



# AFM Agenda 2023

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# Preface

## Moving with the times

War in Ukraine, high natural gas prices, plummeting disposable incomes, high inflation followed by an interest rate rise, a shrinking economy. As Leonardo da Vinci famously said, everything follows from everything and everything connects to everything else. That also holds true for sustainability: extreme weather conditions, the CO<sub>2</sub> emissions issue, the fish-meat-vegan debates, strict criteria for major polluters, and ESG reporting. And for digitalisation: from self-learning algorithms to cybersecurity, from customised products to exclusion. Everything follows from everything and everything connects to everything else.

But if everything is interconnected, then how should we deal with developments and risks? Regulate everything in detail in the hope to get problems under control? Will that help us tackle the core issue? It will not work. It is not desirable. Of course, new rules are introduced regularly – the financial sector is changing all the time – but these rules are always one step behind the developments. In a world of predictable unpredictability, we need something else.

Our adage is to adjust, adapt and channel. This applies to the financial sector, to the government, to citizens and investors, as well as to us as a supervisory authority. A sensible approach to change implies sensible adjustment. Sometimes this means issuing injunctions and bans – a supervisory authority cannot loosen the reins – but it primarily means communicating what you expect from the sector and thus providing guidance on how to deal with the developments.

However, moving with the times is easier said than done, especially these days. Changes trigger feelings of insecurity and concern. High energy bills, for example, pose an existential threat to households and companies alike. In such circumstances,

it won't do to simply call on people to demonstrate adaptability or self-reliance. That said, society must learn lessons from these dark days. By maintaining healthy buffers, you can cushion the impact of setbacks; that holds true for individuals, companies and countries.

What is more, this changing society requires a proactive mindset, certainly in view of the sustainability issue and ongoing digitalisation. Without wind turbines and solar panels, the words 'energy crisis' will always be part of our vocabulary. If we let digitalisation happen without anticipating its impact, individuals and companies may become the victims of cybercrime or succumb to the siren call of cryptocurrencies. This will require mental resilience on everyone's part. Because the idea that regulation will solve every problem is an illusion.

A changing world requires adaptable and learning organisms and therefore also an adaptable and learning AFM. The aim is to be a data-driven organisation with people from different fields of expertise, which detects but prefers to prevent risks. As the saying goes, every cloud has a silver lining. Every unpleasant situation ultimately also has a positive side to it. It is this thought that will inspire the AFM's efforts in 2023, and thus help us contribute to a sustainable financial well-being in the Netherlands for another year.

Amsterdam, 12 January 2023

Laura van Geest, Chair  
Hanzo van Beusekom  
Jos Heuvelman  
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# 01 Key developments

Each year, the AFM conducts an environmental analysis of developments that affect our strategy and our Agenda. The trends and major developments in society remain partly the same from one year to another. However, in the last few years we have also seen some unexpected events, such as the coronavirus pandemic and more recently the war in Ukraine, which caused significant changes in society and the economy over a short period. We describe these developments briefly in this section. For more detail, please refer to our [Trend Monitor](#) publication.

## Trends

**Compared to last year, the geopolitical and macroeconomic picture has changed dramatically.** Whereas early in 2022 the main sentiment was cautious optimism about the imminent end of the coronavirus pandemic and the associated lockdowns, there is now a feeling of permanent crisis. The decisive turning point was the Russian invasion of Ukraine, which helped drive up energy prices to unimaginable levels and pushed inflation – which was already rising before the invasion – to a record high. The surge in energy prices and price increases for numerous other goods and services have had a major impact on households (loss of disposable income) and companies (production costs, transport costs).

**The economic picture emerging from this transformed environment has two faces and is characterised by a high degree of uncertainty.** The Dutch economy has continued to grow following the Russian invasion of Ukraine, and even at a faster rate than expected. As there are still many vacancies, the labour market remains tight and the unemployment rate remains low. Due to factors such as high inflation, consumer confidence has plummeted. However, consumer spending is still at a high level, partly because of catch-up demand in the wake of the coronavirus lockdowns. Because of those lockdowns, groups of households accumulated

considerable savings in recent years and therefore have sizeable buffers. The general expectation is that the Dutch economy will grow at a considerably slower rate in 2023, or may even stagnate. In this context, forecasts such as those published by the Netherlands Bureau for Economic Policy Analysis (CPB) point to great uncertainties in the economic climate, in particular where the development of energy prices is concerned.<sup>1</sup>

**Different effects can also be perceived at households and companies.** To what extent the high inflation rate and high energy prices cause acute problems for households depends on many individual factors, such as the remaining term of the fixed-rate energy contract, whether solar panels are installed on the roof and the level of home insulation. This means there are households who experience relatively few consequences and those whose ability to pay for basic amenities is directly affected ('eat or heat'). The picture varies widely for companies as well. Companies that can pass on the cost increases to their customers have managed to retain or even increase their profitability, whereas companies that are less able to pass on costs are experiencing difficulties. Meanwhile, the government has rolled out large-scale support packages which alleviate the consequences of high energy prices and high inflation. A significant measure to support disposable household incomes is the introduction of an energy price cap. The challenge is to direct this support where it is most needed. If a substantial part of the (general) support measures ends up with households and companies that are not in immediate need of this support, then it may trigger additional spending that drives up inflation even further.

<sup>1</sup> [Macroeconomic Outlook 2023](#), CPB, September 2022





**After more than 10 years of steady decline, interest rates are going up.** In response to the high rate of inflation, central banks are increasing policy interest rates in sizeable increments. The immediate effects of rising interest rates are limited for now. Interest rates for mortgage and consumer loans are increasing. However, given the long mortgage terms and the fact that mortgage rates are generally fixed, the rising mortgage rates only affect new mortgages and a small number of mortgages where the fixed-interest period expires. The consequences are more noticeable at pension funds: the interest rate rise is the key factor in the recovery of their coverage ratio. The indirect consequences of the rising interest rates and the underlying cause – inflation – are considerably more far-reaching. This has resulted in falling share prices and, by extension, has hit more risky assets (cryptocurrencies, tech sector, SPACs) even harder. The declining search for yield, due to rising interest rates, has increased the robustness of the capital markets.

**For now, the financial markets have weathered the geopolitical and economic turbulence.** In the wake of the financial crisis, the system for professional market participants was reinforced through measures such as those relating to risk management and larger capital buffers, in order to prevent a recurrence of a crisis of such a magnitude. These reinforcements seem to have borne fruit. However, there will always be areas that require attention. Examples include the current challenges in the futures market for natural gas (see Chapter 3 of the Trend Monitor). With regard to households, the suddenly worsening (disposable income) situation underlines the usefulness of various consumer protection measures, such as the borrowing standards that limit the scope for taking out consumer and mortgage loans. Nevertheless, the vulnerability of (specific groups of) households will continue to pose a challenge in the coming period. Financial service providers in particular will need to pay extra attention to their duty of care.

**In addition to the acute changes, structural transitions and trends are continuing as well.** The importance of the transition to a sustainable society is becoming increasingly pressing. Climate change and the associated extreme weather conditions, and at national level also the nitrogen issue, are already having major consequences. The AFM devotes a great deal of attention to promoting transparency about the impact which companies have on their living environment and to the ways in which the financial sector can fulfil its role in facilitating financing flows to





companies and projects that help increase sustainability. A key factor in this context is improving the reporting by companies on their sustainability risks and performance. Due to the increasing focus on sustainability, sustainable investment is becoming more popular. This has resulted in a growing range of investment products. However, the manner in which investments contribute to the sustainability transition is not always clear to consumers (see Chapter 4 of the Trend Monitor). Likewise, digitalisation and platformisation are triggering major changes to the way in which financial products and services are being marketed and purchased. The increasing dependence on digital systems, coupled with the trend to outsource digital business processes, is leading to vulnerabilities in the financial sector. New European laws and regulations aim to influence the direction of various digital developments and tackle potential risks. DORA, for example, aims to reinforce the digital resilience of companies, while MiCAR represents a first step towards the regulation of cryptocurrencies. Absorbing this increasing regulatory pressure also places a heavy burden on the sector. The trend of internationalisation means that financial markets are becoming ever more international. In addition to the positive effects of an expanded product range and greater diversity in suppliers, the cross-border nature of financial markets leads to cross-border risks that are becoming increasingly difficult to address adequately at the national level. In response, there is a movement towards further internationalisation of supervision and supervisory convergence.

## Risks

**The risk maps in the Trend Monitor give an overview of the key risks in each supervisory area.** The risk maps show the knock-on effect of the changing environment on specific risks. Risk maps have been drawn up for each of the AFM's four supervisory areas: financial services, capital markets, asset management, and financial reporting and audit firms. Certain risks in each supervisory area are explained in more detail below, but for the full overview, please refer to Chapter 2 of the Trend Monitor.

**Financial services.** The topic that stands out in the area of financial services is the pensions transition. This system change is complex and has far-reaching consequences for millions of households. Furthermore, the transition involves high-impact and irreversible choices that individuals need to make around their retirement date and while they are employed. This increases the importance of providing careful guidance on the decisions to be made. In addition, the AFM looks at the way in which the high inflation and, by extension, the rising interest rates might affect the risk of overextension of credit. The risk map also identifies points for attention relating to the easy access to high-risk products such as cryptocurrencies, the pressure which the consolidation trend in the financial services sector may place on the quality of the services, and consumers in vulnerable situations who are lured into purchasing less appropriate, or even illegal, financial services.

**Capital markets.** When it comes to the capital markets, macroeconomic circumstances, geopolitical tensions and climate change are causing turmoil and uncertainty in financial markets. This may disrupt the orderly functioning of markets. In addition, extensive digitalisation places great demands on the controlled business operations of institutions active in the capital markets. Therefore, the AFM monitors the operational digital resilience of institutions. This involves aspects such as preventing technical breakdowns and outages, the use of AI and keeping cybersecurity up to date. Finally, market dynamics and complex regulations contribute to concentration in the trading chain due to the 'winner-takes-all' effect (the effect whereby only a single player can operate at a profit in a particular market). The dependence on a small number of institutions makes markets less robust.

**Asset management.** In the supervisory area of asset management, we focus on topics such as the strategic repositioning of parties and the outsourcing of activities. These have an impact on the strategy of asset managers and may put pressure on sound and controlled business operations. We have also observed that technological developments and digitalisation are changing the business operations of asset managers and the asset management chain, and we highlight the risk that the asset management sector still appears insufficiently resilient in relation to cyber incidents. We also address the key role played by asset management parties in the sustainability transition. For example, it is important that asset managers incorporate sustainability in their business operations, control the risks associated with the



sustainability transition and are transparent to investors as to how they give substance to sustainability. Because of the high level of volatility in the capital markets, we focus closely on liquidity risks in the asset management sector, as these may impair the financial stability of the system.

**Reporting and audit firms.** Digitalisation and the sustainability transition of the economy are changing the nature of audited companies and give rise to new material risks, which places different requirements on reporting and statutory audits, and creates the risk that these changes are inadequately implemented. Furthermore, the sustainability transition and the current economic situation give rise to an increased risk of fraud and may jeopardise audit clients' business continuity. Audit firms themselves are also changing, due in part to digitalisation, which results in new control risks. In addition, there has been an important change in the supervision of audit firms: the transfer of the operational supervision of the segment of audit firms with a regular licence to the AFM. One of our activities therefore is to increase our understanding of the integrity risks in this segment.

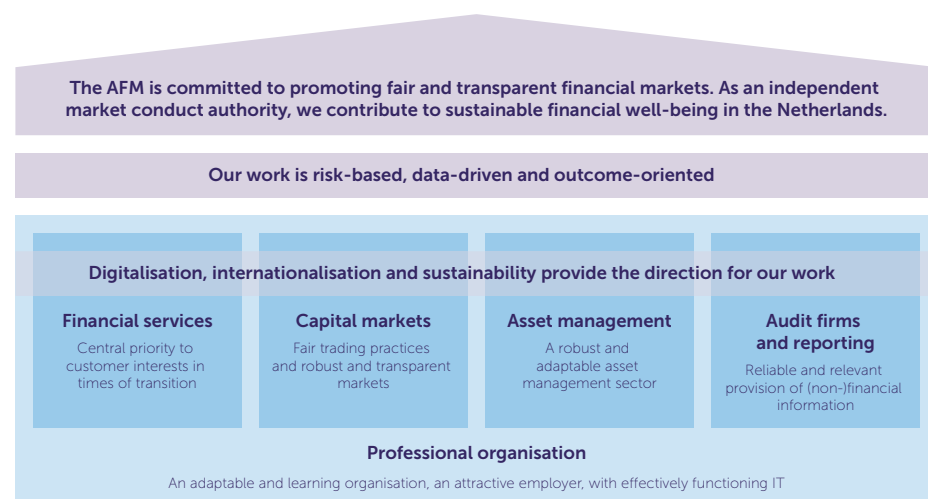




## 02 Strategy

In 2022, the AFM renewed its strategy. The [AFM Strategy 2023–2026](#) is a recalibration of the Strategy 2020–2022. Because the external developments are largely comparable with those of the previous period, this strategy is not fundamentally different but follows on from the earlier strategy.

The strategy is summarised in the figure below.



The AFM's mission provides direction to the performance of our statutory duties. The AFM's mission is as follows: 'The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to sustainable well-being in the Netherlands.'

The AFM applies a supervisory approach which is risk-based, data-driven and result-oriented. 'Risk-based' means that the AFM concentrates on issues that may cause the greatest harm to consumers, investors and other market participants. 'Data-driven supervision' means that we formulate risk hypotheses and risk indicators, identify the need for information, and collect and provide access to data. This enables us to systematically monitor, understand and effectively tackle risks. 'Result-oriented' means that we aim to realise maximum impact with the formal and informal instruments at our disposal. In order to achieve the best result, we take into account behavioural motives and causes.

Digitalisation, internationalisation and sustainability are the three long-term trends that have a major impact on Dutch society, the financial sector and the AFM. These trends provide direction to our supervision. The most recent analysis of these trends is summarised in Chapter 1 and discussed in detail in our [Trend Monitor](#) publication.

The AFM's mission and external developments have been translated into multi-year supervision objectives for our four supervisory areas. The objectives for the coming year are set out in Chapter 3.

A professional organisation offers a solid foundation for achieving our supervision objectives and mission. The objectives in this area are described in Chapter 3.5.3.





## 03 Priorities and key activities in 2023

The AFM will make seven topics the focus of its supervision in 2023.

### Ongoing digitalisation

The AFM will give priority to market participants which make products easily available via apps, and to digital marketing towards consumers. The AFM wants to prevent consumers from being nudged in the direction of products or services that are not primarily in their interest. The supervision of the digital aspects of controlled business operations will be intensified, partly in response to the introduction of DORA. The introduction of MiCAR requires developing our cryptocurrency supervision and mitigating the residual risks.

### Sustainability

We encourage issuers and financial market participants to adequately control and integrate sustainability risks. The AFM aims to prevent investments that are profiled as 'green' when this is not really the case. Companies must report in a coherent and well-balanced manner on the impact of ESG factors and on the manner in which these factors impact the business model. The AFM requires financial institutions to properly apply the secondary legislation related to the SFDR.

### Transition to a new pensions system

The transition to a new pensions system in the coming years will have a substantial impact on the sector and pension scheme members. The AFM gives guidance to the sector and identifies and acts on risks. In doing so, the AFM constantly emphasises the scheme member's perspective. We find it important, for example, that scheme members are informed in good time what the transition will mean for them personally. The asset managers also play a key role in this system change. For this reason, the AFM will devote extra attention to the sound and controlled business operations of asset managers during the transition phase.

### Putting the customer's interests first

Consumers can get into financial difficulties due to overextension of credit as a result of rising interest rates, due to non-insurance or underinsurance, and due a lack of proper care, including aftercare, on the part of financial service providers. We prioritise these themes as part of 'central priority to customer interests'. We are in discussion with the sector and the legislator because the term 'advice' in the Financial Supervision Act (Wft) does not cover the management phase of products and services. We are looking forward to the outcomes of an investigation launched by the Ministry into the practical consequences and the advisory needs of consumers.

### Implementation of the renewed Audit and Reporting Quality strategy

We are further developing data-driven supervision by expanding and where necessary building up our data position, thus making supervision more risk-based. We are also standardising and automating processes where possible and increasing our impact through greater adaptability. More attention will be devoted to transparency about the extent to which companies achieve sustainability goals, and to the gate-keeping role of auditors in relation to fraud and continuity or discontinuity.

### Use of data in and for supervision

We are placing greater focus on the transaction reporting requirements by making these reports accessible on our centralised data platform. We will give priority to tackling cross-platform market abuse. We will cooperate with national and international supervisory authorities in order to improve the quality of data. We will hold consultations with the Ministry about a proper legal foundation for regular data requests and with the sector about the prerequisites. We will give priority to improving our own data position, for example in CRM. Data quality is a crucial prerequisite for the professional organisation.



### Exerting international influence

The great majority of the laws and regulations under our supervision have their origin in Europe. The AFM must be well represented in international policy discussions. Key themes in this context include the capital markets union, the Retail Investment Strategy, Consolidated Tape, sustainability and European Single Access Point (ESAP). We cooperate in Europe with the aim to create the greatest possible consistency in (new) laws and regulations and in the level and convergence of operational supervision. In this context, we try to achieve adequate powers for 'host' supervisory authorities.

In addition to these supervisory priorities, the AFM also has three internal priorities:

- Facilitating that the AFM is an adaptable and learning organisation;
- Ensuring that the AFM is an attractive employer;
- Implementing the renewed IT strategy.

This chapter sets out AFM's key priorities, detailed for each of our supervisory areas: financial services, capital markets, asset management, and the accountancy sector. Our strategic supervision objectives (see Chapter 2) have been translated into priorities and (regular) activities for 2023.

## 3.1 Supervision of financial services

### Central priority to customer interests in times of transition

Society is facing momentous transitions that will affect everyone. The financial sector is digitalising fast, we are making the transition to a sustainable society, and the new pensions system marks the start of the greatest reform of our social system in years. These transitions will alter the range of financial products and services and our supervision of these products and services.

'Central priority to customer interests in times of transition' will be the basic principle underlying our supervision in 2023. Due care in dealing with customers during these transitions is part of this process. This means that consumers need to know what they can expect, buy products that are actually beneficial to them and not take unsuitable risks. This is important, because the macroeconomic climate has deteriorated. The

transitions will take place at a time when inflation rates have soared and households are already in difficulty because of the high energy prices. Although interest rates on savings are rising as well – and pensions can therefore be indexed – the risks on, the housing market, for example, are increasing accordingly.

### We aim to achieve the following in 2023 in the supervision of financial services:

- The AFM will provide clarity on how the pensions sector must handle the implementation of, among other things, new open standards such as decision-making guidance, engagement confirmation and risk preference of pension members. To ensure that pension scheme members' interests are given central priority in the new pensions system, proper implementation of new standards is essential.
- Financial service providers will prevent overextension of credit, in particular in the light of rising interest and inflation rates. In addition, they will reduce the risk of non-insurance or underinsurance. They should not lose sight of their duty of care, which will continue after a customer has purchased a product.
- Financial service providers will use digitalisation in the customer's interest. This means that the greater accessibility of financial services will not detract from the safeguards for the customer's interests. This applies also to execution-only. The influencing of customers through apps and websites, the use of customer data and online marketing, the product range and the personalisation of insurance premiums will contribute to customers' well-being.
- Financial service providers will comply with the new legislation on sustainability that will enter into force in January. This will reduce the risk of greenwashing and will help customers make a well-informed choice that is compatible with their sustainability ambitions.



### Priority 1: Digitalisation should be in the customer's interest

The digitalisation of the financial sector brings benefits for consumers. Innovations and cost-effective solutions help make financial services more easily accessible. As a result, retail investors, for example, can easily invest in a wide range of products. In addition, such innovations make information more accessible and visual.

However, there is a downside as well. The digitalisation process can be so fast that current laws and regulations may be inadequate. It is also important to handle customer data with due care, not only for security reasons but also to prevent the exclusion of certain groups. Large quantities of (personal) data and the application of algorithms make it increasingly feasible for insurers to assess [risks on an individual basis](#) and to tailor the insurance premiums to those risks. This can be to the benefit of healthy consumers. At the same time, it puts pressure on consumers with a higher risk, as well as a strain on solidarity. The AFM considers this undesirable. Furthermore, insurers may use spurious variables in order to determine the level of the premium and increase their profit margin. This might have the effect, among other things, that consumers pay different premiums for the same insurance based on personal characteristics. The AFM finds it important that insurers, in developing their products, always check whether the customer's interests are safeguarded in such cases and have been assigned sufficient weight.

Likewise, lenders increasingly make use of automated systems and customer data when extending loans. Errors in a calculation model which determines how much customers may borrow, or in the data used for that purpose, can lead to the overextension of credit. In addition, consumers can (unknowingly) take on too much debt due to forms of borrowing that resemble payment services from a consumer's perspective. The introduction and rapid growth of 'buy now, pay later' in online purchases can also entail risks for consumers, especially since this payment method is increasingly offered as the default 'payment option'. Customers often incur considerable costs if payment is overdue.

Digitalisation of the services and business operations of financial service providers helps achieve greater efficiency, but can also cause vulnerability. For example, it makes service providers vulnerable to cyber attacks. This also applies to consumers. First of all, the services they receive depend on the digital resilience of banks, insurers

and advisers. In addition, companies store sensitive financial information using media such as the cloud. The damage caused by cyber attacks can be considerable, while this damage is covered less often or for a lower amount than policyholders think or expect. Providers of cyber insurance policies must give (future) customers clear and balanced information on what is covered and what is not, and on the amount of cover. Obviously, it is also important that financial service providers protect themselves and their customers adequately against cyber risks.

Because of digitalisation, the number of investing households has [risen](#) from 1.4 to 1.9 million. Generally, they invest online, without the involvement of an adviser. One third of 'execution-only' investors make unnecessary mistakes, however, such as overtrading or taking too much risk. Because of this, 12% of investors may end up in financial difficulties. Digitalisation and the use of social media as a source of information can exacerbate investor errors. Parties known as 'neo-brokers' play an important role here: neo-brokers are highly tech-driven, often 100% digital, and offer easily accessible services to a large target group.

By using (psychological) insights into consumer behaviour, providers can steer or nudge their customers towards a particular choice. Especially where services are provided online, steering can have a strong effect on the choices customers make. There is a risk that a customer is saddled with a product that is actually too complex. Another example of steering is 'gamification'. In this context, the providers use gaming elements in making their services accessible. Gamification has a steering effect as well.

An important aspect here is the decision-making environment, i.e. the full context in which retail investors make their investment decisions. Examples of this include personalised marketing or social media, licensed or unlicensed financial influencers who promote investments in a non-transparent manner, and incentives customers experience in an app, such as confetti showers when carrying out a transaction. Here, too, it is important that providers of investment services keep giving central priority to the customer's interests in their marketing and when designing the decision-making environment. The decision-making environment always exerts some influence; it is important that consumers are encouraged to purchase appropriate products.



In addition, the AFM takes part in international debates and policy discussions so as to ensure that consumers remain adequately protected during the digital transition of investment services. An example is [payment for order flow \(pfof\)](#), a practice whereby brokers receive a fee for arranging the execution of orders. The AFM is in favour of a European ban on pfof.

From 10 November 2021, crowdfunding parties must have an AFM licence pursuant to [European regulations](#). Via crowdfunding platforms, consumers can purchase a share in a company, or lend money to a company that wants to raise money via the platform. To a certain extent, this is comparable with companies that issue shares or bonds via the regular stock exchange. They must therefore inform consumers properly and enable them to make a well-founded decision.

#### Key activities

- In 2023, the AFM will give priority in its supervision to neo-brokers operating in the Netherlands. These also include any potential foreign providers. The aim is to examine whether the neo-brokers give central priority to customer interests in distributing and selling investment products. Thus, providers are prevented from steering their customers towards inappropriate products.
- The AFM will take part in a European review of online marketing directed at retail investors and will check in this context whether this online marketing is in the customer's interest. Because investment services are often cross-border services, it is important to perform this review at the European level.
- The AFM will conduct an initial review of crowdfunding platforms. We will examine whether the platforms comply with the statutory requirements under the new European regulation.
- The AFM will monitor whether innovative insurance products put the customer's interests first and will intervene if this is not the case, so as to prevent customers' interests from being harmed.
- The AFM will conduct a follow-up review of the manner in which insurers use customer data for the purpose of determining insurance premiums at individual level, in order to prevent that particular groups of consumers are in danger of becoming uninsurable.

#### Markets in Crypto-Assets Regulation (MiCAR)

Cryptocurrencies remain a point for concern. A review has shown that one in five Dutch citizens aged 16 or above own cryptocurrencies, albeit mostly in relatively small amounts. Cryptocurrencies are high-risk and complex products that entail major risks for consumers. Under the current regulations, cryptocurrencies are not subject to the AFM's supervision. However, financial products or financial services based on cryptocurrencies do come under our supervision. The AFM regards the introduction of MiCAR in 2024 as a first step towards the regulation of the crypto market. Although MiCAR sets rules for particular issues of cryptocurrencies or tokens and crypto services, it is not a holy grail. The exact scope and requirements that will apply are to be determined at the European level in the coming year. It is expected that MiCAR will come into force in 2024, whereby a part of the cryptocurrencies will become subject to supervision. Some cryptocurrencies will remain outside the scope of the AFM's supervision. Until MiCAR comes into force, the largest part of the market will yet be subject to the AFM's formal supervision and our activities will primarily consist of warning and raising awareness about the risks associated with cryptocurrencies. In 2023, the AFM will prepare itself for the new supervisory duties from 2024.

#### Priority 2: Responsible choices for a healthy financial future

The new pensions system, rising interest rates and high inflation entail risks and uncertainties for the financial situation of consumers. If providers and advisers do not offer them appropriate products and do not continue supporting their customers on an ongoing basis, there is the risk of poor choices and reduced financial resilience. The result will be financial problems. The duty of care applies not only at the moment when the financial services or products are purchased, but also afterwards.

It is important that the financial health of Dutch households receives broad social attention, and that citizens are stimulated to review their financial situation with some regularity. Just like a car needs to be inspected once every few years, consumers should also consider once every few years, or on important occasions such as graduation, marriage and parenthood, whether their financial situation is still as it should be. The AFM is happy to contribute ideas from the consumer's perspective on



ways in which people can be encouraged to periodically review their finances.

The pensions transition is one of the largest reforms of the social system in decades. The changes have an impact on pension scheme members and the pensions sector. New legislation gives pension providers new duties and responsibilities. Pension providers must inform (former) scheme members and pensioners about a wider range of subjects, for example about the fluctuations in retirement income. They must ascertain their scheme members' risk preference and the amount of financial risk they are able and willing to bear. They must also guide scheme members in making (high-impact) choices. Protecting scheme members with these safeguards – and, by extension, conduct supervision – [will become more important](#).

If the transition is to be successful, it is important that the [pension providers' records](#) are in order and the transfer of the pension capital to the new system goes smoothly. In addition, scheme members must be notified correctly and in good time of possible changes to their retirement income. Involving the scheme members at an early stage will increase the credibility of and support for the new system. Retrospective adjustments are not only complex, but also undermine the credibility of the new pensions system and the transition.

A large group of Dutch citizens in work accrue no pension or too little pension in the second pillar (accrual via the employer). These may be self-employed workers who are not associated with a pension fund, but also employees whose employers offer no pension scheme or a low pension scheme. It is important that people are aware of the fact that they are accruing little or no pension. They may decide to save up for their pension themselves, through what is known as the third pillar. However, we have noticed that self-employed workers are relatively reluctant to contact providers of third-pillar products. This may be because they have too little money left to save, prefer to invest their money in their business, or find pensions too complex. As a result, they risk having too little income for their old age and do not realise this in time.

The problems in the housing market continue to exist. First-time buyers on modal incomes find it nearly impossible to buy a suitable home. Buyers on the housing market can easily be tempted to borrow the maximum amount in order to buy a

home. An additional factor is that Dutch households already have a high mortgage debt in comparison with other countries. This is reason for concern, because debts will make a person vulnerable if they should, for example, lose their job or get divorced. The AFM considers it important that mortgage lenders and advisers give central priority to the customer's interests and help consumers make responsible choices.

The macroeconomic conditions of higher shopping bills, energy prices and rising interest rates are tightening the squeeze on consumers, in particular on vulnerable consumers. Against this background, it is essential that consumers make responsible choices when purchasing high-impact products. Likewise, the repayment of any consumer loans should not be postponed indefinitely.

#### Key activities

- The AFM will support the pensions sector in implementing new requirements such as decision-making guidance, risk preference assessment, the communication plan, pension advice, provision of information and engagement confirmation, so as to ensure that the sector implements these requirements properly.
- The AFM will review so-called marginal pension schemes (in which scheme members accrue a very low pension amount) with the aim to prevent disappointment at the time of retirement.
- The AFM will conduct a follow-up review of the correctness of pension information which providers supply to scheme members. This follows from an earlier review of the quality of pension records and helps ensure that scheme members are informed properly about the new scheme.
- In a market view, the AFM will identify the main risks and developments in the third-pillar market in light of vulnerable groups and relevant developments such as the new pensions system and macroeconomic developments.
- The AFM will examine whether automated acceptance processes ensure that the loans individual customers are provided with entail a responsible level of borrowing.
- The AFM will investigate how to design of the supervision of providers of 'buy now, pay later' services.
- The AFM will encourage financial service providers to stimulate consumers to review their financial situation periodically by facilitating or encouraging potentially successful initiatives.





- The AFM will examine whether mortgage advisers give adequate advice, and whether the loans provided as part of non-standard solutions entail a responsible level of borrowing.
- The AFM will conduct a follow-up review of the manner in which service providers evaluate their financial products. This is part of the product approval and review process. The purpose of the review is to check how products work under different conditions. This ensures that financial products will also be in the customer's interest in times of high interest rates or rising inflation.

### Priority 3: A safe financial transition to a sustainable society

When there were floods in the southern part of the Netherlands in the summer of 2021, it emerged that many homeowners did not know which property damage was covered by their insurance policy and which wasn't. The government then paid compensation for the property damage, but also made it clear that it would not foot the bill for such (large-scale) damage in the future. Insurers must provide (potential) policyholders with clear information about the scope of the insurance cover and, when developing their products, take into account what customers can reasonably expect.

Under new European legislation, brokers, advisers and asset managers are obliged to ask customers about their sustainability preferences. This is meant to ensure that customers taking out life insurance, or another policy with an investment component, receive a product that is in line with their wishes regarding sustainable investments. Providers of such products must consider aspects such as the sustainability ambitions of the target group when developing the financial product, so as to prevent customers from purchasing products which are not compatible with their sustainability ambitions and objectives.

Since 2021, all financial institutions and advisers must inform customers in detail on how they invest sustainably. They do so pursuant to the European Transparency Directive ([Sustainable Finance Disclosure Regulation](#)). Dutch institutional investors can play a key role in the transition to a sustainable society, due to their size and long investment horizon. It is essential that institutions live up to their promises regarding sustainable investment, and that customers can compare products on the basis of sustainability criteria. A review by the sector of [compliance with the SFDR](#) revealed





that the great majority of institutions have taken the necessary steps, but that there is room for improvement. The AFM understands the challenges and complexity of the regulations and will enter into dialogue with the sector about the provision of information on sustainability, also with a view to the entry into force of the level 2 legislation.

### Key activities

- The AFM will conduct an initial review of the manner in which advisers and asset manager ask their customers for their sustainability preferences. This will provide us with a picture as to whether customers actually buy products that are aligned with their sustainability ambitions.
- The AFM will enter into dialogue with pension providers about the SFDR, and will conduct follow-up reviews at banks, insurers and collective investment schemes regarding compliance with level 2 legislation related to the SFDR effective from 2023.

### Regular activities in the supervision of financial services

In 2023, the AFM will continue to devote a significant portion of its capacity to regular duties with respect to the supervision of financial services:

- Processing licence applications and exemptions for financial service providers. Financial service providers are obliged to obtain a licence from the AFM in order to be active in the market.
- Assessing whether policymakers, Supervisory Board members and co-policymakers are fit and proper. A company's policymakers and co-policymakers and its Supervisory Board members must be persons whom the AFM assesses to be fit and proper for this position and the duties it entails.
- Monitoring innovation in the market, with a focus on new entrants, product design and the development of automated processes. We do so by monitoring developments in the media, scrutinising new products and remaining in dialogue with market participants, the Dutch Data Protection Authority and the Ministry of Finance. This involves both opportunities and risks, which the AFM monitors also in a general sense on the basis of direct contacts with consumers and market participants and by following up on signals and incidents.
- Supervising the ongoing developments in the payments market and ensuring that (new) laws and regulations give central priority to customer interests by means of a

payments monitor. If desired, we initiate or contribute to policy developments and (policy) statements.

- Monitoring advertisements of providers of financial products and services. These advertisements must be correct, clear and not misleading.
- Monitoring (future) climate-related risks by conducting detailed market view analyses and change analyses. As part of a broader market view, the AFM constantly monitors changes in insurance cover for climate-related property damage and losses, so as to ensure that policyholders have a proper understanding of what is covered and what is not, and will not be confronted with surprises.
- As a market conduct authority, we aim to protect millions of Dutch citizens who take part in a pension scheme. We do so by responding to signals relating to the pensions sector, dealing with requests for exemptions from licence requirements and requests for enforcement, and by managing ongoing dossiers and supervision tests in respect of pensions.
- Monitoring market-wide (technological) developments and helping to safeguard the duty of care in the digital environment. We do so by assessing requests made via the Innovation Hub, providing international input in respect of risk identification and taking part in relevant external activities, to name just a few examples.
- Monitoring developments in the market of financial services firms, so as to ensure that the necessary choices are made in order for the financial services sector to remain future proof.

## 3.2 Supervision of the capital markets

### Fair trading practices and robust and transparent markets

Capital markets play a key role in the provision of capital for economic activities, the redistribution of financial risks, the funding of sustainability improvements and the energy transition. It is essential that market participants have confidence in the proper functioning of the market.





In the years ahead, digitalisation, internationalisation and sustainability improvements will affect the market structure and the behaviour of trading parties. In addition, the AFM has gained a more important role in Europe, since many trading platforms and other market participants moved to Amsterdam after Brexit. Therefore, the AFM continues to work towards a European approach to ensure fair trading practices and robust and transparent markets.

In its supervision of fair trading behaviour, the AFM gives priority to tackling cross-platform market abuse and improving data quality. Our efforts towards robustness of markets are directed at adequate control of essential parts of the financial markets, which means that trading and settlement will remain possible and reliable also in times of stress.

By promoting transparent markets, the AFM aims to achieve a situation in which complete, comprehensible and consistent information for market participants and supervisory authorities contributes to fair trading and well-considered investment decisions by investors. Relevant trading information is also indispensable in the supervision of fair trading behaviour and robust markets.

Below we will explain the AFM's key activities in its supervision of capital markets in 2023, based on our priorities.

#### **We aim to achieve the following in 2023 in our supervision of capital markets:**

- Capital market participants will improve compliance with their transaction reporting requirements and notification requirements.
- The trading chain will remain reliable and robust, also against the current (geopolitical) developments in the market and the arrival of new technologies.
- The market will be prepared for new laws and regulations, such as DORA, IFD/IFR and regulations on sustainability.
- The capital market will remain sound, also after the introduction of new instruments.
- Institutions will inform investors correctly and in good time, also with regard to non-financial information and ESG-related information.

#### **Priority 1: Supervision of cross-platform market abuse**

Fair trading behaviour prevents a situation in which costs and risks are passed on to other parties, which would undermine confidence in the market. Our supervision in 2023 will therefore be aimed at tackling cross-platform market abuse. In this context, we will also address digitalisation and innovation of trading technologies, such as the use of algorithms. Only supervisory authorities have a cross-platform perspective and information position. In respect of some regulations, the data supplied by the market participants is capable of further improvement. The AFM will actively supervise this process by conducting thematic reviews. We will improve the data quality at internal level, among other things by conducting data quality reviews, investing in trading information software and improving our registers.

Now that many trading platforms have moved to Amsterdam, the AFM is the supervisory authority in the EU for a large part of the EU trade in shares, bonds, commodities and emission rights. Because of the international nature of this trade, cooperation with national and European supervisory authorities is essential. Accordingly, the AFM will further strengthen its cooperation with these supervisory authorities.

#### **Key activities**

- We will prepare and drive cross-platform monitoring of market abuse by increasing our knowledge in this area, by cooperating with other supervisory authorities and by conducting supervisory reviews. In this way, we will strengthen our monitoring of market abuse that extends across multiple platforms. We will give specific consideration to commodity derivatives, and to the energy market in particular (including the trade in TTF gas and emission rights).
- We will invest in our knowledge of algorithmic trading and machine learning, thereby strengthening the supervision of this trade. We will do so by learning from other supervisory authorities and sharing our own insights with them, among other things. Thus, we will see to it that market participants act with integrity and make well-considered use of algorithms and machine learning. We will intervene if the integrity of the market is jeopardised.
- We will shorten the turnaround times of enforcement procedures and thus facilitate early intervention in the case of market abuse, and we will encourage platforms to strengthen their surveillance activities.



## Priority 2: Adequate control of key elements of the capital market

Our approach to market robustness is designed to ensure that essential elements of the financial markets are adequately controlled so that trading and settlement are and continue to be possible and reliable in times of stress. Operational risks have increased as a result of the key role of IT processes at firms with systemic relevance. Laws and regulations have not yet been adequately adjusted in past years to deal with this. New European legislation, such as DORA and IFR/IFD, is now providing more specific framework for firms. These laws and regulations will give supervisory authorities more possibilities to reduce the risks in relation to sound and controlled business operations at institutions. In 2023, we will prepare our supervision and the market for the introduction of these new regulations.

The arrival of new instruments, such as the combination of derivatives and cryptocurrencies, and the use of technologies such as algorithms and machine learning, have caused a change in the financial instrument trading and settlement chain. The AFM is keeping a close eye on these developments and will intervene if the reliability of the market is jeopardised.

Cooperation with national and European supervisory authorities and the use of data and technology will also play a key role in the execution of our mandate in 2023. We will actively contribute to developments relating to the capital markets union, secondary markets, the supervision of post-trade activities, market abuse and benchmarks. We will give special consideration to supervisory convergence, and to learning from and cooperating with other supervisory authorities. Where possible and effective, we will work towards a joint approach at the European level.

### Key activities

- We will conduct thematic reviews at proprietary traders, trading platforms and post-trade parties in respect of subjects such as information security, algorithmic trading, remuneration policy and culture of the organisation. In part, we will conduct these reviews in collaboration with DNB in the context of new regulations for investment firms (IFR/IFD).
- We will examine risks that may cause a disruption of the capital markets (such as outages or incidents) and the control measures taken to prevent these risks.
- We will also intensify supervision of institutions that play a major role in the

robustness of the capital market. We will do so by holding talks with the executive board and with compliance and risk officers and by conducting thematic reviews, among other things. We will also cooperate closely with other supervisory authorities, such as ESMA and DNB.

- We will present the AFM's position in the European negotiations on laws and regulations, including the reviews of MiFIR, BMR and CSDR. We will also influence policy on the European Commission's initiatives in relation to the capital markets union, for example regarding the regulations on the development of the European Single Access Point (ESAP) and the centralised system for the collection of trading information (consolidated tape). We will do so by actively presenting our position in international forums and by consulting with the market, with other supervisory authorities and with the Ministry of Finance.

## Priority 3: Compliance with new sustainability regulations and energy transition

Capital markets play a key role in the sustainability transition in terms of funding and through the trade in CO<sub>2</sub> emission right derivatives. We will focus on various current topics in our supervision. With regard to CO<sub>2</sub> emission rights, we will direct our supervision at fair and transparent trade in these rights, so as to ensure a smooth transition.

Another important current development is the situation in the TTF gas market, which the AFM addresses via its supervision of the derivatives market. Gas and electricity trading prices have a major impact on the level of consumer energy bills. Businesses, too, often depend on predictable and reliable energy prices in their production. The move towards a sustainable economy has created new financial products and services. The AFM will address this development in its supervision by monitoring the transparency of sustainability aspects in relation to existing and new instruments, such as green bonds, sustainability-linked bonds, benchmarks, etc.



### Key activities

- We will intensify our supervision of the energy market with a focus on fair and transparent trading, in close cooperation with other supervisory authorities (BaFin in Germany, Finanstynet in Norway).
- We will review the market for ESG-related products and the energy transition, for example by examining ESG benchmarks and the transparency of new financial products such as green bonds and sustainability-linked bonds.
- Where the supervision of prospectuses is concerned, we will focus on sustainable financial products. We will prevent that issuers and financial market participants promote themselves and/or their financial products as 'green' without this actually being the case.

### Priority 4: Intensification of data-driven supervision

Data-driven supervision relies heavily on the availability of structured data. We are using data for our primary supervisory duties, which include monitoring the functioning of capital markets, creating and analysing risk overviews of market players and supervising fair trading behaviour. Transaction reports and notifications are important sources for our data-driven supervision. In the years ahead, the AFM will devote extra capacity to compliance with transaction reporting requirements and notifications. We also aim to reduce the 'time-to-market' of these reports. We will do so by investing in our centralised data platform and using temporary facilities where necessary. We will also invest in the development of data-analysis tools.

The introduction of new regulations such as DORA and IFD/IFR will increase the amount of data in the years ahead. This data will be collected and made available in cooperation with parties such as DNB.

### Key activities

- We will monitor compliance with reporting requirements under MiFIR (NTRS data), notifications and STORS.
- We will cooperate with national and international supervisory authorities in order to improve the quality of data.
- We will improve our data collection and structure and develop new instruments for data analysis, such as algorithms and machine learning tools. These will provide the AFM with greater insight into new market developments.

### Regular activities in the supervision of capital markets

The AFM will continue to devote a significant portion of its capacity to regular duties with respect to the supervision of capital markets also in 2023:

- In our supervision of prospectuses and public offerings, we will apply an enhanced risk-based assessment strategy, as well as using and adding on new technologies, such as text mining.
- Execution of non-recurring procedures for institutions, including BMR and trading platform licence applications, review and evaluation of CCPs and CSDs, waiver/deferral requests, certificates of no objection, dispensations and open-access requests.
- Account supervision of trading platforms and capital markets infrastructure parties so as to keep in touch with the market and follow up on any supervision issues.
- Participation in international standing committees, task forces, colleges and peer reviews. Sharing findings and experiences with other supervisory authorities in relation to technological developments such as algorithmic trading and machine learning.
- Supervision of prospectuses, final terms and supplements.
- Supervision of the provision of information by already listed SPACs (Special Purpose Acquisition Companies) when they find an object company.
- Supervision of public offerings, supervision of the public offering process and assessment of documentation, including the offering memorandum.
- Real-time supervision of timely publication of inside information.
- Following up on signals and conducting enforcement procedures.
- Answering questions from consumers and market participants.





### 3.3 Supervision of asset management

#### A robust and adaptable asset management sector

The asset management sector manages hundreds of billions of euros' worth of assets for pension funds, insurers and households. This is a very large and diverse sector with an international focus, and errors or misconduct have a substantial impact on a large group of investors.

The asset management sector faces a number of challenges in the coming years. For example, new regulations in areas such as sustainability and digital resilience impose strict requirements on the business operations. Likewise, the increasing outsourcing of business activities, the pensions transition, the sustainability transition, technological developments and cybercrime mean that the business operations of companies have to meet higher standards. These changing market conditions make high demands of aspects such as risk management and liquidity management. The sector must be robust and remain adaptable. The AFM supervises this also in the context of financial stability. In its supervision, the AFM aims to find a balance between the European direction, and the associated supervisory convergence, and the national approach towards the risks and priorities we identify. Cooperation with national and European supervisory authorities and the use of data and technology play a key role in this respect.

Below we will explain the AFM's key activities in its supervision of asset management in 2023, based on our priorities.

#### We aim to achieve the following in 2023 in our supervision of asset management:

- Asset managers will maintain sound and controlled business operations. If they outsource activities, they will be in control of the entire chain.
- The asset management sector will be prepared in good time for the transition to the new pensions system.
- Supervision of compliance with new sustainability regulations will foster the transition to a sustainable financial sector.
- The asset management sector will be prepared for new laws and

regulations, such as DORA and the recently introduced IFD/IFR regulations.

- The asset management sector will control the effects of digitalisation and the use of new technology.

#### Priority 1: Asset managers will maintain sound and controlled business operations. If they outsource activities, they will be in control of the entire chain

The asset management sector is growing in importance, and the changing market conditions place higher demands on asset managers' business operations and risk management. Through its supervision, the AFM helps achieve sound and controlled business operations in the asset management sector. Among other things, we do so by carefully assessing market participants and products by means of our market access supervision and our risk-based approach to supervisory reviews, notifications and signals. With regard to large asset managers, we will devote extra attention to the role of these companies in the context of the pensions system transition and the costs of investment funds. In doing so, we will also cooperate with other supervisory authorities and address new technological developments.

In addition, national coordination and cooperation are required in order to organise the supervision as efficiently and effectively as possible. For example, in 2023 we will cooperate with DNB in some areas with regard to the supervision of IFR/IFD and the performance of money-laundering investigations in the context of the Money Laundering and Terrorist Financing (Prevention) Act (Wwft).

#### Key activities

- We will conduct thematic reviews of the sound and controlled business aspects of the asset management sector's business operations, such as the insourcing or outsourcing of services. Specific consideration will be given to the outsourcing of services within national and international groups.
- We will invest in our account supervision of large and complex asset managers. We will do so by pursuing the following three objectives: 1) improve our data position and the reporting by institutions, 2) focus on behavioural aspects, the maturity of governance, leadership styles and management dynamics in our assessments of institutions, 3) increase our ability to intervene by getting closer to the market through round table discussions and specific surveys.



- We will monitor the supply chain role of large asset management companies in the context of the pensions system transition. In this way, we will ensure that the asset management sector is prepared in good time for the transition to the new pensions system, for example by reviewing transition plans and the operational implementation of the transition, and by assessing the costs and risks of fiduciary management.
- We will develop a comprehensive risk overview of the investment firm sector for the purpose of supervising IFR/IFD. This will help us gain a better understanding of the governance and operational risks in this sector. In doing so, we will cooperate with DNB in some areas.
- We will analyse institution-specific information and develop risk and company profiles of large asset managers for the purpose of risk-based supervision.
- We will carry out investigations into financial crime in the context of the Money Laundering and Terrorist Financing (Prevention) Act (Wwft).
- We will apply a risk-based approach in processing (fund) notifications, signals, assurance reports and depository reports.
- We will review the costs of investment funds, so as to gain a better understanding of the level of these costs.

### Priority 2: Supervision of compliance with new sustainability regulations

The asset management sector has a large and important role to play in the transition to a sustainable economy, not only through the potential drive towards sustainability via invested capital, but also through the way in which the sector addresses ESG-related risks. Adequate control of sustainability risks is essential, as is the integration of these risks into the business operations and investment policy.

Sustainability data, ESG scores and ratings are becoming increasingly important, but mutual variations in outcome and the methods used pose challenges. The AFM aims to prevent investments that are profiled as 'green' when this is not really the case. In our supervision, we focus closely on preventing a potential proliferation of so-called 'green' products (known as greenwashing). Adequate and correct information on sustainability and the ESG factor is essential for this.

### Key activities

- In anticipation of European policy, we will work on the AFM's position on the supervision of sustainable financial investment products. We will do so by conducting exploratory studies and investigations into the control of sustainability-related risks, for example the use of ESG ratings.
- We will supervise compliance with the Sustainable Finance Disclosure Regulation (SFDR) by asset management parties.
- We will discourage greenwashing. We will do so by conducting reviews of, among other things, products which are marketed as 'green' but are not so in practice.

### Priority 3: Effects of digitalisation and technology under control

Technological developments and digitalisation are changing how asset managers operate their businesses and the entire asset management chain. The AFM therefore devotes extra attention to these developments, including the role of cryptocurrencies, digital assets, Artificial Intelligence and cybersecurity.

In addition, new legislation is in preparation, including the Digital Operational Resilience Act (DORA). DORA can improve the digital resilience of financial firms. In 2023, we will prepare our supervision for the introduction of this new legislation.

### Key activities

- We will monitor current developments in the sector with regard to digitalisation, Artificial Intelligence and cryptocurrencies, for example by conducting an exploratory investigation into the integration of digitalisation and Artificial Intelligence into the risk function within the investment policy and portfolio management of asset managers.
- We will investigate the potential risks attached to digitalisation of risk control systems. In this context, we will give specific consideration to concentration and system risks.
- We will prepare the supervision of new regulations, such as DORA and MiCAR, for example by drawing up guidelines and Q&As and by organising round table discussions.



### Regular activities in the supervision of asset management

The AFM will continue to devote a significant portion of its capacity to regular duties with respect to the supervision of asset management also in 2023:

- We will process licence applications and registrations of new funds and passports, and assess mandatory notifications, assurance reports and depository reports.
- We will apply a risk-based approach in following up on signals and incidents.
- We will execute account supervision by holding quarterly discussions, by conducting in-depth reviews and by assessing risk and compliance reports.
- We will exert influence and carry out enforcement actions in respect of individual institutions.
- We will improve the quality of and provide access to data, including AIFMD reports, EMIR data and the depository reports.
- We will take part in international forums and working groups, for example within ESMA and the ESRB, in order to further coordinate interpretations.

## 3.4 Supervision of audit firms and reporting

### Provision of reliable and relevant (non-)financial information

The supervision of audit firms and reporting is designed to ensure that end users, such as investors, lenders, customers and consumers, can rely on the perspective presented by a company's reporting. In order to achieve this, the AFM supervises the financial reporting, the non-financial reporting and the connection between the two. In addition, the AFM supervises the manner in which audit firms assure the quality of statutory audits. Statutory audits are audits of listed companies and medium-sized and large companies in the SME sector, among others.

The (supervision of the) provision of assurance about financial and non-financial information comprises the entire process from engagement acceptance to issuing the auditor's report to the audited entity and to the users of the financial statements. Behaviour and culture within the audit firm, the quality control system and the quality of statutory audits are the key concepts here. This applies both to the audit firms and to the statutory auditors working within those firms. In 2023, we will further build up our supervision of audit firms with a regular licence and gradually intensify it in respect of public-interest entity (PIE) audit firms.

Finally, the AFM will seek to connect and cooperate with key links in the chain of reliable and relevant financial and non-financial reporting, such as audit committees and investor representatives. We want to encourage audit committees to take their responsibility for improving the quality of financial and non-financial information and to fulfil their role in the compilation of such information.

The themes of sustainability, the focus in society on fraud and continuity, detrimental incentives in the market for statutory audits, technological developments and digitalisation have a major impact on the sector. For example, end users of reports expect companies to be transparent from financial year 2024 regarding how and to what extent they have achieved their sustainability objectives in line with new regulations, such as the Corporate Sustainability Reporting Directive (CSRD), but also regarding how they have performed in terms of social responsibility and what the company's social objectives are. The AFM monitors that companies report on these ESG factors in a coherent and balanced manner.

In this context, the influence of digitalisation is increasing within the reporting chain. For example, companies now have to publish a digital version of their annual report and submit this to the AFM. Digitalisation also has an impact on the business operations of companies, while audit firms increasingly rely on technology and data analytics in the performance of statutory audits.

In 2023, we aim to gain a better understanding of the key risks to the quality of statutory audits conducted in the segment of audit firms with a regular licence. In parallel, we will be raising awareness among audit firms with a regular licence in respect of themes such as client and engagement acceptance, which was the subject of a review in 2022. The AFM will take enforcement action where we think this is appropriate.

The role of data as the starting point for our supervisory activities is increasing. In this context, the AFM aims to further increase the impact of its supervision through greater adaptability and faster response times. This will shorten the turnaround times of reviews and create more opportunities for dialogue with the sector on the findings of these reviews.



**We aim to achieve the following in 2023 in our supervision of audit firms and reporting:**

- Companies will report in a coherent and well-balanced manner on the impact of ESG factors and on the manner in which these factors impact the business model.
- The audit firms will strengthen the quality control process on the three levels of quality: behaviour and culture within the audit firm, the quality control system and the quality of statutory audits.
- Statutory auditors will take greater responsibility for their role in the statutory audit with regard to detecting any fraud and identifying any risk of (imminent) bankruptcy.
- Audit firms with a regular licence will be aware of the main risks in the statutory audits they perform.
- Data-driven supervision will be developed (at PIE audit firms) and further expanded (at audit firms with a regular licence).

**Priority 1: Companies provide clarity on their impact on people, the environment and society (ESG) and on how these factors affect the companies themselves**

Users and government authorities are paying increasing attention to the ESG impact of companies (double materiality). The Corporate Sustainability Reporting Directive will make a major contribution to this process. Although climate risks dominate the public debate, the other ESG topics, such as the impact of companies on people and society and good corporate governance, are also receiving increasing scrutiny. Companies need to be transparent about how and to what extent they have achieved their ESG objectives. The development of audit and assurance standards in the area of sustainability contributes to the creation of a level playing field in terms of transparency about ESG aspects.

**Key activities**

- We will investigate to what extent companies include disclosures about their impact on people, the environment and society (ESG) in their reporting, and how these factors affect the companies themselves (double materiality). They are meant to report relevant non-financial information in line with the forthcoming new rules of the CSRD.
- We will prepare companies and our supervision for the entry into force of the Corporate Sustainability Reporting Directive (CSRD) in 2024.
- We will contribute to and provide input for the development of standards for NFI (national and international) by the EC/EFRAG and the IFRS Foundation.

**Priority 2: As good gatekeepers, audit firms will identify fraud and (imminent) bankruptcies in good time**

There is increasing social and political attention for fraud, discontinuity, corruption and integrity. External auditors have an important gate-keeping role in detecting and addressing fraud and fraud risks in the statutory audit. External auditors must possess sufficient knowledge, competence and expertise and have an adequate role perception – supported by an appropriate attitude and mindset – in order to detect fraud risks and any (imminent) bankruptcies adequately and in accordance with the audit standards. They must subsequently report and follow up on their findings in the statutory audit. The audit firm’s internal culture and quality control system must promote this.

**Key activities**

- We will complete our review of the analysis of fraud risks by audit firms (part 1).
- We will review the follow-up of fraud risks by audit firms (part 2). The purpose of the review is to check to what extent the rules are observed and encourage audit firms to make further improvements.
- We will develop a data position with regard to fraud and continuity risks at sector level, segment level and audit firm level.





**Priority 3: We call for attention to be given to detrimental incentives in the market for statutory audits and to the statutory auditor's independence in particular.**

There is an ongoing debate about the structural vulnerabilities in the accountancy sector and the detrimental incentives these vulnerabilities create in relation to statutory auditors' independence and the quality of statutory audits. Structural vulnerabilities in the accountancy sector can impede or even adversely affect the high quality of statutory audits in the longer term. In May 2020, the Minister of Finance appointed two Quartermasters for the Future of the Accountancy Sector. They are to report, among other things, on the outcomes of various reviews of structural models.

The Coordinators issued interim reports on the [Joint Audit model](#) and the [Audit Only model](#) in 2021 and 2022 and will report on the Intermediary model in 2023. The AFM will closely monitor the follow-up on the Audit Only model.

**Key activities**

- We will review compliance with the standards of the system of quality control, which will also involve reviewing statutory audits.
- We will review the detrimental incentives in relation to statutory auditors' independence created by the simultaneous provision of audit and non-audit services by audit firms with a regular licence. We will discuss the outcomes with the sector, with the aim to reinforce independence where necessary.

**Priority 4: Improvement of our risk-based and data-driven supervision**

Our supervision of audit firms and reporting is risk-based and where possible data-driven. We devote our supervisory capacity to the greatest risks, with data being the starting point of our supervisory activities. We aim to produce risk dashboards for all types of audit firm in 2023. In other words: our analyses and reviews are data-fed, and processes are (or will be) standardised and automated where possible. This will also benefit our adaptability and shorten the turnaround times of reviews (faster response times).







### Key activities

- We will develop a data position regarding the PIE firms via one or more data pilots, consisting of a data request to audit firms as a follow-up to the AFM Monitor and/or a data request relating to the statutory audits.
- We will expand our data position in relation to audit firms with a regular licence through an annual questionnaire for audit firms and a questionnaire on statutory audits; where possible, we will feed back data to audit firms for each benchmark.
- We will continue developing an algorithm that helps predict the most high-risk financial statements for the purpose of reporting supervision. In addition, we will explore the options of text analysis for the purpose of analysing annual and transparency reports.

### Our ongoing supervisory activities concern subjects such as:

- Account supervision of PIE audit firms;
- Expanding and maintaining the supervisory relationship with the audit firms with a regular licence;
- Following up on signals and incident notifications;
- Incident investigations and signals investigations at PIE audit firms and audit firms with a regular licence;
- Desktop reviews of compliance with reporting requirements by listed companies;
- Follow-up on thematic reviews of 2022 regarding client acceptance and continuation and non-financial information (NFI);
- Granting and withdrawing licences.

## 3.5 AFM-wide issues

### 3.5.1 Combating criminal behaviour

Financial-economic crime constitutes a threat to confidence in the financial sector. It is one of the AFM's core objectives to tackle criminal behaviour in the financial sector. Criminal behaviour occurs in a variety of forms and degrees, such as fraud, scams, money laundering and terrorist financing.

A significant part of our supervision is aimed at protecting consumers in the investment market. Because of the search for yield and increased digitalisation, investing has become more accessible for large groups of consumers. These also include consumers in vulnerable situations who have less knowledge and experience. Unfortunately, the digitalisation of the market also encourages criminal behaviour. Therefore, the AFM endeavours to strengthen its information position in order to detect and combat criminal behaviour in the financial market at an early stage.

Financial firms and audit firms have an important social role in combating money-laundering and terrorist financing. As gatekeepers, they have three important functions:

1. Preventing criminals from using the financial system to launder the proceeds of crime;
2. Preventing persons and organisations subject to national or international sanctions from participating in the financial system;
3. Preventing businesses and persons from benefiting from fraud and corruption.

By law, financial firms must comply with the [Sanctions Act 1977](#) (Sw) and the [Money Laundering and Terrorist Financing \(Prevention\) Act](#) (Wwft). The AFM conducts risk-based supervision with regard to these regulations by performing reviews of investment firms, collective investment scheme managers and financial service providers that act as life insurance brokers. Furthermore, the AFM supervises the sound and controlled business operations of audit firms.

### Key activities in 2023

- By carrying out enforcement-focused reviews and thematic projects based on a risk analysis scan, we will tackle criminal behaviour in the financial sector with even greater vigour.
- The AFM will strengthen its information position in respect of criminal behaviour by improving the use of sectoral and cross-sectoral data throughout the organisation. Sectoral and cross-sectoral data will help us develop a good information position, so that risks of criminal behaviour in the financial sector can be identified in good time. At the European level, the AFM will work towards reinforcement of supervisory convergence and the creation of an international enforcement strategy.



- The AFM will prevent and combat money laundering and terrorist financing by monitoring compliance with the Wwft and Sw in accordance with a risk-based approach. This risk-based approach will be further developed in the coming year. Because these are cross-border risks, the AFM will work towards reinforcing supervision at the European level. We will do so by taking part in international partnerships, such as the Standing Committee on anti-money laundering and countering terrorist financing (AMLSC), and through our involvement in the new Anti-Money Laundering (AML) legislation. In addition, we will set up our own AML/CFT supervisory colleges and take part in the AML/CFT college meetings of other supervisory authorities. This will strengthen cooperation and provide an opportunity for exchanging relevant information.

#### **Digital Operational Resilience Act (DORA)**

Financial institutions increasingly depend on digital processes. These digital processes involve a greater risk of cyber attacks. The current (European) rules concerning cyber risks are limited and fragmented, however. Through the introduction of DORA, the European Commission aims to harmonise these fragmented rules, create a basic framework and better mitigate the risks associated with the outsourcing of services to critical third-party IT service providers. DORA will represent a significant expansion of the AFM's supervisory mandate. The introduction of DORA will bring new duties, such as annually receiving and processing outsourcing registers, new notification requirements in relation to IT incidents and supervising hacking tests.

In parallel with the implementation of DORA legislation, the AFM will work on the preparation of its supervision of the compliance with DORA at approximately 500 institutions subject to the AFM's supervision. The second phase of this process will run until the middle of Q2 2023 and comprises, among other things, the organisational set-up of the DORA supervision and the tendering process for the supporting automation required. The third phase comprises all the activities still required between then and the end of 2024, when the statutory implementation period expires, such as urging institutions to comply with the DORA requirements in good time. In collaboration with DNB, we will contribute to the detailing of DORA level-2 legislation during this period.

#### **3.5.2 Financial stability**

As part of its supervisory activities, the AFM monitors stability risks in three focus areas: capital markets, the asset management sector, and risks affecting large groups of customers of financial institutions. The AFM aims to minimise the risks in these sectors. In this way, the AFM contributes to better risk control in the market. In addition, the AFM forms part of the Financial Stability Committee (FSC), together with the Dutch central bank (DNB), the Dutch Ministry of Finance and the Netherlands Bureau for Economic Policy Analysis (CPB). The FSC discusses significant risks to financial stability in the Netherlands.

#### **Key activities in 2023**

- Owing to the COVID-19 crisis and the increased volatility in financial markets because of the war in Ukraine, there is much attention at international level for the risks of liquidity shocks in financial markets. The AFM, too, will give express consideration to this type of risk. Accordingly, the AFM will review the application of liquidity risk control measures in the wider risk control framework of investment funds. The findings of this review will be shared with the sector.
- Asset managers of investment funds will conduct regular stress tests in order to check how funds respond to different historical and hypothetical scenarios. The AFM will review the application of these stress tests by asset managers. This will provide insight into the extent of the market's ability to absorb liquidity shocks in times of stress. The insights resulting from the review will be taken into account in the AFM's supervisory strategy.
- The AFM will monitor the leverage (the debt-equity ratio) at Dutch investment funds. The AFM will discuss the results of these data analyses with DNB and determine the requisite steps during periodic consultations.
- The AFM will conduct an exploratory study into the effects of the application of blockchain methodology in capital markets on the stability of financial markets. The rapid developments worldwide in this area have changed the financial system and created new risks. We aim to identify these risks.



- The AFM will contribute to international discussions about financial stability where these overlap with its supervisory areas. These include the current discussions about the systematic relevance of clearing institutions and the risks of Non-Bank Financial Institutions (NBFI), and the development of macroprudential instruments for investment funds. We will also contribute to the discussions about the stability risks of Decentralised Finance (DeFi) and current developments in the gas market via the supervision of derivatives.

### 3.5.3 Professional organisation

Effective supervision requires a professional organisation. The AFM aims to improve its effectiveness all the time. In order to anticipate on the developments around us, our organisation must be adaptable and learning. We developed a new HR strategy and a new IT strategy in 2022. We will further specify our objectives in 2023.

#### Priority 1: An adaptable and learning organisation

Developments in the areas of sustainability, ongoing digitalisation and far-reaching internationalisation impose high demands on the organisation, our mutual cooperation and our flexibility. New legislation must be implemented correctly in our supervisory process and business operations. The AFM aims to respond to these developments as best as possible, including by means of quick response management and by adopting more multidisciplinary working methods.

In line with the Multi-Year Agenda for 2016-2018, the AFM has already made substantial improvements in areas such as our control cycle, the development of data-driven supervision and the AFM working method. Based on the AFM Strategy for 2023-2026 and the renewed IT and HR strategies, we are now starting a project that will help us determine how this basis can be further expanded.

#### Key activities

- We will specify our objectives and deliver a step-by-step plan for the period 2023-2026.
- Based on this plan, we will implement the first improvements.

#### Priority 2: Attractive employer

The AFM is a knowledge organisation. The quality of our supervision depends on our employees. It is therefore essential to recruit competent staff, offer an attractive work environment, and to develop and retain our employees. Against the current scarcity in the labour market, the 'war for talent' makes this particularly challenging. The focus in the years ahead will be on securing, retaining and developing knowledge and experience in the area of data and IT, as well as on having sufficient capacity for expanding our statutory supervisory duties.

#### Key activities

- In order to increase our recruitment power, we will translate our employee value proposition (EVP) into target group specific labour market communication campaigns for data analysts, IT specialists, pension specialists and auditors.
- Working@AFM: the coronavirus pandemic has given a big boost to flexible working. As an attractive employer, we want to retain the positive elements of this. At the same time, we realise that this presents a number of challenges. We will devote ongoing attention to the long-term effects, such as the effectiveness of our supervision and the connection with the AFM and colleagues ('the purple heart') for both current and new employees.
- We will implement a new performance assessment system. Effective from 1 January, we will implement the new Recognition & Remuneration policy. This will help stimulate continual dialogue and place greater emphasis on performance and development.

#### Priority 3: Properly functioning IT

In a world in which technology is becoming ever more important, IT has become essential for the success of our organisation. The AFM drew up a new IT strategy in 2022, which will make it easier to support new mandates and further develop the 'MyAFM' environment. In order to achieve this, we need to strengthen the foundations of our IT by phasing out legacy systems and migrating a number of core applications to the cloud. This also means that we need to reinforce the control organisation and the competencies of our employees.



## Key activities

### Reinforce our ability to change:

- We will reinforce the control of our IT through better organisation of the production process and strategic portfolio management.
- We will improve cooperation between supervision and IT by improving the involvement of the business in the production process and increasing the knowledge at the users' organisation.

### Strengthen our foundations:

- By phasing out a number of older applications, the AFM will be able to dispose of old hardware.
- Three core applications will be migrated to the cloud. This will facilitate maintenance and the development of new functionality.
- Due to the pace of the technological changes around us, we need to improve the life-cycle management of our applications.

### Increase our capacity to absorb:

- The strengthened foundations will help us design robust and flexible applications, which will make it easier to add new functionality.
- By further automating manual work, we will ensure a more efficient work process.
- We will move from point solutions to generic solutions.

### Regular activities within the professional organisation

The increasing use of data and the correct application of regulations, such as the GDPR, necessitate careful handling of processes and data. We have therefore set the following objectives for our supervision and business operations:

- Further improve the data quality of our CRM;
- GDPR compliance: the AFM will demonstrably comply with the GDPR;
- Processes and risk matrix: there will be an update of the centralised overview of processes and of the duties and responsibilities;
- Compliance with data request procedure: from 1 January 2023, all quantitative data requests will be made in accordance with the Data Request Procedure. All repeat data requests and scheduled data requests will be brought in line with the Procedure within the transitional period.



## 04 Finances in 2023



The financing of the AFM is arranged in the Financial Supervision (Funding) Act 2019 (Wbft 2019). The AFM's budget is approved each year by the Minister of Finance and the Minister of Social Affairs and Employment on the basis of this Act. The AFM is bound by the ceiling in the cost framework when setting its budget. The costs incurred by the AFM under the Wbft are fully charged on to the market in the form of levies.

This chapter explains the cost framework, the expenses specified by type, the investment budget and how the AFM is funded.

### Cost framework

For administrative reasons, the Minister of Finance has established a cost framework for the period from 2021 to 2024 (Table 4.1). This clearly sets out the broad outline of maximum costs of supervision during this period and the development of these costs. The cost framework contributes to the frugality and efficiency of the AFM, as any intensifications or in-house priorities have to be met within the cost framework.

New regulations will come into effect in the period from 2021 to 2024, and the AFM will be responsible for the associated supervision, covering the audit sector, financial-economic crime, the capital markets and pensions. The item 'known expansion of remit' was adjusted in 2022 in connection with the intensification of supervision of the PIE audit firms and the imminent entry into force of the Future of Pensions Act. The costs of supervision arising from the Digital Operational Resilience Act (DORA) have not yet been incorporated into the cost framework. These are also addressed in the section on risks and uncertainties further down in this chapter.

Table 4.1 Cost Framework (EUR x million)

External cost framework 2021-2024 (in millions)	2020	2021	2022	2023
<b>Basic amount (based on budget for 2020)</b>	<b>106,2</b>	<b>105,9</b>	<b>105,9</b>	<b>105,9</b>
Known expansion of remit		3,0	5,2	12,0
<i>Initial</i>		1,5	2,0	2,0
<i>Intensification of supervision of non-PIE audit firms</i>		1,5	2,6	4,1
<i>Intensification of supervision of PIE audit firms</i>		-	0,6	1,8
<i>Expansion of pensions supervision</i>		-	-	4,1
Strengthening data-driven supervision		3,5	3,5	3,5
Savings		1,7-	3,1-	3,4-
<b>New base amount</b>	<b>106,2</b>	<b>110,7</b>	<b>111,5</b>	<b>118,0</b>
Mandatory cost reductions		0,4-	0,8-	1,2-
Salary adjustment*		0,8	2,1	4,6
Price adjustment*		0,6	1,3	4,3
<b>Budgetary framework</b>	<b>106,2</b>	<b>111,7</b>	<b>114,1</b>	<b>125,7</b>
Contingencies		1,5	2,0	3,0
<b>Multi-year framework</b>	<b>106,2</b>	<b>113,2</b>	<b>116,1</b>	<b>128,7</b>

\* The salary and price adjustments for 2024 are estimated at 3.2%.





Including adjustment for salaries<sup>2</sup> and prices, the budget framework for 2023 amounts to €125.7 million, excluding an item for contingencies of €3.0 million. This contingencies item gives the AFM the flexibility to accommodate costs of unforeseen events without exceeding its multi-year budget. The contingencies item can only be used if the impact of the unforeseen event cannot be dealt with within the regular budget. The AFM Executive Board must prepare a substantiated request for this that requires the approval of the Supervisory Council and has to be shared with the Minister of Finance. If this leads to a change in the budget, this will again have to be approved by the Minister of Finance and the Minister for Poverty Policy, Participation and Pensions.

### Budget

The budgeted total expenses for 2023 are equal to the 2023 cost framework and 11% higher than the budgeted expenses in 2022. They do not include the costs arising from the Digital Operational Resilience Act (DORA).

Total expenses will increase by €12.2 million. This is largely due to higher employee and IT expenses.

The increase in the salary expenses, social insurance costs and pension expenses is attributable to a larger number of internal FTEs (+5%) and an increase in the average cost per FTE due to salary changes.

The increase in the costs of temporary hires is largely explained by the additional focus in 2023 on IT change capacity as part of the new IT strategy. In addition, the increase is attributable to the temporary contracting of such personnel to fill vacancies.

The IT expenses have risen sharply in the 2023 budget. This increase is due to the following three causes: (1) increased outsourcing costs for the execution of the IT run, (2) additional focus in 2023 on IT change projects as part of the new IT strategy, and (3) the shift of costs from the 'consultancy expenses' cost type to the 'IT expenses' cost type.

<sup>2</sup> Normally, the adjustment for salaries is based on the CPB's June forecast, in conformity with the arrangements in the cost framework. Because no June forecast was published in 2022, the adjustment for salaries for 2023 was based on the CPB's March forecast, in consultation with the Ministry of Finance.

Table 4.2 Expenses by type (EUR x million)

Expenses per type	Budget for 2022	Budget for 2023	Difference compared to B2022	Actual result for 2021
Salary expenses	59,9	64,7	8%	58,5
Social security costs	7,9	8,5	8%	6,8
Pension expenses	12,8	13,6	7%	13,3
Temporary hires	3,6	5,4	49%	3,4
Other employee expenses	3,7	4,2	12%	2,1
Employee expenses	87,9	96,4	10%	84,2
Premises costs	4,8	5,1	5%	4,1
Consultancy expenses	5,3	3,6	-31%	2,0
One-off expenses arising from pension provider switch	0,0	0,0		0,1-
IT expenses	10,5	16,7	60%	16,7
General expenses*	3,5	2,4	-31%	2,9
Amortisation	1,6	1,5	-6%	1,3
Financial income and expenses	-0,0	-0,0	0,1	0,0-
<b>Total expenses</b>	<b>113,5</b>	<b>125,7</b>	<b>11%</b>	<b>110,9</b>
* of which contribution to ESMA	1,0	1,2		



Table 4.3 Deployment of FTEs

Deployment of FTEs (incl. temporary personnel)	Budget for 2022	Budget for 2023	Difference compared to B2022	Actual result for 2021
Financial services	178	192	8%	181
Capital markets	79	83	6%	86
Asset management	42	43	2%	39
Audits	65	72	12%	53
<b>Sub-total for four areas of supervision</b>	<b>363</b>	<b>391</b>	<b>8%</b>	<b>359</b>
Direct supervision support*	188	191	1%	174
Other divisions**	147	158	8%	146
<b>Total</b>	<b>698</b>	<b>740</b>	<b>6%</b>	<b>680</b>

\* This concerns Strategy, Policy and International Affairs, Legal Affairs, the Expertise Centre and Data-Driven Supervision.

\*\* These are the executive divisions.

The number of FTEs will increase by a net 6%, from 698 to 740 FTEs in the 2023 budget. This represents an increase of the number of salaried employees by 32 FTEs and an increase in the number of temporary hires by 10 FTEs compared to the 2022 budget. The total number of FTEs within the AFM's four supervisory areas will increase by 28 FTEs to 391 FTEs. This increase is largely due to the expansion of the supervision of audit firms (primarily in the area of 'Audits') and the additional pensions supervision pursuant to the Future of Pensions Act (primarily in the area of 'Financial services'). The increase in FTEs under 'other departments', is largely due to the contracting of additional temporary personnel for IT change projects in order to implement the new IT strategy in 2023.

Table 4-4 Investments (EUR x million)

Investments	Budget for 2022	Budget for 2023	Difference compared to B2022	Actual result for 2021
Renovations	0,7	0,1	-87%	0,6
Inventory	0,5	0,2	-53%	0,0
Computer equipment & standard software	1,9	-	-100%	0,1
<b>Total investment</b>	<b>3,1</b>	<b>0,3</b>	<b>-90%</b>	<b>0,7</b>

No significant investments are scheduled for 2023. Investments in the building will only be made once the lease has been renewed. These investments can then be depreciated over a longer period. Whereas the AFM made a number of necessary replacement investments in new computer equipment in 2022, no such investments are foreseen for 2023.



### From budget to levies

The AFM's total costs are funded on the basis of the Financial Supervision (Funding) Act (Wbft) and the Financial Supervision (Funding) Decree (Bbft). Under the Wbft, the costs of supervision of the BES Islands (Bonaire, St. Eustatius and Saba) pursuant to the Financial Markets (BES Islands) Act (Wfm BES) and the Money Laundering and Terrorist Financing (Prevention) (BES Islands) Act (Wwft BES) have to be reported separately. As a result, a distinction is made between the income and expenses on the basis of the Wbft (Table 4.5) and the income and expenses for supervision of the BES Islands (Table 4.6).

The AFM charges on these costs incurred under the Wbft to the market in two ways: through annual levies for its ongoing supervision expenses and through a fee per service.

The fees for non-recurring services, such as licence applications and assessments of management board members, are set by ministerial regulation and are in principle fixed for five years. The budgeted income in 2023 amounts to €7.1 million, which is lower than in the budget for 2022 (€ 8.9 million). The decrease is attributable among other things to the number of applications made in the context of prospectus supervision.

The market contribution for ongoing supervision consists of the budgeted expenses under the Wbft less the budgeted fees for non-recurring services. Since the fees for non-recurring services in principle cover its costs, the budgeted expenses are equal to the budgeted income from non-recurring services. The expenses covered by an annual levy charged to market participants in 2023 will amount to €118.0 million. This contribution from the market is €14.0 million more than the market contribution for ongoing supervision in the 2022 budget (€104.0 million), due primarily to the increase in costs. This contribution from the market for ongoing supervision excludes amounts carried forward from previous years. The amount carried forward from previous years is determined at the time when the 2022 financial statements are adopted. The total amount to be levied is allocated across 16 categories of institutions subject to supervision according to fixed percentages. These percentages are in principle fixed for a period of five years and are included in Appendix 1A to the Bbft.

Table 4.5 Wbft operating difference (EUR x million)

Wbft operating difference	Budget for 2022	Budget for 2023	Difference compared to B2022	Actual result for 2021
To be settled with market parties from previous years	unknown	unknown		0,8
Wbft expenses	112,9	125,1	11%	110,5
<i>Market contribution for non-recurring services</i>	8,9	7,1	-20%	10,6
<i>Market contribution for ongoing supervision</i>	104,0	118,0	13%	106,7
<i>Fines and penalties to be settled with market parties</i>	-	-		1,2
<i>Fines and penalties due to the government</i>	-	-		-
Income	112,9	125,1	11%	118,5
<b>Operating difference</b>	<b>0,0</b>	<b>0,0</b>		<b>8,0</b>
<b>To be set off next year</b>	<b>0,0</b>	<b>0,0</b>		<b>8,8</b>
<i>Of which to be settled with the market in following year</i>	0,0	0,0		0,8
<i>Of which due to the government</i>	0,0	0,0		0,0





Income from fines and penalties is not estimated but is passed on to the overall market through the operating difference up to a maximum of €2.5 million<sup>3</sup>. The surplus is transferred to the Ministry of Finance. Operating differences occur every year as a result of differences between budgeted and actual expenses and income. Operating differences are settled with the market in the year after they arise on the basis of the fixed percentages that applied in the previous year (Appendix 1A to the Bbft).

The costs of supervision of the BES Islands in the 2023 budget have remained the same compared to the 2022 budget. The funding of the supervision of the BES Islands is governed by the Financial Markets (BES Islands) Act (Wfm BES) and the Money Laundering and Terrorist Financing Prevention (BES Islands) Act (Wwft BES). The fees for non-recurring supervisory duties and for ongoing supervision are stated in the underlying Financial Markets (BES Islands) Regulation. The fees are not set on a cost-effective basis. The government therefore reimburses expenses to the extent that this contribution from the market is not sufficient. The budgeted market contribution is very limited and is equal to zero when rounded to the nearest million.

Table 4.6 BES operating difference (EUR x million)

BES operating difference	Budget for 2022	Budget for 2023	Difference compared to B2022	Actual result for 2021
Expenses	0,6	0,6	5%	0,5
Market contribution to ongoing supervision	0,0	0,0	0%	0,0
Market contribution for non-recurring services	0,0	0,0	0%	0,0
Government contribution	0,6	0,6	5%	0,4
Income	0,6	0,6	5%	0,5
<b>Operating difference</b>	-	-		<b>0,0-</b>

<sup>3</sup> This will change as a result of the envisaged Amendment of Bbft 2019 with effect from 1 January 2023. The limit will go up from €2.5 million to €4.5 million, and the AFM will have the option to put this income towards a levy reserve.





### **Risks and uncertainties in the budget**

The 2023 budget contains a number of risks and uncertainties, in addition to the current inflation and interest rate developments. Brexit has occurred without equivalence for financial services being granted to UK firms, with the exception of UK central counterparties (CCPs). This has given the AFM a more substantial role in the supervision of the European capital markets than initially expected. There have also been unforeseen developments in the energy market that require capacity. In addition, preparations have been started for new mandates, such as with regard to DORA and MiCAR, that were not foreseen in the current cost framework. An IT tendering process has been launched for DORA, and it is not clear yet when implementation can start. As a result, some of the costs may be deferred to 2024. Apart from the capacity required for these (new) duties, the development of IT plays a key role as well. Our IT organisation is growing, partly on account of statutory requirements and partly due to the expansion of our supervisory activities and the need to ensure that the AFM's services match market requirements. This entails structurally higher IT costs. In recent years, the AFM was able to fund this development from existing resources, which sometimes required difficult choices. Although all these developments put pressure on the AFM budget, we are not yet aiming for more funding to supplement the current cost framework. In 2023, the costs will be absorbed as much as possible through the expected understaffing. In view of these developments and risks, however, there is a chance that the AFM will have to draw from the 'contingencies item' in the cost framework. The new duties pursuant to DORA and MiCAR and the growing need for IT remain important topics that will require structural safeguarding in the new cost framework.





## Appendix: **External KPIs**

The AFM uses a control cycle for internal control and external reporting. This cycle, which is subject to the financial preconditions, concerns the processes of (strategic) planning, implementation, direction, adjustment and reporting. Based on interim measurements, it is assessed whether the AFM is 'on track'. We work to achieve our objectives with the aid of dashboards that provide insight into the progress made and future outlook, including through key performance indicators (KPIs). External stakeholders are informed as to the progress made. The AFM gives account of the results and effects of its efforts in its annual report.

This Agenda sets out the activities we will carry out. These are structured around the 10 key themes defined by the Executive Board for 2023, supplemented by a number of operational objectives. We have attached a number of key performance indicators (KPIs) to our objectives that are explained in this appendix.







Nr.	Doelen	Prioriteiten	Toelichting / Activiteiten
1	Protection of consumers in vulnerable situations	<b>1.1. Transition to the new pensions system</b>	<p>a) The transition to the new pensions system in 2023 will have a big impact in. The AFM will provide guidance to the sector and identify and act upon risks.</p> <p>b) Given the impact of the new pensions system, the AFM will monitor whether the business operations of asset managers are ethical and controlled.</p>
		<b>1.2. Putting the customer's interests first</b>	<p>a) In the context of putting the customer's interests first, the following topics will be prioritised: overindebtedness due to rising interest rates, the risk of non-insurance or underinsurance, and the ongoing duty of care, also after the sale of a financial product or service.</p>
2	Higher quality of audits and contribution to effective incentives for auditors and audit firms	<b>2.1 Implementation of updated Audit and Reporting Quality (KAV) strategy</b>	<p>a) The AFM will further develop its supervision by standardising and automating processes and increasing its impact through greater adaptability.</p> <p>b) More attention will be devoted to transparency about the extent to which companies achieve sustainability goals, and to the gate-keeping role of auditors in relation to fraud and discontinuity.</p>
3	AFM-wide supervisory priorities	<b>3.1. Ongoing digitalisation</b>	<p>a) The AFM will prioritise market parties that make products easily available via apps, as well as online marketing aimed at consumers.</p> <p>b) Supervision of the digital aspects of controlled business operations will be intensified, partly in response to the introduction of DORA.</p> <p>c) The introduction of MiCAR will require giving shape to cryptocurrency supervision and mitigating the residual risks</p>
		<b>3.2. Use of data in and for supervision</b>	<p>a) We will increase our focus on the transaction reporting obligations by making these reports accessible on our centralised data platform. We will give priority to tackling cross-platform market abuse.</p> <p>b) We will consult with the ministry on a sound legal basis for regular data requests and with the sector on the prerequisites.</p> <p>c) From 1 January 2023, all quantitative data requests will take place in accordance with the Data Requests Working Method. All repeat data requests and scheduled data requests will be brought in line with this Working Method within the transitional period.</p> <p>d) We will prioritise improving our own data position, for example in CRM.</p>
		<b>3.3. Exerting international influence</b>	<p>a) We are committed to promoting a properly functioning EU market for sustainability (preventing greenwashing, facilitating corporate sustainability reporting and due diligence, and regulating sustainability ratings, scores and data).</p> <p>b) We will present our opinions with respect to the Capital Markets Union (CMU) in European policy debates, including in terms of the Retail Investment Strategy, Consolidated Tape and the European Single Access Point (ESAP).</p> <p>c) We will work together with other national regulators in Europe with a view to, in as far as possible, adopting a shared approach to current and new legislation and regulations and the level and convergence of operational supervision. We will focus on ensuring that 'host' regulators have sufficient powers.</p>



Nr.	Doelen	Prioriteiten	Toelichting / Activiteiten
		<b>3.4. Sustainability</b>	a) We will focus on preventing that issuing institutions and financial market parties advertise themselves and/or their financial products as 'green' when they actually aren't. b) The AFM expects financial institutions to correctly apply the regulatory technical standards under the SFDR.
4	<b>Professional organisation</b>	<b>4.1 Adaptable organisation</b>	a) We will increase the effectiveness of the organisation through quick-response management focused on progress, outcomes and impact. b) We will promote multidisciplinary working and rotation within the organisation. c) We will reinforce the internal dialogue by holding each other accountable more often and by sharing tips and best practices. d) Processes and risk matrix: the AFM is demonstrably in control, as critical processes have been included in the centralised overview of processes and duties and responsibilities have been assigned.
		<b>4.2 Attractive employer</b>	a) In 2023, the AFM will also prepare for the transition of its pension scheme in connection with the new Dutch Future of Pensions Act. b) The new 'Recognition & Remuneration' system will be implemented. c) Working@AFM will reinforce employees' connection with the AFM and provide them with optimal support to ensure the AFM operates effectively.
		<b>4.3 Implementation of IT strategy</b>	a) We will reinforce the IM organisation and professionalise the control organisation, which will increase our ability to change. b) CRM and Sharepoint will be migrated to the cloud.
		<b>4.4 Promotion of quick and careful admission of market parties and persons</b>	The aim is to deal with 100% of licence applications and assessments of persons within the statutory period.
		<b>4.5 Effective cost control</b>	The AFM aims to ensure that its costs remain within the established cost framework/budget.



## Any questions or comments about this publication?

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