from the relevant Committee meetings.

2.3.6 Chairman of the supervisory board

- We suggest adding that the supervisory board (as a whole) has the obligation to maintain contact with the company's employee base. This should go beyond maintaining contact with the employee representation body (if any) and may include site visits, attending (management) meetings or pro-actively seeking contact with the company's (key) personnel.

2.4 Decision making and functioning

2.4.5 Development

- For practical purposes, we suggest that the company may carry out the annual review for identifying any aspects of training simultaneously with the board's self-assessment.

2.5 Culture

- We endorse the fact that culture has been addressed by the Committee as a separate item. We have always believed that our culture - and the preservation of it over the years - has defined our success. Since we started in 2004, our goal has been to foster a culture that encourages innovation, entrepreneurialism and risk-awareness, while focusing on drive, teamwork and ownership. We work hard to ensure our people are fully engaged with the business and feel passionate about taking ownership and delivering company-wide results. We believe that by providing our people with the right opportunities to develop the mind-set, skills and competencies needed for personal and professional growth, we create an organization ready to face future challenges and deliver stable growth. We reward contributions to the long-term success of the company as a whole, rather than to an employee's individual results or direct area of responsibility only. Our culture is underpinned by the four-eyes principle and by disciplined risk awareness at every level of the organisation. We do hold the view that, as with the long term strategy of the company, that the formulation, implementation and monitoring of the company's culture should at all times be put into the perspective of the company and the nature of its business activities.

We believe that the company's culture should be defined and disseminated by the management board. The supervisory board should supervise the management board in carrying out these activities and whether it sets the right "tone at the top". We also believe - and would like to underscore - that the company's employees help define and play an important role in safeguarding the company's culture. Everyone working at Flow Traders contributes to the company as a whole. We have implemented structures that safeguard and stimulate employee participation in every material aspect. We encourage our employees to share their opinions on a wide variety of matters and be as engaged as they can be. We have an open, collaborative culture, and everyone in the company has direct access to management to discuss any matter or issue, however big or small. We also discuss important developments during regular all-staff meetings.

3 Remuneration

3.1 Remuneration policy – management board

3.1.2 Adoption of the remuneration policy

We believe that remuneration should be aligned with the company's risk appetite, strategy and long-term interests. We safeguard those interests by awarding deferred cash bonuses, payable in multiple annual instalments held at risk of full forfeiture if the company incurs a loss.

If the company performs well, our employees and management should share the benefits. If it does not, they share the loss, in cash. We strongly believe this is a simple but highly effective manner to induce risk-aware, prudent behavior, in contrast to the line of thought that limited variable remuneration compared to fixed remuneration provides the right incentive.

In addition, we are a strong proponent of truly variable remuneration for risk mitigating purposes, particularly if the upside of company performance, but also the downside, is directly impacting our employees' and management's compensation and not guaranteed or 'as usual' in any way.

Variable remuneration is only awarded if our company is actually profitable, and is zero if it is not. In addition, awarded but unpaid deferred variable remuneration is reduced or entirely forfeited if the company incurs a loss. This is a much more far-reaching remuneration concept than we typically see in listed companies as the risk of losing awarded yet unpaid remuneration is real and there is no residual value (unlike when we were to pay remuneration in shares).

Given the nature of our company we keep fixed remuneration limited in order to have sufficient buffers to reduce (variable) pay in challenging times. Therefore, item 3.1.2 (iii) should not argue that a low proportion of variable remuneration versus fixed remuneration is better practice - we believe it is the other way around (if, and only if, variable remuneration is only awarded if the company's results warrant it and remains truly at risk for future losses during the deferral period).

In addition, we believe that remuneration should not be aligned with share price developments as this is not necessarily influenced by board or company performance and may promote the wrong incentives for management: overemphasizing share price performance may jeopardise the company's actual long term interests. Rather, we opt for rewarding management and employees for actual profit realized by the company, accruing to both our shareholders and our employees (through our profit sharing scheme) as this much more strongly aligns the relevant interests than if we would focus on share performance. Therefore we do not subscribe item 3.1.2 (iv) and suggest it be removed.

We also think that management should not be rewarded for targets that are fixed once a year, prior to a performance year. We rather opt to have management performance assessed throughout the year particularly as markets circumstances may fluctuate heavily during a year and management actions and performance should be continuously assessed by the supervisory board against that background: targets and awards should therefore remain subject to those developments during the year as they cannot reliably be predicted months in advance. Item 3.1.2 (vi) should leave room for such implementation.

Finally, we believe that a remuneration policy should be truly firm-wide: incentivizing risk mitigating and prudent behavior is relevant for all our employees, not just our board. Therefore we apply remuneration practices that are similar for all our employees, from support functions to our management board. In addition, we are of the opinion that variable remuneration should be awarded for an employee's contribution to the firm as a whole. We do not reward individual or team financial results in order to prevent 'star behaviour'.