



Dutch Authority for the Financial Markets Annual Report 2021

Foreword

Preparing for the unpredictable

Now that Omicron is fading away and life is no longer dominated by lockdowns, face masks and social distancing, it's time for a little reflection. What lessons can we learn from the past two years?

The Netherlands thought it was prepared for a pandemic, but in practice the course of events wasn't easy to predict or to manage. The question is, how we can prepare ourselves better for the next time? It is an illusion to think that there will never be another pandemic.

The Dutch economy withstood this pandemic relatively well, although the effects were not evenly spread. For example, the government's support package was less effective for people on flexible employment contracts. In addition, many young people have fallen behind with their studies. And some business owners are facing D-day, when deferred tax ultimately has to be paid. The financial markets held up well during the pandemic. But we are now seeing inflation rise, bringing challenges for monetary authorities, investors and consumers.

The pandemic accelerated the acceptance of digital service delivery, including in the financial sector. There are numerous advantages, but delivering services digitally also creates new risks, as highlighted in the AFM's 2021 Annual Report. To cope with these risks, the objectives of the AFM remain unchanged: protecting the sustainable financial health of consumers, controlled business operations and robust infrastructure. However, the form our supervision takes must adapt, ranging from warnings directed at influencers, to European legislation to improve the digital resilience of the financial sector (the Digital Operational Resilience Act).

The pandemic did not dislodge climate change from the political agenda – quite the opposite. The European Union has developed a strategy, Fitfor55, for Europe's part in the solution. Financial markets are being asked to contribute in the form

of more mandatory transparency around ESG and non-financial information, because we know that transparency can support, though not compel, the necessary changes in behaviour. In the wake of Brexit, the AFM has been given a specific role as supervisory authority of the trade in carbon emission derivatives.

In 2022, the AFM will celebrate its twentieth birthday – a joyful occasion. From supervision cowboy (a label from our early years), we have grown into a respected market conduct authority. But exercising restraint in our celebrations is appropriate. War has returned to Europe. People are being driven from their homes. Packages of sanctions affect the aggressor, but they also affect consumers and European markets.

As an organisation, we have to anticipate current events. As a learning organisation, we are well equipped to do that. Over the past twenty years our duties have expanded, and our work has taken on a more international orientation. Nor have we been idle at an organisational level. This year we outsourced our IT function, taking a further step in our professionalisation journey and creating a future-proof working environment.

If 2021 taught us anything, it is the certainty of the unpredictable. Changes are coming thick and fast. This requires great flexibility from us as a country, as a sector and as a supervisory authority. Can you ever be ready for what's coming? You can at least prepare. That's what we did in 2021, and it's what we'll continue to do in 2022 to secure sustainable financial health for all.

Amsterdam, 12 April 2022

Laura van Geest, chair
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01

Developments and the AFM strategy





Developments in 2021

In 2021, as a society we gradually had to learn to live with the coronavirus. With strong growth of almost 4%, the economy showed great resilience, although some sectors were dependent on support packages from the government. It remains to be seen how the affected sectors will hold up when this support comes to an end. Production and supply issues in industry and rising energy prices led to inflation making a comeback in autumn 2021, triggering a turnaround in market interest rates. Rates have since increased slightly.

Financial market sentiment

In spite of everything, the financial markets were upbeat. In 2021, the AEX index crossed the 800-point threshold. Consumers went looking for returns. Because interest rates remained persistently low and were even negative in some cases, increasing numbers of people switched to investment products. Our [consumer monitor](#) showed that the number of households with investments rose by as much as 12% in 2021, to a total of 1.9 million households. The plethora of investment apps made it easy for newcomers to enter the market and consistently rising share prices acted as a strong incentive.

The digital environment combined with the single European internal market also meant it was easier than ever for Dutch customers to be served by foreign suppliers. This highlighted the importance of good collaboration with foreign supervisory authorities and the alignment of different systems of supervision (supervisory convergence).

Investing in cryptocurrencies has become extremely popular. But cryptocurrencies are a risky investment, partly due to the high volatility in valuation. The AFM does not yet have any legal mandate for oversight of this market. In response to the turbulent development of the cryptocurrency market, a European regulation is being prepared that will impose obligations on both issuers of crypto assets and crypto service providers. In 2021, following a [study regarding the behaviour of execution-only investors](#), we reiterated our warning with regard to cryptocurrencies, advising against pouring money into cryptocurrencies if that money is needed for short- or long-term purposes.

Low interest rates have made businesses feel confident in taking on more debt. Combined with significantly higher share valuations this has made the financial markets more vulnerable to negative market shocks, which in turn means an increased risk with regard to financial stability.

Overheated housing market

The Dutch housing market remained under strain in 2021. In the third quarter of 2021, the average price of existing owner-occupied homes in the Netherlands was 19% higher than a year previously. The rental market shows a structural misalignment of supply and demand. High house prices and the large debts taken on when purchasing a property mean that households are vulnerable to setbacks. First-time buyers in particular seem prepared to go to great lengths to buy that coveted first home, which brings the risk of irresponsible excessive lending. To reduce risk, careful application of the loan standards is highly important.

Brexit

The Brexit transition period ended on 1 January 2021. The main impact for the financial sector was that it was no longer possible to provide services from the United Kingdom in a European member state without a licence from the EU country concerned. Accordingly, many British financial institutions applied for licences in a European member state. The AFM devoted a great deal of attention in the 2020 annual report to its preparations in relation to its supervision function.

Many financial institutions had already chosen to apply for a licence in our country that would enable them to serve the entire European continent, and it seems these licences continued to be used in 2021. For example, various major traders and trading platforms have started operating in the Netherlands. This means that these institutions and markets largely fall under our supervision.

Amsterdam has taken a leading position in the European capital market: in January, there were immediately more shares traded on Amsterdam platforms than in London. Bond trading has also shifted from London to Amsterdam. Finally, the trade in emission derivatives, an important part of EU climate plans, moved to the Netherlands in



February. Because more capital market parties have set up offices in the Netherlands, the role of the AFM as supervisory authority and in international policy discussions has increased.

AFM strategy 2020–2022

Our mission reflects our statutory duties: 'The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.' Our supervision aims to achieve orderly and transparent

financial market processes, integrity in relations between market parties and due care in the provision of services to customers. In its strategy, the AFM has formulated four multi-year supervision goals for the period 2020–2022, one for each area of supervision. To be a proactive, data-driven and influential supervisory authority, having a solid foundation in the form of a professional organisation is extremely important. Alongside our mission and strategy, the [risk analysis in Trendzicht](#) was also an important factor in our supervision decisions in 2021. The current strategy applies for the period 2020–2022. Preparations for reviewing the strategy for the period 2023–2026 began in 2021.

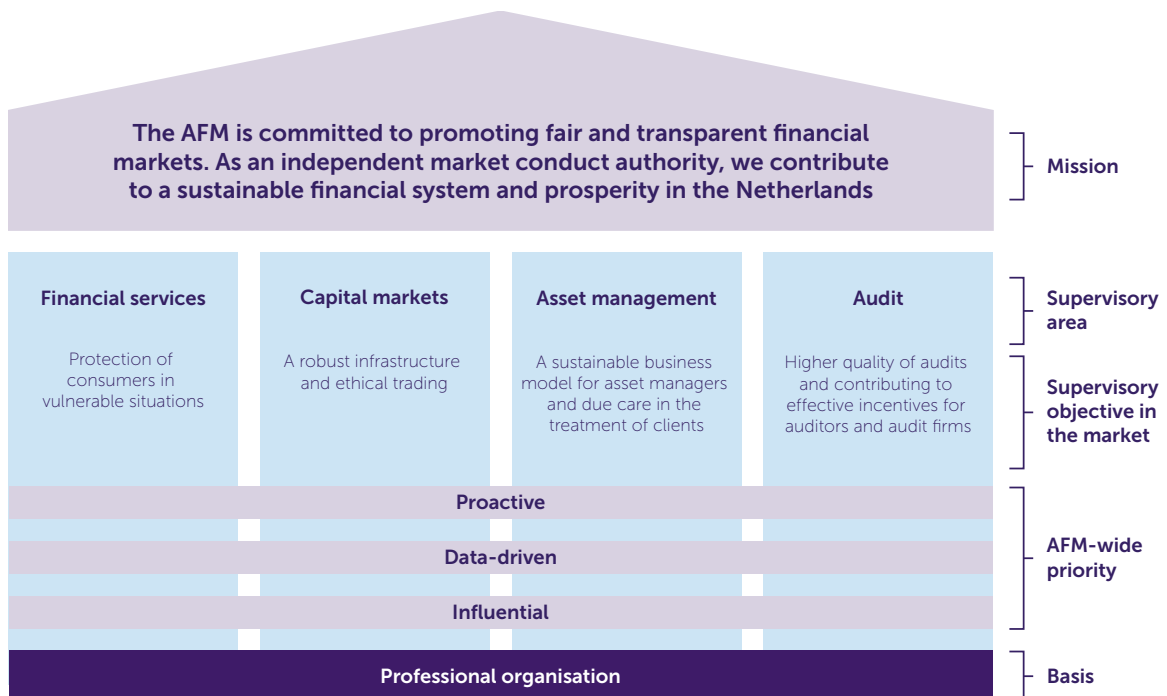


Figure 1: this figure illustrates the AFM's strategy for 2020-2022. At the top our mission is stated: The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands. We fulfil this mission with supervisory objectives for the 4 supervisory areas of the AFM: financial services, capital markets, asset management and auditing. The objectives of our supervision are: protection of consumers in vulnerable situations (financial services), a robust infrastructure and ethical trading (capital markets), a sustainable business model for asset managers and due care in the treatment of clients (asset management) and higher quality of audits and contributing to effective incentives for auditors and audit firms (accountancy). We aim to achieve these objectives by being proactive, data-driven and influential. Our professional organisation is the foundation for this.



Three AFM-wide priorities

Proactive

The saying that 'prevention is better than cure' is equally true for supervisory authorities. As a supervisory authority, you prefer to detect potential issues at an early stage. When issues are identified and action is taken in a timely manner, the damage to consumers, markets, the economy and confidence in the financial sector is limited.

The AFM therefore uses risk analyses and exploratory studies to look as far ahead as possible. Each year, we publish important new trends and developments in 'Trendzicht'. The [most recent edition of Trendzicht](#) contains specific risk maps for our various areas of supervision.

Of course, supervision itself requires us to look ahead. This proactive attitude is reflected in our preparations for a new pensions system, including an emphasis on the importance of the supervision of conduct. We draw on our studies into consumer behaviour in our supervisory activities, for example in relation to digital choice environments. In 2021 we published [principles for insights into consumer behaviour](#). We hope these principles will encourage financial enterprises to use insights into consumer behaviour in the interests of consumers, so that these insights can contribute to prudent financial decisions. We also conducted an exploratory study into the emerging [phenomenon of 'finfluencers'](#), who do not fall directly under our mandate, but nevertheless play a significant role in the increasing number of execution-only investors.

In our supervision of the capital markets, monitoring of Suspicious Transaction and Order Reports (STORs) has intensified. This should ensure more and better-quality reports from institutions regarding suspicious transactions. Our vision on the area of the Markets in Financial Instruments Directive (MiFID) (consolidated tape, illegal Multilateral Trading Facilities (MTFs) and Payment for Order Flow (PFOF)) and various questions – for example around prevention of market abuse – are examples of proactive actions. They are also examples of how we respond quickly to changes taking place in the capital market.

As part of our supervision of asset management we assess newcomers (licence applicants) and new offers (from new funds) to check that they 'measure up', before they can commence activities on the market.

In our supervision of audit firms and financial reporting we have examined the working methods of the supervisory boards of large audit firms and their impact. Among other things, supervisory boards monitor quality objectives and whether an audit firm is making decisions in the public interest. Supervisory boards can use the [guidance in our report](#) to improve their internal supervision.

Data driven

In 2019, the AFM started to make specific supervisory processes, or elements of these processes, data driven. Making our supervision more data driven is a priority. In 2021, we started giving a structural basis to data-driven supervision in our organisation.

An example of data-driven working is identifying risks in non-life insurance through regular monitoring using a dashboard. This ensures we become aware of risks sooner: we receive faster, better signals that point to potential individual and market-wide detrimental movements requiring further analysis, which we then act on if necessary.

We have also used data to monitor the effects of our interventions. For example, we looked at consumer activation with an interest-only portion of a mortgage. We then discussed the results of these studies with parties under our supervision.

Fund notifications are now largely automated, and are assessed using data-driven methods. We also use data-driven tools in our risk monitoring and prioritisation. In addition, the inputting of data in relation to the transmission of Alternative Investment Fund Managers Directive (AIFMD) reports to the AFM has been improved and made easier for market parties.

To be able to work in a data-driven way, it's extremely important that the AFM receives high-quality data. For example, we are working within our relationship with the European Securities and Markets Authority (ESMA) to improve the quality of AIFMD reports. This will give us a good picture of developments in the asset management sector, not only at the national level but also at the international level.

For our supervision of audit firms, in 2021 we developed a methodology for risk-based supervision. To a large extent this methodology is based on qualitative and quantitative data, allowing us to deploy our supervisory capacity in the highest-risk areas. We request data to support our supervision,



and invite audit firms to contribute to our data on a voluntary basis. We identify trends, developments and risks based on information from data pilots, among other sources. We have used these insights to decide where to focus our supervisory efforts in 2022. The market picture will be adjusted each year based on the latest quantitative and qualitative data.

As part of our requests for information from market parties we sometimes handle sensitive data. We then ensure that we use data responsibly and take into account the relevant legislation, both for our work and for the protection of personal data. This includes, for instance, the Dutch General Administrative Law Act (*Algemene wet bestuursrecht*, Awb) and the General Data Protection Regulation (GDPR).

Influential

For a supervisory authority, it is important that regulations make it possible to resolve key issues. We must be able to continue to assess whether the existing framework offers sufficient tools to enable us to properly perform our role. We are committed to ensuring an appropriate legal framework. We do this by becoming actively involved in national and European discussions about legislation.

In the Netherlands, we have close relationships with the Ministries of Finance and Social Affairs and Employment (SZW). In our [annual legislative letter](#), we list the topics that are important for the current legislative framework. We also contribute actively to the public debate with our publications and participation in panel discussions and roundtable discussions in the House of Representatives. In 2021, representatives of the AFM participated in roundtable discussions about digitalisation, dividend stripping and financial stability.

As part of the legislative process for the bill for the Future of Pensions Act, the AFM provided the department with independent advice, published responses to consultation and performed a supervision test at the request of the SZW.

Europe is the source of many of the laws and regulations in the financial sector. These regulations increasingly determine how European supervisory authorities should perform their supervisory functions. In 2021, the AFM described in various publications what aspects of new laws and regulations we consider important. For example, we published a [non-paper](#) with the Ministry of Finance setting out the Netherlands' commitment to the

Retail Investment Strategy. We also published a [report in anticipation of the review of MiFID II/MiFIR](#).

The AFM is a member of the ESMA Board. In addition, a member of the Executive Board of the AFM is the Chair of the ESMA standing committee tasked with aligning supervisory functions across Europe (supervisory convergence). We greatly value our participation in a wide range of international working groups and bilateral contacts with fellow supervisory authorities within the Netherlands and across the world. We are members of European and global organisations in all of the AFM's areas of supervision (including EIOPA, EBA, IAIS, IOSCO and IFIAR). The AFM sometimes holds management roles in international organisations, but we are also often represented in underlying standing committees and working groups.

We also work closely with other supervisory authorities. For example, in 2021 we worked with the French supervisory authority, AMF, to call for attention to be given to the [risks of and possible solution pathways for cross-border provision of services](#).

Evaluation of the AFM as an independent administrative body

The supervision of financial conduct performed by the AFM is at a good level. We are a professional and thorough supervisory authority contributing to the proper functioning of the Dutch financial markets. That was also the conclusion of KWINK Group, the research firm that conducted the [five-yearly evaluation of the AFM](#) as an independent administrative body.

We have taken on board the nine recommendations and will continue to learn, grow and improve. For example, one of the areas of concern was the predictability of AFM interventions, which is not always entirely clear to the sector. We can do a better job of communicating which risks our intervention relates to, and which risks we are not concerned about. Another point was that, according to the inspectors, more benchmarks are required to determine whether investment in data innovations is necessary or useful. They also recommended making agreements with other supervisory authorities about requesting data from financial institutions. A further point was that the legal framework of AFM supervision includes many open standards. The inspectors recommended developing a fixed approach to the regular review of open standards. We will set to work on implementing the recommendations.



The evaluation was commissioned by the Ministry of Finance for the period 2016–2020. The main question was: 'To what extent is the AFM's performance of the duties of an independent administrative body, as well as the associated expenditure, efficient and effective?' KWINK Group answered this question using the six principles of good supervision, through interviews with employees, members of the Executive Board and stakeholders, and by studying documents.

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Supervision of financial services





Through its supervision of financial services, the AFM aims to prevent problems for consumers. Our focus is on situations in which consumers are vulnerable: where products are complex, consumers are less resilient and the long-term consequences are significant.

For example, in 2021 we conducted an investigation into the management of cases where consumers are behind on repayments for consumer credit or mortgage loans. We also conducted a study of private investors who often enter the investment market using apps, without seeking advice. We drew the attention of insurers and consumers to the

issue of cover for damage due to extreme weather caused by climate change. Finally, we highlighted the opportunities and risks of personalised pricing of insurance premiums. Within the supervision of financial services, the arrival of the new pensions system has required a great deal of work.

Results

- Based on a number of guiding principles, we helped market parties to put customers' interests first more often when they are behind on payments for either mortgage loans or consumer credit, so that consumers can see a pathway to a debt-free future within a reasonable timeframe, even when they are experiencing payment issues due to the coronavirus crisis.
- Through a webinar, we informed finfluencers about what they can and can't include in social media posts about investing, since in recent years consumers have increasingly been investing independently, guided by information on social media. We also drew the attention of investment firms to the ban on commissions when collaborating with finfluencers, so that investors can make objective decisions.
- Based on research we conducted, pension providers are aware that when developing variable pension products they must take sufficient account of the needs and characteristics of participants, such as the risks that they are willing and able to accept. We believe it is important for pension providers to develop variable benefits that are appropriate for participants, and to provide proper guidance to help their participants decide between fixed and variable benefits.

Responsible lending

In response to the coronavirus crisis and the payment difficulties it caused for some consumers, in 2021 the AFM examined the policies and implementation of late-payment management of nine providers of consumer credit and six providers of mortgage loans. In September, we published an occasional paper on the topic of payment difficulties, entitled '[Vulnerability to payment difficulties](#)' (PDF, 700 kB). We also gave specific attention to the implementation of the new lending standards for consumer credit and conducted an exploratory study into compliance with the lending standards for mortgage loans. In 2021, we continued our strategy with regard to interest-only mortgages.

Consumer credit

With regard to providers of consumer credit, we saw room for improvement in respect of five of the principles for good management of late payments. For example, many providers could make their

letters more constructive, give more consideration to the customer's financial situation, and ensure that the arrangements for sending debts to collection partners are more focused on the customer's interests. The findings of this research were discussed with the providers. They committed to taking action, and in some cases have already done so.

The principles are set out in the '[Late payment management in consumer credit](#)' report, to help all market parties better understand how to put customers' interests first when they fall behind on their payments. In a number of areas, our principles go further than what the legal rules require of providers. For three providers, we also identified infringements of the statutory rules, and drew this to their attention with a standards compliance letter.

In 2021, we encouraged responsible lending in the consumer credit sector through the implementation of strengthened lending standards, which lenders



can use to work out the maximum amount they can lend. We held frequent discussions with sector organisations and market parties to guide this process, and in policy discussions we focused on applying the lending standards more broadly, for example to private leases. The AFM also dealt with several incidents in which mistakes in the digitalised process had led to excessive lending. The providers acknowledged their mistake and compensated the customers (who had encountered difficulties as a result of the mistake). We resolved these cases with a warning.

We completed a project, begun in 2018, which involved actively working with the debt purchasers market to ensure that even after debts have been transferred, consumers can see a pathway to a debt-free future within a reasonable timeframe. We expect market parties to continue to implement ambitious improvements to policies and policy implementation, as a matter of priority.

Together with the Ministry of Finance, in the summer of 2021 we responded to the European Commission's proposed review of the Consumer Credit Directive (CCD). In the months since, we have supported the Ministry by providing input on the documents discussed in the Council working groups on the review of the Consumer Credit Directive. Consultation will continue in 2022, on topics such as whether private lease contracts should come within the scope of the CCD, and what buy-now, pay-later products should be regulated under the CCD and how.

Mortgage lending

In 2021, we investigated six mortgage providers with regard to their policies and methods for dealing with late payments. We believe it is important for providers to work with customers in a timely manner to find a financially sustainable solution, if a mortgage cannot be repaid or if a customer is likely to experience difficulties.

The investigation did not uncover any infringements, but we did identify a number of areas of concern. For instance, providers could give greater consideration to using data to identify vulnerable customers at risk of experiencing payment difficulties in a timely manner, and to help them. More research could also be done into the effectiveness of solutions to help customers, and policies for dealing with distressing and desperate situations could be improved. In quality checks of providers' own files and outsourced files, customers' interests could be used as the basis for decisions more often. Finally, we encourage

providers to take further steps in using insights from behavioural science for effective customer communication and solutions for customers who are behind on their payments. All providers were given the task of drawing up an action plan with regard to these issues, and reporting on their progress. The investigation into payment difficulties will continue in 2022. Three further providers will be investigated, then a publication will follow.

In 2021, we continued our strategy for dealing with interest-only mortgages and monitored the progress made by providers. The focus for 2021 was on the areas of concern that arose from our investigation in 2020: the design of a customisation policy for vulnerable customers and a process of ongoing management, so that customers will remain part of the strategy in the future. On 30 March 2021, we shared with the sector our expectations and the [study into financially vulnerable households with an interest-only mortgage](#) through a webinar.

After reaching out to customers considered to be high risk, in 2021 mortgage providers continued to implement the strategy. In total, based on our strategy mortgage providers contacted over 1.1 million customers, and assessed for more than 290,000 customers whether they would be able to make payments in the future. Around 90% of customers with a medium to very high risk profile were contacted. That is nearly half of all customers who fall within the scope of the interest-only mortgage strategy, including customers with a low risk profile. In 2022, all mortgage providers will finish making initial contact with customers. After that, the providers will make regular contact with affected customers as part of their ongoing management.

Partly due to the overheated housing market, we started an initial exploratory study into the application of lending standards to mortgage loans. We examined the acceptance policies of five mortgage providers. For four institutions, the exploratory study resulted in a recommendation to improve parts of the acceptance policy. We gave feedback to these four institutions with regard to a number of findings. These findings mainly concerned how the parties dealt with deviations from the established acceptance policy in exceptional situations. For one party, we conducted a follow-up investigation. We will publish a report on this investigation after the end of the reporting year.

In an occasional paper entitled '[First-time buyers in the housing market](#)', issued in September 2021, we



discussed the potential for excessive lending. The AFM is concerned about the borrowing behaviour of first-time buyers. Mortgage debts are high, student loan debts are often not taken into account, and many first-home buyers are stacking debt.

In 2022, the AFM will follow up this initial exploratory study on the theme of excessive lending by carrying out two further studies, looking at specific target groups and the application of 'explains'. We will also have further discussions with the Ministry of Finance about a statutory power to regularly request data from institutions, so that we can get a better understanding of the potential scale and development of lending that exceeds the lending standards.

Independent investors in 2021

Share prices continued to rise in 2021, with the share market breaking record after record. Combined with an environment of persistently low interest and increasingly easy access to investing, this resulted in growth in the popularity of investing. Retail investors have more choice than ever. Alongside well-established investment instruments, investors showed growing interest in SPACs, crowdfunding platforms and cryptocurrencies.

The AFM has a limited mandate with regard to cryptocurrencies, but this is set to be expanded when the Markets in Crypto Assets Regulation (MiCAR) comes into effect. Generally speaking, cryptocurrencies do not fall within the definitions of the current regulations that determine the AFM's mandate. However, financial products or financial services based on cryptocurrencies do come under our supervision, such as a derivative with a cryptocurrency as the underlying asset. For now, cryptocurrencies are not financial instruments, but a derivative is, which means this product comes under our supervision.

In the past few years, large groups of new retail investors have started investing. Many of these new investors (as well as some existing investors) use investment apps or invest online in some other way, without advice. This kind of investing is known as 'execution-only (EO) investing'. More than ever, investment decisions are being made on the basis of the information available in apps, on websites and on social media platforms. In 2021, we conducted a variety of research prompted by the changing market conditions and the growing group of independent investors. This research focused on EO investors, financial influencers, and how investment firms protect EO investors from irresponsible risks, such as payment for order flow ([PFOF](#)).

We examined who EO investors are and how they behave through a large-scale consumer survey, of which we published the results in [Trendzicht 2022](#). Partly due to the low interest rates for savings, Dutch people are investing more money than ever, which could be a good way to build up assets if they invest wisely and are aware of the risks. In the past two years, the number of households with investments has risen from 1.4 to 1.9 million.

Our research revealed that one in three independent investors are taking unnecessary risks. Their trading behaviour is suboptimal. Some of the investors have a tendency to trade often, incurring unnecessary costs. In addition, a lack of diversification across instruments and regions results in portfolios with a poor risk-return ratio, as does trading in high-risk products. Around 12% could find themselves in financial difficulties.



Table 1: Suboptimal behavior of execution-only investors

Suboptimal behaviour	Percentage of all execution-only investor	Percentage who are also dependent on the assets
Insufficient diversification across instruments	15.3%	3.8%
Insufficient diversification across sectors	11.5%	2.7%
Insufficient diversification across regions	13.7%	4.5%
Veel handelen	3.4%	1.6%
Veel beleggen in risicovolle producten	11.7%	5.8%

Social media and investing

The impact of social media on investing can be seen in the havoc around GameStop shares. These shares attracted hype due to calls by members of the WallStreetBets investor forum on the large American site Reddit. A brief assessment revealed that several Dutch investment firms restricted trading in GameStop shares for a short time. The assessment did not uncover any infringements, but parties could have communicated more clearly to investors the possibility that trading could be restricted. The GameStop case was also important in our supervision of the capital markets.

The impact of influencers

In the area of social media, we carried out an exploratory study into approximately 150 financial influencers ('influencers') who post messages on social media about investing. These influencers have a total of 1.1 million followers.

While influencers provide easily accessible information about investing and thus meet a need, nearly all of them operate in ways that give rise to risks. We have identified the following risks associated with how influencers operate:

- They may be providing investment advice without a licence.
- They make ill-considered investment recommendations.
- They promote risky products.
- They collaborate with unlicensed parties.
- Investment firms pay influencers for bringing them customers.

To inform influencers about our study, in December the AFM organised a webinar/roundtable for influencers, in which we explained the rules with which influencers must comply. In addition, the

five investment firms involved with influencers, which were identified in our exploratory study, received a standards information letter or a standards compliance letter about the applicability of the ban on commissions in relation to referral fees. We also published the general findings from our exploratory study to inform influencers and investment firms more broadly, so that they can take action to prevent further infringements.

We also carried out a social media campaign to alert followers to the risks. The video was shown to specific target groups on YouTube, Instagram, Snapchat and Facebook. In total, it appeared in various timelines almost a million times. The video was watched in full more than a hundred thousand times. Six thousand viewers clicked to view a special [checklist on our website](#).

Integrity of the Dutch investment market

Unfair trading practices, conflicts of interest and other fraudulent behaviour are ongoing risks for the Dutch investment market. To reduce these risks, the AFM's integrity supervision in 2021 focused on both preventing and combating integrity violations. We issued a number of formal and informal warnings about unscrupulous investment platforms, with or without a European passport, which were harming Dutch investors. We were able to ban a number of parties from the Dutch market.

We also conducted several extensive campaigns to make investors more resilient in relation to unscrupulous practices. For instance, we asked a number of well-known figures in Dutch society to warn consumers against ads designed to persuade them to invest in certain products. We also held intensive discussions in 2021 with Dutch and foreign chain partners to combat integrity risks in the investment market. This strategy led to a number of



unscrupulous CFD brokers being banned from the Dutch market. There was also a marked decline in the number of reports of unscrupulous CFD brokers with a European passport. In this way, we contributed to growing awareness and a more robust approach to tackling criminal behaviour in the financial sector.

Future of Pensions Act

In 2021 the Ministry of Social Affairs and Employment continued to develop legislation for the new pensions system, creating the draft bill for the [Future of Pensions Act](#). We contributed in this legislative process as an adviser and independent supervisory authority. In early 2021, we [responded to the consultation](#) on the bill. At the request of the department, in mid-2021 we performed a supervision test on the bill, based on its text at the time. Areas to which the AFM consistently called attention while the bill was being drafted include the necessary degree of participant protection, and strengthening the requirement for pension providers to give decision-making guidance. We explain these areas more fully below.

Protection of participants in the new system

In our input as part of the consultation response and supervision test, we strongly advocated for the position of participants to be given sufficient legal protection. In the Steering Group chaired by the Ministry of Social Affairs, we actively raised areas of concern around this issue. These included transparency around the consequences of transition from the old to the new system, and the effect of redistribution between generations on the pension capital of individual participants. We also advocated for further strengthening of legal protections for participants to allow for the out-of-court resolution of disputes relating to the pension scheme between pension providers, current and former participants and pension beneficiaries.

We indicated that the time has come to expand the protection of participants in step with the new system. We believe it is important that:

1. the selected pension scheme is appropriate for and takes into account the characteristics and preferences of the participants;
2. participants receive proper guidance on all of the decisions they have to make;

3. decisions to be made as part of the transition from the old system to the new system are easy to explain to participants.

The transition from the old pensions system to the new one is complex for participants and the consequences are difficult to predict. Pension providers should give participants specific, timely information about the decisions to be made during the transition, and the impact of those decisions for their individual pensions. Because there is no right of objection, participants must be able to obtain information that is as specific and personal as possible regarding what the transition means for their expected pension benefits and their accrued rights.

With regard to all of the decisions to be made during the transition, it's important to look not only at the technical consequences of the transition, but also at how easy it is to explain the transfer to participants. At our request, a requirement will be included in the legislation in order that pension providers draw up communication plans during the transition. After all, participants need to be given timely, correct, clear and balanced information on the complex subjects and changes.

Deciding on a pension scheme

As a result of the new Act, all pension schemes will become defined contributions schemes, while retaining collective elements. Over the past decade, the number of pension participants in defined benefit (DB) schemes has steadily declined in favour of defined contribution (DC) and collective defined contribution (CDC) schemes.

In a defined contribution scheme, only the contribution is agreed. This means that pension providers invest on behalf and at the risk of participants. The design of the scheme therefore has a direct impact on the pension received by the participant or pension beneficiary.

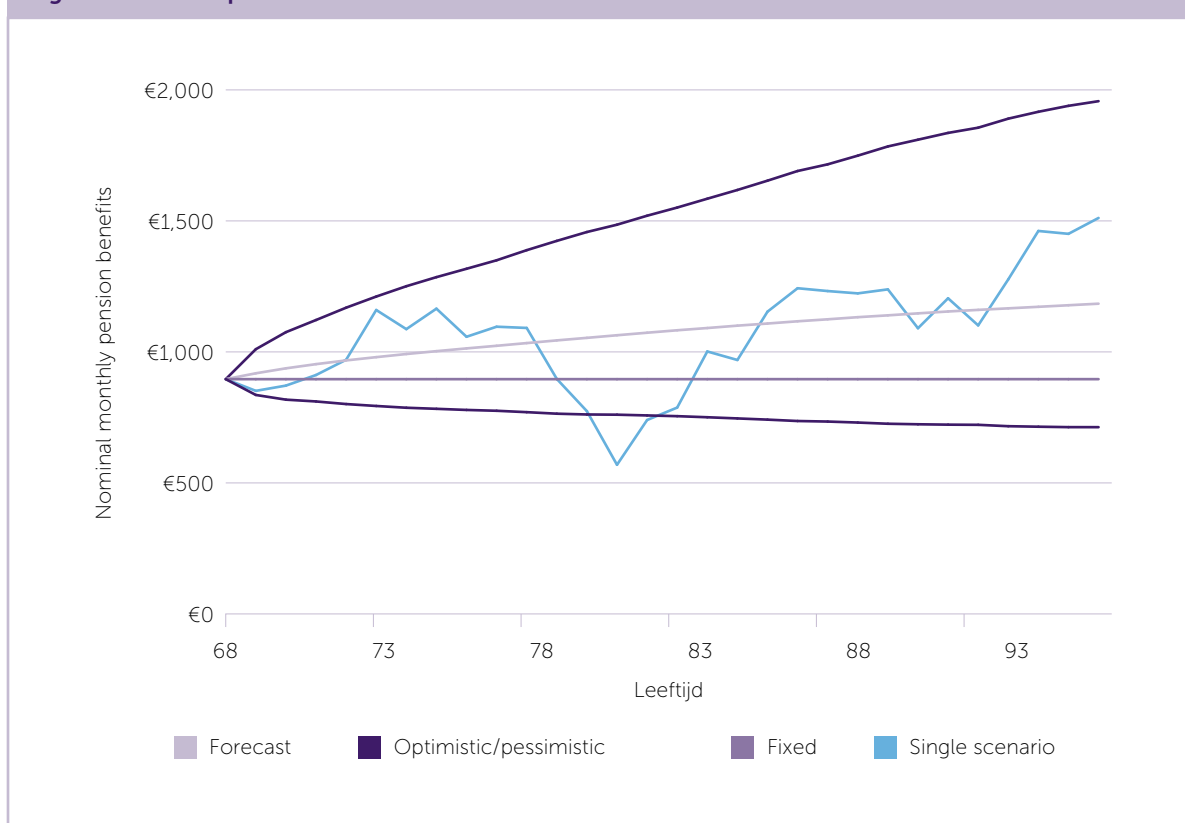
In April, in our [research into these kinds of variable pension benefits](#), we found that when developing variable pension products, not all pension providers take sufficient account of the needs and characteristics of participants, such as the risks that they are willing and able to accept. We also found that they do not always provide proper guidance to participants deciding between a variable or fixed pension benefit.



In these circumstances, therefore, we wish to convey the following. We believe it is important for pension providers to clarify the various participant populations, and to determine on that basis for whom a variable benefit is and is not suitable. It is also important for participants to properly understand the importance and the short and long-term consequences of their decision. The graph below, which is based on our research, illustrates

the possible volatility of the actual evolution of a variable pension benefit. We will continue to call attention to this issue and discuss it with the sector. For instance, digital choice environments can help participants make complex decisions. This is part of the new decision-making guidance standard that will apply from 1 January 2023. We will come up with recommendations for pension providers.

Figure 2: variable pension benefits



This graph shows various theoretical pension scenarios for pensioners aged 68 years to 93 years and older. With a fixed benefit, the line remains close to €896, which will in principle not change. With a variable benefit, there is an optimistic ('good weather') scenario in which the monthly benefit increases on average from €896 to €1,900. In the pessimistic ('bad weather') scenario the monthly benefit slowly decreases from €896 at the age of 68 to €720 at the age of 93. In the 'weather as expected' scenario, the variable pension benefit increases slowly from €896 to €1,160 per month based on a median scenario. The graph also shows a possible scenario for the actual development of the pension benefit, where it fluctuates wildly between approximately €650 and up to €1,500 per month. The actual development will depend on the returns achieved on the pension plan assets.



At the end of June we published our first [Snapshot of the pensions sector](#). This provided us with insight into the choices being offered and the extent to which participants are taking advantage of these choices. This snapshot was based on information requested by the AFM from more than 200 Dutch pension funds, pension insurers and defined contribution pension institutions. It therefore provides an overview of the state of affairs and developments in the pensions landscape in relation to second-pillar pensions. We will repeat this research over the next few years, to enable us to track trends in the sector. Our intention is to share the information and insights with the sector on an annual basis. The insights also enable us to perform our work as a supervisory authority more effectively.

Personalised insurance premiums and benefits

Insurers are increasingly able to personalise insurance premiums, using data and technology. Instead of a fixed premium for each risk group, customised premiums are set for individuals. An example is an insurer that measures customers' driving behaviour or health using a step counter or blood pressure monitor, and offers a discount for safe driving or a healthy lifestyle. Insurers can also adapt the premium or likelihood of acceptance at the outset, through advanced data analysis.

Owing to the potential impact of these technologies, we [published nine areas of concern](#) with regard to the personalisation of insurance premiums. These arose from an exploratory study into the use of these technologies in the Netherlands, based on market-wide interviews, a literature review and the technologies used in other countries. Although the personalisation of insurance premiums in the Netherlands is not yet widespread, insurers are increasingly thinking about it. We expect that when parties start to apply the technologies more widely, they will quickly become common throughout the market.

Advantages: safe behaviour is rewarded, the burden of claims will decrease

There are a range of benefits to the personalised pricing of insurance products. For example, there will be less 'subsidisation': people who take more risks will pay more, while premiums will be lower for risk-averse people. For groups who are difficult to insure, such as taxi drivers, personalised pricing could lead to a lower burden or better insurability. Taxi drivers who

drive safely would not have to shoulder the burden of individuals in the group with a higher risk of harm. Insurance premiums and social costs would decrease across the board if claims decreased due to safer behaviour and prevention measures.

Risks: uninsurability, data as currency and inability to compare

One significant risk is simply that people will fall by the wayside: insurers could reject consumers if they know from individual data analysis that the risks are unprofitable. This would undermine solidarity and lead to some people becoming uninsurable. In addition, data would become a form of currency, as insurers force consumers to pay a higher premium if they don't want to share their data. Only people who can afford higher premiums would be able to choose not to share their data. Lastly, personalised policy conditions would make it virtually impossible to compare insurance policies.

Areas of concern and responsibility

We shared the nine areas of concern with the sector so the risks of personalised pricing can be minimised, while recognising the opportunities it presents. For example, it would be undesirable for sharing data to be made compulsory, and the sector is responsible for ensuring customers remain insurable. It's also important to consider the extent to which the measured behaviour can actually be influenced.

If abuse occurs we can intervene, for example on the basis of the standards for product development. But on this subject, the personal responsibility and moral compass of insurers are more important than ever. We encourage initiatives by the sector to consider these issues, particularly because consumers have limited ability to challenge this innovation, and competitive pressure may overshadow insurers' moral compass. The AFM will continue to closely monitor developments and engage in dialogue with the sector and other stakeholders involved.

Impact of climate change on insurance cover

Exceptional weather conditions are one of the main causes of damage and loss. Claims are expected to increase in the coming years due to the changing climate. In our October 2021 [publication about the impact of climate change](#) on non-life insurance we shared several areas of concern for consumers, businesses and the government. In our data-driven



ongoing supervision of non-life insurance, which enables us to compare different policies relatively quickly, we have noticed that not all weather-related claims are fully covered by insurance. Some are not covered at all. Owing to climate change and the increase in extreme weather, it is conceivable that in the future the burden of claims will increase and certain forms of damage and loss could be further excluded from cover.

In our report, we set out a number of key areas of concern.

- Among other things, climate change is expected to cause an increase in levels of precipitation. The likelihood of extreme precipitation will also increase. Loss or damage due to precipitation is usually covered for private individuals, but insurance policies for businesses are often customised and do not automatically cover loss or damage due to precipitation.
- As was seen in the summer of 2021 in Limburg, Belgium and Germany, the risk of flooding is increasing. In terms of insurance cover for flooding, a distinction is made based on the cause of the flooding. Flooding that might have a cause other than local precipitation, such as a river bursting its banks, is not always covered. However, consumers do not appear to be sufficiently aware that they are not insured against this risk.
- As well as exceptional precipitation, climate change will also increase the likelihood of periods of drought. Subsidence and the collapse of homes and other buildings due to drought are major forms of property damage. The risk of subsidence and collapse is currently uninsurable, but consumers continue to assume they are covered.

Micro-cracks in solar panels

Damage to solar panels is usually covered by building insurance, and sometimes by household contents insurance. A type of damage that is less commonly covered, particularly after 2016 when there was widespread hail damage, is 'micro-cracks' in solar panels. Micro-cracks can also cause consequential loss or damage, such as lower levels of generated power, but they also increase the risk of fire. As these types of loss and damage are less commonly covered, consumers often have to bear the associated costs themselves. Given that micro-cracks will occur more frequently in the future, due to climate change and the growing number of homes with solar panels, consumers need to be aware of this risk.

Consumers and businesses will face higher costs due to loss and damage caused by climate change. They will need to prepare for this by creating financial buffers and taking preventative measures. This also raises the question of what steps the sector and the government can take to ensure that certain types of risks remain insurable and are included in insurance policies. The AFM drew attention to this issue in its report, and hopes to contribute to raising awareness among consumers and businesses. The AFM will continue to monitor developments on this subject and remain in discussions with the sector and the government.

Other activities in the supervision of financial services

Supervision of new and existing products

In 2021, we completed two studies that were designed to provide a comprehensive picture of the quality of the Product approval and review process (PARP) and, where necessary, of the causes of a flawed

product development process. The studies focused on policies, the embedding of PARPs in the organisation, and the operation of PARPs in practice. We specifically looked at three products: a type of mortgage, a disability insurance policy and a pension product.

The main causes of a flawed PARP in one of the studies were a policy that was not sufficiently detailed and did not provide enough guidance, inadequate implementation of the various components of the PARP, and a failure to fairly balance the various interests involved, or to explicitly record that this had been done. The company concerned is making improvements based on the findings.

As well as these studies, we examined the PARP of one other party. We found that this party had paid too little attention to the customer perspective and the examined PARP was not sufficiently detailed or thorough. The target group had not been adequately defined, the operation of the product in various scenarios had not been tested, or only to a limited extent, the distribution strategy did not ensure that



products would only reach the target group, and the provision of information was not sufficiently tailored to the target group. The party concerned received a warning letter setting out these issues.

It is important for products to be developed and evaluated carefully. Businesses should only develop products that are in the interests of customers and are offered to a well-defined group of customers for whom the product is suitable (the target group). A properly functioning PARP is critical in this respect. By using a well-designed PARP, businesses can ensure that the development of a product includes a balanced consideration of customers' interests.

The Dutch legal standard for product development was established well before the legal requirements enshrined in European laws and regulations. In 2021, we organised webinars for fellow supervisory authorities from other countries and policymakers from European supervisory authorities ESMA, EBA, EIOPA and the European Commission. During these interactive digital sessions we discussed both the legal framework for product development and our insights into consumer behaviour. The webinars attracted a great deal of interest. It was a good opportunity for us to clearly communicate our views on product governance to an international audience.

Product intervention measure for turbos

Through a [product intervention measure](#), we have restricted the offering of turbos to Dutch retail investors. Turbos are leveraged products: investors speculate that the price of an underlying asset, such as a stock, index or currency, will rise or fall. The underlying security is largely funded with borrowed money. This increases the risk and can mean that investors lose their entire investment. To reduce this risk, the AFM has decided to impose leverage limitations. With effect from 1 October 2021, we have imposed a leverage restriction, a mandatory risk warning and a prohibition on incentives for trading turbos. Our intention here is to provide better protection for retail investors against the risks of turbos. A previous study revealed that a large majority of investors have lost a great deal of money.

Internal study into appropriate 'tone at the top'

We conducted a study into the 'tone at the top' in 12 businesses (7 financial service providers and 5 insurers). A healthy 'tone at the top' drives controlled, ethical business operations, which in turn ensures that everyone involved in that company acts in the interests of customers. For this study,

we used the *Validated in control assessment* (VICA) methodology. This involved asking parties to conduct a self-assessment and indicate their maturity against expectations we had formulated. The maturity indication enabled us to have good discussions with the parties.

We have now completed the part of the study involving advisers and brokers. In 2022, we expect to complete the part involving insurers and to start the study with banks. We are pleased with the results of the study relating to advisers and brokers. We gained insights into risks, which could lead to follow-up studies or interventions.

We and the parties found the conversations particularly useful. We used the requested information to strengthen our own information position on the prioritised themes, in this case vision and strategy development, tone at the top, the interaction between the Executive Board and the Supervisory Board, culture and control. Because of this study, the subject of 'tone at the top' has been expressly placed on the management agenda, and awareness of its importance is increasing.

Transparency of pension fund costs

More than half of pension funds did not correctly report on costs incurred in their annual report. This was revealed in a [study into the 2019 annual reports of 166 pension funds](#). Conversations were also held with pension funds, the Federation of the Dutch Pension Funds and providers of cost benchmarks.

A variety of errors were made. One in every five annual reports lacked specific, mandatory information about costs as a whole. In some cases the required figures were missing, but could be indirectly inferred. In addition, the explanation of the costs was sometimes extremely limited, and thus not in line with the recommendations that the sector itself had formulated. Such information can help parties interested in the fund to make a proper judgement about the level of costs and ask the right questions.

We have called on funds to properly follow the legal rules for cost transparency in their 2020 annual reports and supply a thorough explanation for the required information.

Market impressions as material for comparison

Financial service providers can use the annual 'Market impressions' report to compare their company with its peers in terms of average turnover, average



number of FTEs and average number of customers per FTE. [‘Market impressions 2021’](#) is based on the 2021 Market Monitor, a questionnaire sent to 7,000 financial service providers. In this edition of Market impressions, we drew attention to the agreements between financial service providers and freelancers and outlined the conditions that must be met. We also covered the requirement for financial service providers to verify that the necessary qualifications are held and to check the licence register. Finally, we drew attention to the results of the Wwft questionnaire.

Duty of care in the management phase

We spoke with a variety of parties in the financial sector about the duty of care in the management phase and the importance of ongoing support for customers in this phase. This duty of care begins once a customer has signed up for a product or service, and continues throughout its term. We believe it is important for financial companies to think about their role in relation to their existing customers, and how they can help them to continue to meet their goals. Accordingly, in late 2021 we published the [‘Principles for ongoing customer support’](#). The principles consider the issue of what more financial companies can do, beyond the minimum required by the statutory duty of care. We hope this will encourage financial companies to critically review and further develop their ongoing services to customers. In 2022, we will use the principles to continue to shape our dialogue with the sector on this topic.

Managing expectations around profit-sharing insurance

Owing to persistently low interest rates, there has been little to no transfer of profits to holders of profit-sharing insurance policies (such as endowment insurance policies). In 2021, we studied how insurers were managing the expectations of policyholders with regard to capital accumulation as part of profit-sharing insurance. This study was conducted among 12 insurers. It revealed that all insurers informed customers about the disappointing level of profit transfers via their earnings letters. The Dutch Association of Insurers had been calling for this to be the case, and we were pleased to see the recommendation implemented. Some insurers adjusted their approach after the AFM made contact, for example by taking additional actions in respect of customers whose policy is linked to their mortgage or pension, or by improving the substance of their communications. In 2022, we will check in with all insurers to see where they are at with informing their customers and taking the additional actions.

Advice software: keeping meticulous records

Advice software used for disability insurance policies is primarily focused on recording decisions, not on recording the basis for the decisions. Connecting customer information to a suitable product, recording the basis for decisions and creating a file are tasks that advisers must perform themselves. This was among the findings of our [research into this software](#). In a report, in addition to recording the basis for decisions, we suggested measures that advisers can take to properly secure customer information.

Towards a customer-focused culture

In 2021 we conducted follow-up interviews with a number of banks and insurers in connection with the study and associated report entitled ‘Rethinking rewards and recognition’, released in June 2020. In that report, the AFM urged financial companies to examine how reward and recognition incentives are experienced by employees as part of the risk assessment of their remuneration policy. Remuneration policies should not prevent the careful treatment of customers. In the interviews, the companies explained how they were implementing the findings of the study and the recommendations in the report. The topic of rewards and recognition will come back onto the agenda from time to time, due to regular contact between the AFM and the companies.

Connecting auditors to the AFM’s objectives

In 2021, we conducted an exploratory study among five large insurers, the four major banks and four major advisers and brokers into the contribution of their internal audit functions to the AFM’s supervision objectives. The amount of attention given to the subjects that are relevant to our supervision and how they are embedded in the audit strategy, varied for each internal auditor. The AFM believes there is room for further deepening and broadening in a general sense.

As a result of the exploratory study, the internal auditors involved became more aware of the subjects that are relevant to the AFM with regard to laws and regulations concerning typical behaviours, behaviour and culture, and future risks. The internal auditors indicated that they had included these subjects in their annual plan and audit planning for the coming year. We will continue to discuss these matters with internal audit departments.

Design of the compliance function

Following an earlier study into the compliance function in [investment firms and collective](#)



[investment companies](#), in 2020 and 2021 we focused on insurers, advisers and brokers.

We requested data that would help us identify how the compliance function is designed and embedded in these organisations, what impact the compliance function has and what level of maturity is appropriate. A mature compliance function contributes to an organisation's ability to self-correct. We will monitor the areas for improvement that we identified as part of our ongoing supervision.

Our requests yielded sector-wide information, which will also help us conduct a proper risk assessment of the impact and design of the compliance function in banks.

Completion of the Uniform Recovery Framework for interest-rate derivatives

In 2021, implementation of the Uniform Recovery Framework (URF) for interest-rate derivatives was completed. Nearly 19,000 SMEs received almost €1.6 billion in compensation for inappropriate interest-rate derivatives. The majority of businesses accepted the offer from the six banks involved. When the final report on the settlement of the URF was issued, we [published a reflection](#) from our own perspective.

Activities undertaken as part of our ongoing supervision

Reports and bans on harmful products and service concepts

The AFM monitored distribution chains for the presence of harmful products and service concepts. We screened for harmful products on the market (including new products being placed on the market), and when we found them, we took appropriate action in relation to the companies concerned. We also had several conversations with market parties that were planning to place a product or service concept on the market. Following these conversations some products and service concepts were adjusted, or companies decided not to place their product or service concept on the market. We also conducted exploratory studies into the review calendar of a company, which gave us a better insight into the extent to which products and/or the distribution of products might no longer be appropriate.

Using a dashboard, we can regularly monitor changes to the terms and conditions of non-life insurance. In this way, we detected individual and market-wide detrimental movements in a timely manner and acted on them where necessary.

Through the Innovation Hub, parties contact us with ideas for innovation in financial services. We also conduct proactive conversations, in which laws and regulations are clarified and any issues can be shared.

Provision of information that is correct, clear and not misleading

Providing good information can help consumers make financial decisions and prevent foreseeable disappointments. As part of our supervision of the provision of information, in 2021 we gave feedback to 23 market parties or foreign supervisory authorities about the provision of incorrect, unclear or misleading information. We monitor the provision of information as part of our ongoing supervision. Through our data system, each week we monitor ads for financial products and services. In most cases, the feedback leads to adjustments to the way the information is provided. We also perform regular thematic market scans. One example is a study we conducted into advertisements for execution-only investments by a number of investment firms. We detected deficiencies that varied in seriousness and scale in the advertisements by the investment firms concerned. The AFM drew the deficiencies to the attention of these parties.

In addition, under MiFID II we conducted a market scan on the provision of promotional information about investment services to current and potential customers, in which the risks were downplayed. We detected deficiencies in respect of a number of the companies we investigated, and sent them a standards compliance letter to explain the issue. To have an impact across the entire market, we published a press release on the topic.



AFM-AMF position paper on improving cross-border supervision

Owing to digitalisation and other factors, companies in the European Union are increasingly offering financial products and services outside of the country where they are based. This increase in cross-border provision of services means that it is important for there to also be good cross-border supervision. The AFM performed research into this issue in conjunction with AMF, the French supervisory authority. The research revealed that there is scope for improvement in the current design of cross-border supervision. In a joint position paper, the AFM and AMF proposed as a possible solution improving the information position of supervisory authorities, by creating a European database with current information about the cross-border provision of services, and giving more responsibilities and enforcement powers to the supervisory authority in the country in which the services are being offered. By proactively publishing a position paper with a fellow supervisory authority, we are ensuring that attention is given within Europe to this important subject.

Influencing policies and national and international regulations

In 2021, the AFM actively focused on the importance of product governance in Europe, including within the ESMA and EIOPA. We also made an active contribution to policy processes concerning the provision of information, such as Packaged Retail Investment and Insurance-based investment Products (PRIIPS) and the Sustainable Finance Disclosure Regulation (SFDR).

In the field of retail investment, we influenced the debate at the European level on multiple subjects. These included the Retail Investment Strategy currently being drafted by the European Commission, and priorities for the ESMA's 2022 European supervision agenda. The subjects covered included PFOF, best execution, the protection of execution-only investors, cross-border provision of services and cryptocurrencies. We have also produced several publications related to these subjects, including in conjunction with the Ministry of Finance and AMF, the French supervisory authority.

With regard to lending, in 2021 the AFM advocated in various policy discussions and on various subjects for responsible lending to be included in lending standards. As an example, we actively monitored and focused on the terms on which green loans are granted to people who want to make their homes more sustainable and can't afford to finance the work themselves, but also have no other avenue for borrowing money. Another example is the idea of bringing private leases under supervision through legislation, for which we intensively lobbied the Ministry of Finance, and which we raised in the European context in relation to the review of the Consumer Credit Directive.



AFM-wide supervisory priority

Combating money laundering, terrorist financing and other forms of financial and economic crime

The AFM supervises compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wwft) and the Sanctions Act 1977 (Sw). National and international cooperation are becoming increasingly important to this supervision.

Financial companies have an important function in the prevention of money laundering, terrorist financing and other forms of financial and economic crime. Companies play a gatekeeping role in preventing criminals from laundering the proceeds of crime through the financial system. Companies can also prevent people and organisations subject to national or international sanctions (relating to terrorism, for example) from participating in the financial system. They can also prevent businesses and people from benefiting from fraud or corruption. If financial enterprises become involved in such activities, consciously or otherwise, this can damage confidence in the financial sector.

Investigations and measures

We conducted 155 investigations relating to the Wwft and the Sw in 2021. The increase compared to the previous year (85 investigations) can largely be explained by the fact that in 2021, we opened investigations as a follow-up to the annual Wwft and Sw questionnaire. As an example, in these investigations we asked companies (via a written information request) why they indicated that they did not have a Wwft and Sw policy. We also continued to conduct risk-based investigations, which included interviewing the board of the company (in person or online) with company boards, reviewing systems (particularly transaction monitoring systems) and inspecting customer files.

Where we found infringements, we took action. In this reporting year, we imposed a variety of formal and informal measures: one order for incremental penalty payments (due to a failure to complete the Wwft and Sw questionnaire) and three notices of intention to impose an order for incremental penalty payments (also due to a failure to complete the Wwft and Sw questionnaire), four notices of intention to issue an instruction, and three instructions. We sent three notices of intention to impose an administrative fine, and imposed one administrative fine. We also sent 19 warning letters and five standards compliance letters. We also held two instructive conversations on compliance with standards.

The types of infringements were diverse: most related to the lack of a proper Wwft risk assessment or policy, deficiencies in customer due diligence checks and transaction monitoring, failing to properly report unusual transactions to FIU-Netherlands (FIU-NL), deficiencies relating to the identification of politically exposed persons (PEPs) or failing to undergo regular training relating to the Wwft.

As a follow-up to the responses to the Wwft and Sw questionnaire, a total of 100 standards information letters were sent to investment firms and management companies of collective investment companies.

In the 2019 National Risk Assessment into Money Laundering, money laundering through investment firms and collective investment companies was identified as 'a future money laundering threat'. As a consequence, in 2021 we conducted an exploratory project through the Financial Expertise Centre (FEC), in conjunction with the police, FIU-NL, prosecution and AMLC. There were indications that will be followed up in 2022 with a quick scan into money laundering through illegal collective investment companies and investment firms.



Communication regarding the Wwft

In June 2021, we organised an online information session about the review of the Wwft BES. In October 2021, a [new Wwft BES handbook](#) was published for service providers in Bonaire, Sint Eustatius and Saba.

On 26 October 2021, the AFM published the [‘Presenting the gatekeepers’ report](#), based on responses by collective investment companies to the Wwft and Sw questionnaire. In mid-November 2021, we published the [‘Market impressions 2021’ report](#), which, among other matters, drew attention to compliance with the Wwft by financial service providers.

Cross-border problem, cross-border supervision

Money laundering and terrorist financing ignore national borders. Accordingly, on 20 July 2021, the European Commission presented four legislative proposals to harmonise the anti-money laundering/combating the financing of terrorism (AML/CFT) rules at a European level. One of the components of these proposals was for AML/CFT supervision to be performed at the European level. The European supervisory authority would take up its duties in 2024.

We have set up six ‘AML/CFT colleges’ and are also participating in the colleges of other supervisory authorities. An AML/CFT college brings together the AML/CFT supervisory authorities from various countries that supervise a particular financial company. Other relevant parties, such as prudential supervisory authorities, can also join. In an AML/CFT college, the supervisory authorities work together and exchange information relating to the supervision of the company concerned.

03

Supervision of the capital markets





The ultimate goal of our supervision of the capital markets is to ensure robust infrastructure and honest trading conduct. The AFM wants the infrastructure to be able to withstand disruptions and allow trading and settling to continue uninterrupted. A high degree of transparency is also required. These goals can be achieved through prospectus reviews, notifications of major shareholdings, short selling notifications, transaction reporting and publication of inside information.

Many new regulations (mainly European) were introduced in 2021, and we have also seen the importance of the supervision of transaction reporting increase, partly as a consequence of Brexit. The supervision of notifications and of Suspicious Transaction and Order Reports (STORs) has also intensified.

Because of Brexit, more benchmark managers, trading platforms and proprietary traders have started operating in the Netherlands. We need to have the relevant supervisory data in order to exercise proper supervision here as well. International cooperation is necessary to deal with harmful trading behaviour.

Results

- We have a better understanding of the use of trading algorithms in the market and are seeing greater awareness among institutions with regard to their use of 'algos'; the AFM has noticed progress by trading parties and platforms in complying with the legislation. However, we can still see areas for improvement and have developed appropriate guidance. For example, we want trading parties and platforms that use algorithmic trading to incorporate measures to combat cyber attacks into their IT strategies.
- More and better-quality STORs have led to stronger supervision and more detection of market abuse.
- The well-designed process of prospectus reviews for SPACs has resulted in better investor protection.
- Supervision of the trade in carbon emission derivatives was set up. A properly-functioning secondary market – where the trade in carbon emission derivatives takes place – is a necessary precondition for the European Commission's emissions allowance trading system to succeed.

Algo trading: greater awareness required

Trading algorithms play an increasingly important role in capital market transactions. However, uncontrolled trading algorithms could impair the efficiency of and undermine confidence in capital markets. We want institutions to be aware of the risks and possible consequences of incidents arising from trading with algorithms.

Accordingly, we conducted a study into how things stand with institutions' annual self-assessments. We also looked at the extent to which trading parties and trading platforms control algorithms. The conclusions were published in April 2021 in a report entitled ['Algorithmic trading – governance and controls'](#). Uncontrolled trading algorithms could constitute a risk to the stability of the capital markets. We can

see scope for improvement in the testing of trading algorithms before use.

We have also improved our understanding of the current 'algo landscape' by analysing order and TRS data. Insights, understanding and risk reporting are the basic principles here.

The insights from our study into the use of algorithms and our analyses have resulted in the subject being placed on the supervisory convergence agenda. This means we can tackle the risks presented by trading algorithms with our fellow supervisory authorities at a European level.



Trade in carbon emission derivatives: establishing a new area of supervision

The trade in derivatives of CO₂ certificates moved from the United Kingdom to the Netherlands on 7 June 2021. Carbon emission derivatives are financial instruments over which the AFM had not previously exercised supervision. As a result of the decision to move the Intercontinental Exchange (ICE) for the trade in carbon emission derivatives from London to Amsterdam and to allow trade on the ICE Endex, we were given a new duty. A properly-functioning secondary market – where the trade in carbon emission derivatives takes place – is a necessary precondition for the European Union's emissions allowance trading system to succeed. The new supervision duties were incorporated into our existing supervision of market abuse, and existing surveillance tools were applied.

We gave attention to this new market segment in [Market Watch 4](#). Among other things, we provided a summary of the types of market parties that were responsible for the volume of trades in carbon emission derivatives in the period from 7 June to 31 August 2021 on the ICE Endex.

The European Commission has asked ESMA to conduct an in-depth investigation into the patterns of trading behaviour on this market and possible additional policy measures, to see whether additional policy measures are required. ESMA published [a preliminary report](#) in November, setting out its initial assessment of the European Union Allowance (EUA) market. We worked on this report in collaboration with the German and Norwegian supervisory authorities, among others. In response to these results, a more in-depth data analysis will be performed within ESMA in 2022. We will also focus on possible policy recommendations.

STORs: detection of market abuse

As part of our supervision of market abuse, the AFM is focusing on improving the quality of STORs (Suspicious Transaction and Order Reports, which are submitted by institutions). We aim to do so through data-driven detection and stronger supervision of institutions.

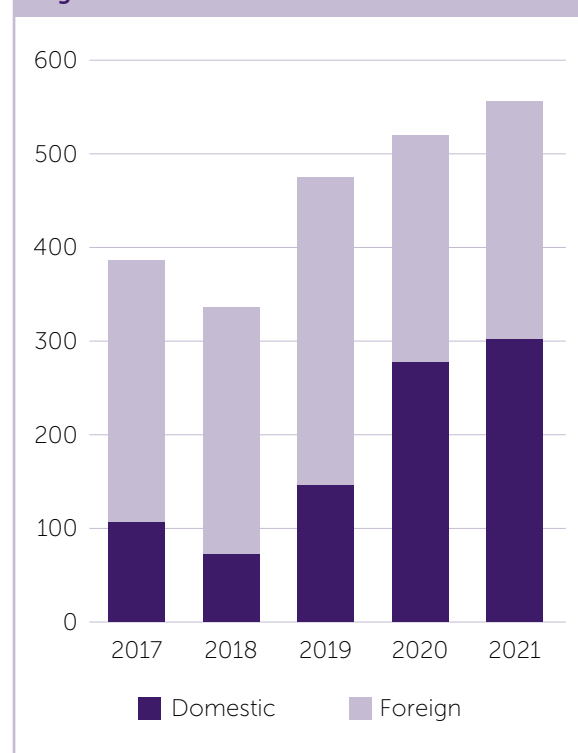
Because of Brexit, more institutions are operating in Dutch markets, while the coronavirus measures have led more people to invest. Partly for these reasons, we decided it would be a good idea to include an

explanation of suspicious transactions reports in [Market Watch 2](#), and more especially in Market Watch 4, along with information on how we deal with such reports.

In 2021, we received 556 STORs from market parties. Our own data analysis also produced indications of around ten cases. STORs or our own observations can also lead to us making direct contact with the institution concerned or with the relevant supervisory authority in another country. The intention behind the strengthened supervision of institutions with an obligation to notify was to increase the number and quality of STORs.

Based on STORs and reports generated from market surveillance, around thirty market abuse investigations were carried out. Three of these resulted in a report to the Public Prosecution Service. When we transferred the cases, we made agreements with the Public Prosecution Service about how the cases would be dealt with.

Figure 3: STORs received





SPACs: focus on product governance

A SPAC (Special Purpose Acquisition Company) is a company with no business activities – but with lots of equity capital – that gets listed on the stock exchange in order to buy all or part of a non-listed company. SPACs can improve access to the capital markets. For investors, however, SPACs are considerably more complex than shares in ‘ordinary’ listed companies and involve particular risks.

In terms of investor protection, the AFM believes it is important that investors and service providers pay extra attention to the special characteristics and risks of investing in SPACs. Providers and distributors of investment products in SPACs must take account of their product governance, and

should consider not offering them to retail investors. We conducted three exploratory interviews with various brokers to get a clear picture of SPACs and the risks for retail investors. We also communicated with ESMA regarding the trend described above, and will continue to follow national and international developments in this area.

In 2021, we received 40 applications for a stock exchange listing and approved 16 prospectuses for SPACs. To achieve a level playing field in Europe and good investor protection in the Netherlands, we endeavour to ensure that all investors in European-listed SPACs are equally well informed (e.g. through the prospectus and ongoing provision of information) and distributors take sufficient account of the product governance requirements.

GameStop

In late January 2021, private investors all over the world bought huge numbers of shares in companies including computer game chain GameStop, partly fuelled by dynamics on the American investor forum WallStreetBets. This led to exceptional share price increases, followed by significant losses by large hedge funds that had anticipated price drops with short positions. It is likely that many private investors also suffered losses, because the share prices subsequently plummeted again. In the Netherlands, around 25,000 private investors invested in these stocks.

As well as a [press release](#) calling for greater transparency, we also used other channels to draw attention to the risks of investing based on social media advice.

In [MarketWatch 3](#) we discussed the risks of investment decisions influenced by social media. We also explained the rules that must be met when giving investment advice. Also when investment information is disseminated on social media. Within ESMA, we collaborated on a statement issued in response to the events surrounding GameStop.

In late March, we [called on investment firms](#) to be more transparent and more active in their communications when exceptional price movements occur. The exceptional situation surrounding the trading in GameStop shares showed that these firms could do better. The AFM made contact with the investment firms involved to discuss the matter.



MiFID/MiFIR review

In late 2021, the European Commission published a legislative proposal for the review of the Markets in Financial Instruments Regulation (MiFIR). The review should result in better pricing and efficient capital allocation, early identification of risks to financial stability and greater market integrity. *As part of the review, we are advocating for more targeted and relevant transparency for investors and supervisory authorities.*

Consolidated tape

In 2021, we worked on the creation of a *real-time consolidated tape* (CT) for shares and bonds. A European consolidated tape would be the ultimate electronic access to full market data. It would result in less-fragmented information on the European markets (particularly price information), help create a true internal European market and improve opportunities for monitoring best execution for investors.

With regard to implementation, in 2021 the AFM called for a start to be made on a post-trade CT for the bond markets. Bond markets are characterised by a greater lack of transparency and a higher degree of fragmentation than share markets. A CT for the share markets would also be more politically sensitive, given the impact it could have on the revenue model of European stock exchanges. The stock exchanges are afraid that a CT would have a detrimental effect on income from data and intensify competition with alternative trading platforms.

We are making available our customisation for innovative environments (Innovation Hub) for the development of a consolidated tape. In the Innovation Hub, we are collaborating with market parties (six in 2021) to examine the technical and operational possibilities for the development of a fixed-income consolidated tape.

PFOF

The AFM has observed an increase in the use of Payment for order flow (PFOF) as a trading model on the European financial markets. The AFM considers this to be an undesirable development, because PFOF obscures costs and runs counter to the principle of open and competitive markets. PFOF is prohibited in the Netherlands, and the AFM is advocating for a European ban as part of the European convergence project. We have also expressed our views to the European Commission.

Other activities in the supervision of the capital markets

Text mining

In the context of strengthened supervision of the capital markets, we applied text mining for the first time, on an experimental scale, as part of our supervision of prospectuses. Text mining is a data analysis technique, along with statistics, data mining and machine learning. It enables the discovery of patterns and trends in the prospectuses. Last year, this produced promising initial results in the area of text recognition in prospectuses. These results provide sufficient basis for continuing the experiment in 2022.

ESG benchmarks

ESG benchmarks are benchmarks that pursue Environmental, Social and Governance (ESG) goals. Their composition takes account of ESG factors. We have noticed an increase in the range and use of ESG benchmarks.

In 2021, more clarity was obtained about the implementation of the Low carbon benchmarks package. This secondary legislation took effect in late 2020. During the year, ESMA published Q&As to which the AFM had contributed, to improve market parties' application of the requirements.

The Low carbon benchmarks package makes it easier to obtain a clear picture of how a particular benchmark aligns with sustainable investment needs. The AFM is examining whether the management companies under our supervision are meeting the



requirements in the regulations, with the focus being on the requirements around transparency.

Through our connection with ESMA, we have been busy with the development of the regulations and the creation of guidelines for these types of benchmarks. We have been processing applications from the market parties developing these benchmarks. We also checked the Statements of the Benchmarks.

New crowdfunding rules

The new [crowdfunding regulation](#) took effect on 10 November 2021. This new regulation significantly expands the current rules, set out in the Wft and Bgfo, in the areas of investor protection, transparency and operational processes. The higher standards ensure that the same rules apply to crowdfunding service providers in all EU member states.

In October 2021, we [informed](#) existing service providers that they could submit a licence application between 10 November 2021 and 10 May 2022. The application must meet the requirements laid down in the new regulation. Application forms have been developed, and a brochure explaining the new regulation to market parties has been published. Substantive guidance has also been given on the interpretation of certain requirements. We did not receive any licence applications in 2021.

Entry into force of the IFR/IFD rules (particularly the remuneration rules)

The Investment Firm Regulation (IFR) came into force in the Netherlands on 26 June 2021. The Investment Firm Directive (IFD) was implemented by means of national legislation and, together with the Restrained Remuneration Policy (Financial Supervision Act) Regulation 2021 (Rbb 2021), took effect in the Netherlands on 19 October 2021. Preparation and informing of market parties started in late 2020.

The IFR and IFD jointly form the new framework for investment firms. Under these regulations the AFM has been given new supervisory duties, including in the areas of internal governance, disclosure requirements and remuneration rules. We are working closely with the DNB on assessing the new rules, because of the 'twin peaks' model in the Netherlands and the overlapping statutory powers.

Limiting conduct risks in the benchmark transition

In 2021, there were many developments related to the interest rate benchmark transition. The European Commission also used new powers allowing it to

replace a benchmark that has been terminated. In conjunction with the DNB, we are keeping a watchful eye on the progress of Dutch market parties.

Ongoing activities in the supervision of the capital markets

Supervision of trading platforms

As a consequence of Brexit, we have seen an increase in the share trading volume in the Netherlands from 2.3 billion euros per day to more than 8 billion euros per day. New platforms being managed or operated in the Netherlands are expanding their offering within and from the Netherlands. The Netherlands is seen as a bridge to serving the EU. Reviewing these initiatives is an important activity within the AFM's supervision. In late summer 2021, after a comprehensive review, we granted a licence to operate in the Netherlands to Cboe, a new derivatives trading platform.

Supervision of proprietary traders

We exercise supervision over more than thirty proprietary traders. This is a type of investment firm that has no clients and only trades on its own behalf, and at its own risk. In response to various reports about a proprietary trader, we conducted an investigation to examine the extent to which ethical, controlled business operations were occurring. During the investigation the proprietary trader implemented several changes, and we ultimately refrained from taking any measures.

Supervision of transaction reporting

In 2021, as part of our supervision of transaction reporting, the AFM focused on operationalising the supervision of the Securities Financing Transactions Regulation (SFTR) and the Financial Instruments Transparency System (FITRS). Conversely, there was less emphasis on supervision of transaction reporting under the European Market Infrastructure Regulation (EMIR) in 2021. We also had frequent discussions with our fellow supervisory authorities within the EU about making further improvements to the supervision of transaction reporting. After all, the quality of data is extremely important if that data is going to then be used for a wide range of supervisory purposes.

Supervision of notifications

Investors access the AFM's registers tens of thousands of times per month. Our supervision of notifications by directors and auditors, major shareholdings, managers' transactions, issued capital



and short selling positions was intensified in 2021. Supervision of clearing and settlement institutions

Clearing and settlement are the processes by which a transaction is actually executed. In securities transactions, clearing is the process at the end of the trading day that counts the transactions of an exchange member and nets them off to determine the new positions (that is, the balance in a particular security). Settlement is the process by which the cash and securities are actually handed over. These processes also take place in regard to payment transactions; there, they refer to the authorisation, transmission and netting of payment transactions by a clearing and settlement institution.

To ensure these processes are carried out securely, we exercise national supervision in respect of clearing over EuroCCP, ICE Clear Netherlands and ABN Amro Clearing, and over Euroclear in respect of settlement.

In the area of operational supervision, the extension of the scope of EuroCCP's licence for derivatives clearing was a significant development. In addition to national supervision, we participate in international supervisory colleges of CCPs that clear transactions carried out on trading platforms. In 2021 the AFM also conducted an internal exploratory study into EMIR FRANDT, which sets rules for the conditions on which clearing institutions provide access to clearing. The AFM also noticed many new parties operating in derivatives trading coming under its supervision, as a consequence of the lowering of the thresholds for collateral requirements in bilateral clearing.

We play an active role in international discussions in the areas of clearing and settlement at an international level, such as the request for recognition of the British clearing houses and the Central Securities Depositories Regulation (CSDR) review.

Prospectus supervision

In 2021, there was a sharp increase in the number of applications for prospectus approval. This is mainly due to the popularity of SPACs, as mentioned above, but also because an increasing number of international companies are choosing to be listed in Amsterdam and/or have their registered office in the Netherlands. There are a number of underlying reasons for this trend, one of which is Brexit. Owing to the increase in the number of applications, in 2021 the approval process took longer on average than in 2020.

In spite of the increase in the average processing time, more than 95% of prospectuses were processed within the allotted timeframes in accordance with the statutory provisions. The supervision of advertisements relating to offerings for which a prospectus is required changed in 2021 from pre-publication to post-publication supervision of advertisements. We believe this is consistent with improved knowledge of advertising regulations among market parties and further professionalisation of issuing institutions.

04

Supervision of asset management





To achieve our goal in the supervision of asset management – a sustainable, future-proof business model for portfolio managers and the treatment of clients with due care – the AFM has a particular focus on the proper functioning of the chain of asset management parties. To prevent parties without a sustainable, future-proof business model from entering the market, the AFM also conducts intensive supervision in a ‘gatekeeper’ role.

In our supervision of asset management we contribute to the proper functioning of the market and protect the interests of investors – both professional and retail – who directly or indirectly entrust money to asset managers. We exercise supervision over the collective and individual investment market and the players in that market: management companies of collective investment companies (alternative investment funds (AIFs) and undertakings for collective investment in transferable securities (UCITS)), depositaries and investment firms.

The asset management sector is constantly changing. The total amount of invested capital is growing, due to a constant influx of new money. Big changes have occurred as a result of European regulation, the long-term trend towards more capital

market funding, and Brexit. We are also seeing that asset management parties are repositioning themselves and that consolidation is taking place. In addition, the uncertainty around the coronavirus crisis, in terms of the valuation of assets as well as the available liquidity in the market, requires attention. Furthermore, we observe that asset management parties are increasingly outsourcing certain tasks in areas, such as IT and administration, to what are known as ‘chain parties’. Shortcomings in the management of outsourcing can damage the business operation as a whole and ultimately customers’ interests.

In our ongoing supervision, we continue to give attention to improving the controlled business operations of asset managers.

Results

1. A study into the implementation of the Sustainable Finance Disclosure Regulation (SFDR) in prospectuses showed that collective investment companies could do a better job of informing investors about sustainability. Our SFDR implementation report includes recommendations on this topic.
2. A study into the outsourcing policies of asset management parties showed that parties do increasingly have an outsourcing policy, which is an important step in improving control of business operations. The actual implementation of the policy remains an area of concern. We provided guidance on implementation in a letter to the sector.
3. Another study showed that risk management by alternative investment fund managers (AIFMs) could be improved in a number of areas. In 2022 we will conduct a follow-up study to look at whether there have been any improvements, and whether market parties have started working on the areas for improvement listed in the feedback letters.
4. Finally, a study showed that asset management parties appear to have made good adjustments to their business operations in response to the consequences of the coronavirus crisis, but some areas still require attention. The tips in the feedback letters may be helpful in this regard.

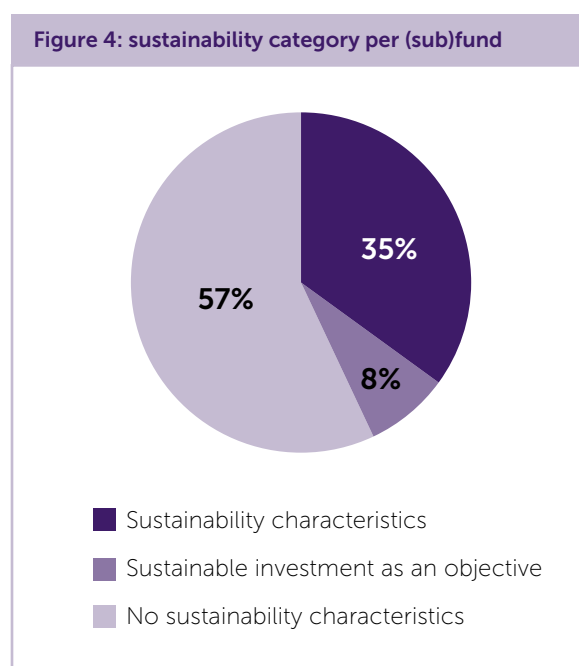


Study on SFDR in prospectuses

The [Sustainable Finance Disclosure Regulation \(SFDR\)](#) came into force on 10 March 2021, and contains new requirements for the provision of information about sustainability (Environmental, Social and Governance factors) in the financial sector. The goal of the regulation is to give investors greater insight into sustainability risks and make it easier to compare the sustainability of financial products.

The AFM studied the extent to which the managers of Dutch funds have applied the regulation. The conclusions were published in September 2021 in [the 'SFDR implementation' report](#).

The study involved 100 managers of 1,250 Dutch funds. It looked at compliance with Articles 6, 8 and 9, which focus on the pre-contractual provision of information in the prospectus. For 57% of the Dutch funds, the fund manager indicated that the fund did not have any sustainable characteristics. We also raised concerns about the self-classification of funds that classify themselves as 'sustainable'.



Percentage of the number of funds and subfunds qualified by the manager as having: 'no sustainability characteristics' (57%), 'sustainable investment as an objective' (8%) or 'sustainability characteristics' (35%).

The AFM expects that managers will apply the insights gained from the study in their implementation of the regulation, so that investors can be better informed about sustainability. This will particularly be the case when the Regulatory Technical Standards (RTSs) and taxonomy are established.

The SFDR is a major new regulation. When it was introduced, important classification and risk measurement frameworks had not yet been fully implemented. To resolve uncertainties in the sector, we engaged in dialogue with multiple stakeholders. For example, we organised roundtable discussions with the Dutch Fund and Asset Management Association (DUFAS), the Association of Asset Managers and Advisers (VV&A) and the Dutch Banking Association (NVB), among other parties. We also participated in the annual Morningstar debate and various seminars and roundtable discussions with market parties and non-profit organisations.

Outsourcing in the chain

An increasing number of activities are being outsourced. When asset management parties outsource activities to third parties, they remain responsible for the work performed on their behalf in the chain. This means good agreements and management measures must be put in place to ensure the delivery of services to customers and investors is not jeopardised. When outsourcing is poorly managed, it can lead to risks in the chain and/or to business-critical processes.

In the second quarter of 2021, we examined once again whether investment firms and managers have outsourcing risks under control. We noticed some improvements, but there are still areas of concern that could threaten the stability and continuity of the sector. For example, although we have seen a decline in the number of firms with no outsourcing policy, the implementation of management measures is lagging behind. Many firms did not perform due diligence before entering into an outsourcing agreement, and not all firms apply quality monitoring. In addition, an increasing number of activities are being outsourced to foreign providers. This international slant could make the management and monitoring of outsourcing risks more difficult. We offered guidance in this area in a [letter to the sector](#).

Outsourcing by investment firms and administrators at a glance

Key data



313
respondents



94 managers,
219 investment firms



244
enterprises
delegate tasks



1,120
delegations



1,55 billion

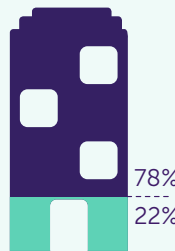
78% of the enterprises delegate tasks

More than **90%** of the managers have delegated critical tasks.

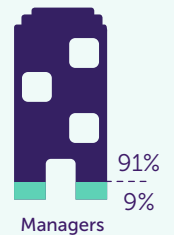
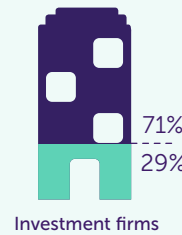
71% of the investment firms delegate tasks. **29%** do not delegate any tasks yet.

- Critical tasks delegated
- No critical tasks delegated

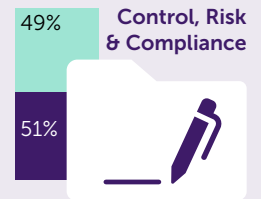
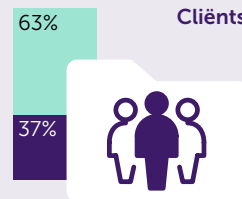
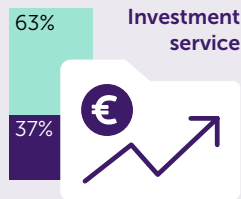
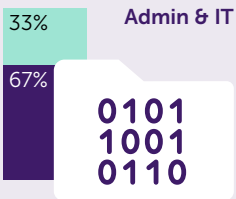
Proportion of AM population that delegates tasks



Proportion per subpopulation that delegates tasks

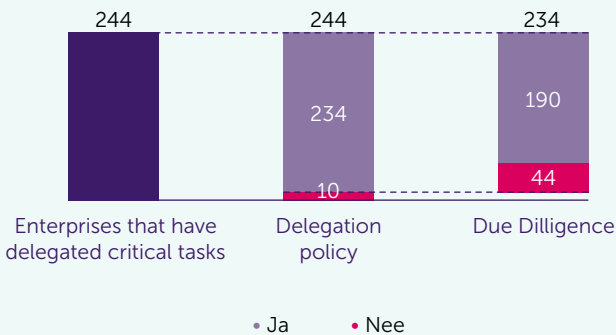


Most delegations relate to 'Admin & IT and Compliance, Risk and Audit'

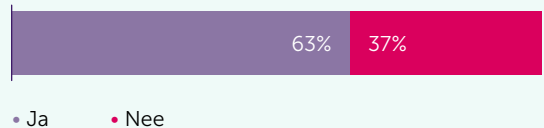


- One or more delegations
- No tasks delegated

Room for improvement of control



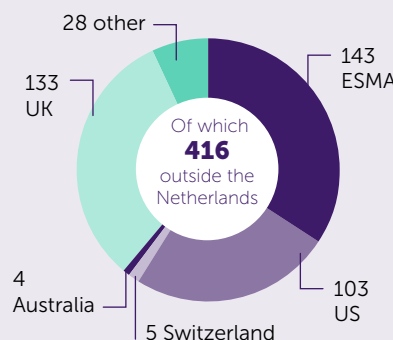
Quality monitoring procedures in place



International playing field

Most delegations within the Netherlands

1,120
Total
delegations



Almost as many delegations to the UK as to Europe in total



Study of risk management by management companies of collective investment companies

We conducted a study into compliance with the obligations arising from the Alternative Investment Fund Managers Directive (AIFMD) in the area of risk management. AIFMD is a European directive with which management companies of alternative collective investment companies must comply, particularly with regard to controlled business operations.

In our study, we aimed to discover how the selected management companies comply with the provisions that apply to them. One of the conclusions was that risk management could be tightened up even more. For example, in a number of cases there was only a brief description in the risk management policy of the nature of potential conflicts of interest. This may mean that the resulting risks are not being adequately managed. In addition, risk management policies are not always being updated regularly, which means the policies are no longer aligned with day-to-day practice. However, we did observe improvements compared to previous studies. In October 2021, we sent a [feedback letter](#) to all AIFMs describing areas for improvement.

Other activities in the supervision of asset management

Study of business operations during the pandemic

The coronavirus crisis may be having an impact on the controlled business operations of asset managers. Changes in the working procedures and conditions could lead to additional risks. Existing checks and balances may no longer be functioning properly or the continuity of the business may even be in jeopardy. We carried out a survey to obtain insights into the additional risks and determine whether business operations are still controlled. We discovered that asset managers appear to be conscious of the impact of the coronavirus crisis and that they have incorporated the pandemic and its consequences in their risk analyses. Nevertheless, we sent a [feedback letter](#) to the sector with a few tips:

- Evaluate business continuity plans regularly and adjust them where necessary and possible
- Think about the long-term consequences of the almost complete disappearance of more informal methods of communication
- Centralise work that deals with the coronavirus crisis within the organisation

AIFMD and Money Market Fund reports via the AFM Portal

To streamline processes and facilitate data-driven supervision, notifications and reports are increasingly being submitted via the AFM Portal. Since 1 July 2021, managers with an AIFMD licence have had to submit their reports via the AFM Portal (instead of to the DNB). Since 1 January 2022, managers registered under the AIFMD ('light managers') have also had to submit their reports to the AFM (instead of the DNB). The AFM has created the option for managers to perform a bulk upload of reports for multiple funds at the same time.

Managers of Dutch money market funds (MMFs) are also now submitting their reports via the AFM Portal, as of 1 October 2021. We pass on the reports to the European Securities and Markets Authority (ESMA). ESMA sends out a report each year which contains a comprehensive overview of EU-wide developments in the asset management sector.

Clarification of the scope of individual portfolio management

AFM research has shown that investment firms that provide investment services to professional investors often apply an overly broad definition of the investment service relating to 'individual portfolio management'. If the investment service of 'individual portfolio management' is interpreted too broadly, there is a risk that other investment services may be provided without a licence (or without the right licence). Professional investors would therefore not be receiving the full protection that should be associated with these investment services.

Different requirements apply to various types of licences and sub-licences, for example with regard to recording the finalisation of transactions. If institutions perform investment services without complying with the applicable requirements, investors may not be given sufficient information, for example. We expect investment firms to assess whether they hold the right licences, and where necessary, to take steps to comply with all laws and regulations that apply to their services.

Accordingly, in February 2021 we sent a [letter](#) to the sector explaining the scope of this service and giving a number of real-world examples.

Study into real estate funds & corporate debt funds

In connection with the coronavirus crisis, on 6 May 2020 the European Systemic Risk Board (ESRB)



recommended to ESMA that a study should be conducted into funds that invest mainly in real estate and bonds. There are 18 funds in the Netherlands that fall within the scope of the study. We established the extent to which these funds were prepared for shocks such as those experienced in March 2020. In 2021 we conducted a follow-up study, again in connection with ESMA, involving more in-depth research into compliance with liquidity requirements by a number of the funds from the first study. Several funds introduced extra liquidity management tools in response to this study and various conversations.

Promoting supervisory convergence

Like other supervisory authorities from around the EU, the AFM participates in research performed by various supervisory authorities within their member state, known as 'common supervisory actions' (CSAs). For example, a study was performed that looked at the costs of a number of UCITS managers, specifically whether the managers were charging any unnecessary costs. The study showed that, by and large, the selected managers were complying with the rules, although their written records could be better and more detailed in some respects. We reported our findings to the ESMA.

Preparations were also started for the AFM's own planned study into the cost structures applied by fund managers.

International advocacy

In November 2021, the European Commission published a proposal to amend the AIFMD. We studied the proposal with reference to our [position paper](#). We also spoke to various stakeholders and interest groups about the proposal.

In addition, the AFM has played an active part in various ESMA working groups (IMSC, IPISC and OWG), the ESG Joint Committee, IOSCO (C5) and the ESRB (NBEG), ensuring that the Dutch perspective is heard.

Ongoing activities in the supervision of asset management

The AFM is the primary supervisory authority of the asset management population, encompassing collective asset management (AIFMD, UCITS and MMFs), individual portfolio management (MiFID) and depositaries. In exercising this responsibility, our ongoing supervisory activities focus on monitoring

adequate segregation of assets, business operations, governance and investment policy.

Licensing

The increase in the number of newcomers to the market that we saw in 2020 continued in 2021.

Indeed, in the investment firm segment, the number of new licence applications in 2021 was more than double the number received in 2020, at 18. In the AIFMD segment we received eight licence applications; we also received one application for a UCITS licence. The total number of applications was 26% higher than in 2020.

This increase was primarily caused by two factors. Firstly, Brexit led a number of British investment firms to choose the Netherlands as their European base. Secondly, an increasing number of management companies of collective investment companies found that they could no longer operate under the registration regime due to growth in their assets under management and were forced to apply for an AIFMD licence. The total population of companies under our supervision increased less, because several managers and investment firms surrendered their licences in 2021.

Assurance reports

Following a 2019 study, on 8 March 2021 investment firms received [feedback](#) on the assurance reports they have submitted. We indicated that we could see scope for further improvement. We drew attention to a number of specific subjects relating to assurance reports. Areas of concern included the use of a recognised money market fund to hold customers' money, and the selection, designation and periodic assessment of third parties with whom the investment firm collaborates to hold customers' money and financial instruments.

In our supervision, we give extra attention to compliance in terms of the timely and correct submission of assurance reports on segregation of assets. We may proceed with enforcement actions if an assurance report on segregation of assets is not submitted on time, or otherwise fails to comply with the legal requirements.

Notifications

Investment firms, depositaries and management companies of collective investment companies (both UCITS and AIFMs) have a legal obligation to make certain notifications to the AFM. As well as applications



for and withdrawals of licences and registrations, these notifications concern material changes to business operations (outsourcing, remuneration policy, governance) and incident notifications. For management companies of collective investment companies, the notifications also include fund notifications and prospectus amendments.

In 2021, no fewer than 1,853 notifications were made. Of these, 696 concerned additional notifications and European passport applications due to the Cross-Border Distribution Framework ([CBDF Directive](#)) coming into effect. There were also 393 fund notifications (registrations and deregistrations) from licence and registration holders, compared to 205 in 2020 (of which 138 were registrations). The number of new collective investment companies and UCITS was thus well above the average of recent years. The number of applications for and withdrawals of licences and registrations for asset management parties also increased: it was 238 in 2021, compared to 214 in 2020.

Ongoing supervision notifications also saw an increase compared with 2020, from 403 to 554. This rise in the number of notifications was partly caused by more prospectus amendments, which in turn were partly due to the SFDR coming into effect. There was also a higher number of notifications of delegation arrangements, significant changes, incidents, and mergers and acquisitions.

Notifications are important to get a sense of the behaviour of parties and the resulting risks in the sector. In dealing with these notifications, we were able to make timely responses to changes in institutions' business operations. However, it is apparent from the day-to-day practice of supervision and conversations with market parties that notifications are not always passed on, in spite of the legal obligation to do so.

It is primarily investment firms that lack sufficient awareness of their obligation to notify. In addition, notifications of significant changes are regularly received too late, because they are only sent well after the change has occurred. Accordingly, in October 2021 we [called on the asset management sector](#) to notify us of all significant changes. We will continue to monitor whether asset management parties are complying with their obligation to notify.

Depository reports

Depositaries play an important role in the supervision of collective investment companies. They hold the assets of collective investment companies and have their own supervisory duties. In July 2021, we provided feedback to the sector (both depositaries and managers) on our insights and findings from the depository reports we had received. We hoped this would give us a better understanding of material irregularities (identified by depositaries) on the part of management companies of collective investment companies.

In our feedback, we shared insights from our findings from depository reports for the reference period of June 2020 to 31 December 2020. One of the important tasks of depositaries is to detect possible irregularities on the part of management companies in a timely manner, such as a breach of investment restrictions, failure to properly register a fund or failure to properly value assets. They must then report these findings to the management companies concerned and to the AFM. Management companies also have a legal obligation to notify the AFM of any incidents within the funds they manage. Based on depository reports received in the most recent reference period, it appears that this does not happen in all cases, or does not happen in a timely manner. We were also struck by the high number of breaches of investment restrictions (many of them passive breaches). We sent feedback letters to depositaries and management companies, and explained what we expect of them. This included the measures they must take to prevent breaches of investment restrictions, particularly if these are structural breaches.

Other

In 2021, the AFM frequently made contact with institutions in response to reports of failure to maintain controlled business operations. This enabled us to take timely action without the need for formal investigations. We launched investigations into individual institutions in response to serious reports, such as perceived risks in the area of digital security. We also exercised supervision in regard to follow-up steps and/or activities performed in response to formal measures imposed on individual institutions. Finally, we prepared market parties for the entry into force of the Investment Firm Regulation and Investment Firm Directive (IFR/IFD) and the 'Directive with regard to cross-border distribution of collective investment undertakings' (CBDF Directive).



AFM-wide supervisory priority

Financial stability

The AFM supervises financial stability from the perspective of the capital markets and conduct and thus supplements the stability supervision of the DNB. Within its areas of supervision, the AFM focuses on risks that could potentially affect financial stability. The AFM analyses whether there are stability risks in three areas that fall under its supervision, namely: capital markets, the asset management sector, and risks that affect many customers of financial institutions. We are also part of the Financial Stability Committee (FSC), which is tasked with detecting risks to financial stability in the Netherlands and making recommendations.

This year was dominated by lessons from the coronavirus crisis, the arrival of trading platforms and the possible overvaluation of property markets.

Providing insights into stability risks within the AFM's domain

As in previous years, we maintained an overview of risks to financial stability within the AFM's domain. This overview forms the basis for follow-up analyses and policy positions. This year, additional steps were taken by the ESMA, with input from the AFM, to develop a framework for systematic monitoring of the leveraged financing of collective investment companies. In June 2021, we submitted a [report on stability risks](#) to the House of Representatives.

Follow-up study into liquidity risks of margin calls

Because portfolio managers manage large portfolios of interest rate derivatives, often for pension funds that use them to cover their interest rate risk, the margin calls on these portfolios are also large. The AFM conducted this study with regard to five large portfolio managers to discover the impact of the strong interest rate movements in March 2020 caused by the coronavirus outbreak. [The study](#) revealed that managers were right at the limits of their liquidity. We will therefore ascertain whether measures should have been taken to better protect liquidity and enable the money markets to function properly.

Study in connection with the ESRB into systemic risks of exchange-traded funds

In 2021, we conducted a study in connection with the ESRB into the systemic risks of exchange-traded funds. The study revealed that although economic theory suggests that such funds can lead to systemic risks through various channels, these funds were also pretty robust before the market shocks in March 2020. The ESRB report will be published after the end of the reporting year.

Analysis of how the new pensions system will affect the asset management sector

We have begun an analysis of the consequences of the new pensions system for the investment policies of pension funds. However, a great deal still depends on the further implementation of the system, so we have not made this analysis a priority. Our initial insights are that there is an incentive to invest more in illiquid investments, and there may be changes to interest rate hedging.

The stability aspects of derivative clearing at a European level

The clearing house LCH Ltd, which is headquartered in the United Kingdom, plays a central role in European derivative markets. After Brexit, it is worth asking whether this is desirable. In other words, whether it is in the best interests of financial stability in the EU for certain clearing services to take place outside the EU. We have analysed the advantages and disadvantages of a mandatory clearing location, and are now well prepared to participate in the European debate on the subject.



Study of valuations by property funds

In addition to our agenda for 2021, we researched whether Dutch property funds were revaluing their properties on time, given that the prices of office property in particular were volatile due to the coronavirus crisis. This analysis found that the overwhelming majority of funds had their valuation policies in order.

Brexit platform analysis

Also in addition to the AFM Agenda for 2021 we analysed what is important for the financial stability of the trading platforms that moved to the Netherlands due to Brexit. We consulted with the Financial Stability Committee on a regular basis. One of the topics discussed was crisis management.

Occasional paper on pension funds' liquidity risk

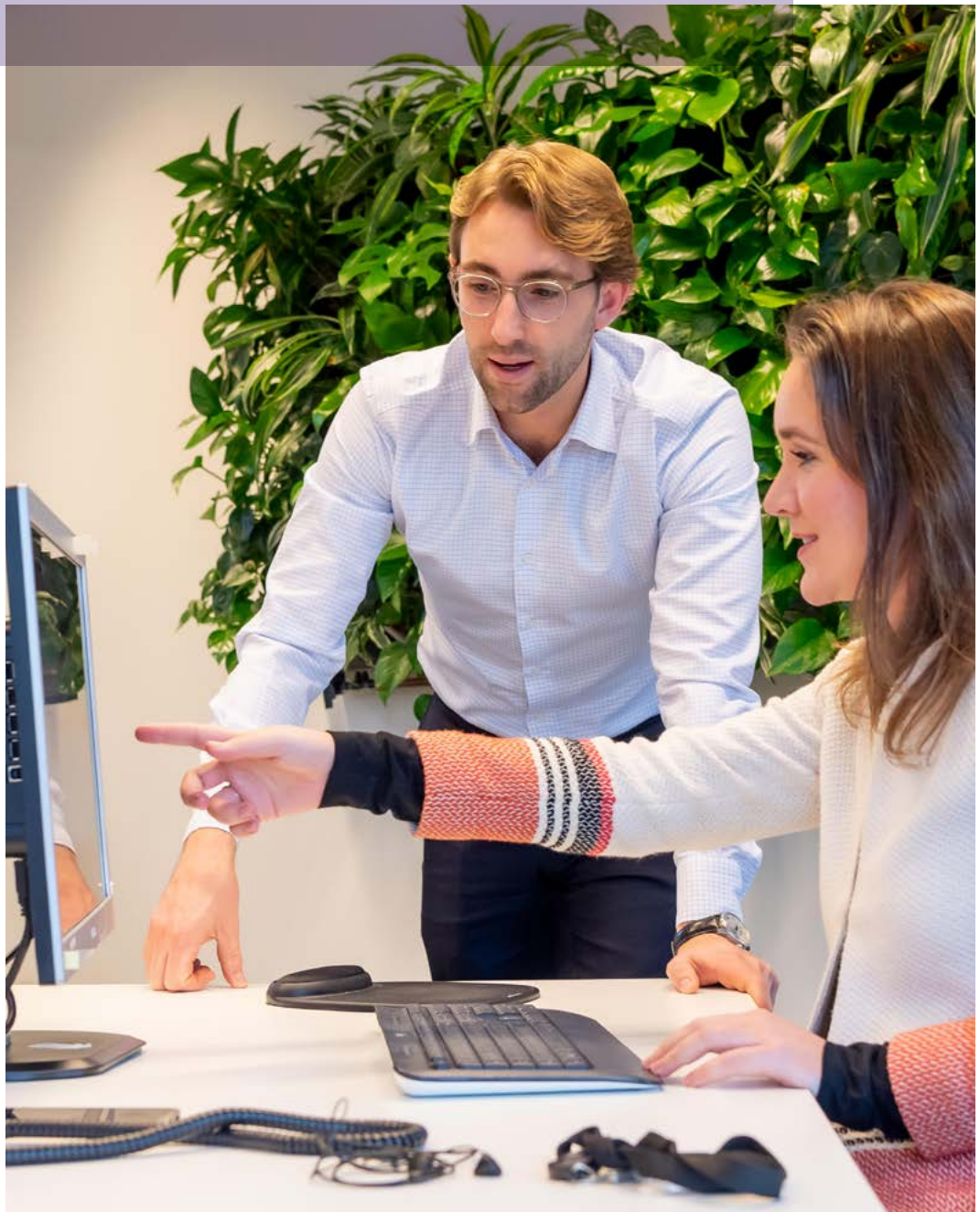
We regularly publish research that is relevant to policymakers, academics, business and financial services professionals and, in some cases, the general public, in the form of occasional papers. In December, we published an occasional paper on [pension funds' liquidity risk](#).

Policy agenda

In European policy circles, the question has been raised of how the liquidity of collective investment companies can be better protected. This has now resulted in policy proposals by the EC, which include, among other things, an expansion of liquidity management tools for both managers and supervisory authorities. Within the Netherlands, policy questions have mainly centred around the housing market, which is showing signs of overheating. We have consistently taken the view that lending standards should not be expanded and that exceptions to the standards merit consideration.

05

Supervision of audit firms and reporting





Relevant and reliable reporting is a crucial prerequisite for a properly functioning financial system. This includes an independent opinion from an auditor. Investors, analysts, banks and other interested parties should be able to rely on the financial and non-financial information presented by companies and the assurance that auditors provide through their statutory audits.

Through our supervision of audit firms and reporting, the AFM is contributing to reliable and relevant financial and non-financial reporting.

In 2021, we again conducted a study into how audit firms are making sustainable improvements to the quality of their statutory audits. In this study we focused on internal quality reviews and the quality of statutory audits of PIE audit firms. In 2021, we made preparations to start exercising supervision, from January 2022, over audit firms with a regular *Wet toezicht accountantsorganisaties (Wta)* licence (previously known as non-PIE audit firms). We also performed an assessment of the application and quality of non-financial information in reporting by listed companies.

Ongoing assessment of quality improvements in PIE audit firms

Since 2014, the six PIE audit firms in the Netherlands have been working to bring about sustainable improvement in the quality of their statutory audits. Over that period, the AFM has performed several reviews to assess their progress in improving quality. In 2021 we assessed the quality of statutory audits, internal quality reviews (IQRs) and internal supervision of PIE audit firms by their supervisory boards.

Review of the design and implementation of IQRs and high-quality statutory audits

The quality safeguard of the IQR involves audit firms assessing the quality of their own statutory audits. An IQR can uncover, correct and prevent organisation-wide deficiencies. We [assessed](#) how PIE audit firms have designed and implemented their IQRs and how these reviews contribute to their quality objectives. We also compared the outcomes of IQRs from 2020 to the outcomes of our inspection of the quality of 18 statutory audits.

We are positive about how the PIE audit firms have designed their IQRs. The IQRs had given them insights into the quality of the statutory audits they had performed and promoted a learning organisation. We

were also generally positive about the insights the IQRs provided into the quality of statutory audits. For the vast majority of the audits reviewed, the IQR produced a similar assessment to that of the AFM. Our study also identified opportunities to strengthen and renew IQRs.

Every PIE audit firm received an individual report setting out our observations and findings. They can use this report to reflect on their IQRs and to get a better understanding of the quality of their statutory audits. Our findings will also be useful to the supervisory boards and audit committees of the audited companies, as well as to other users of the financial statements, such as investors and financiers. They can use the findings to initiate a more in-depth discussion about the quality of statutory audits.

Assessment of the working methods and impact of supervisory boards of PIE audit firms

In our [assessment](#) of the internal supervision of PIE audit firms, we looked at the impact and working methods of their supervisory boards, which carry out independent, internal supervision. We assessed how the supervisory boards have an impact on the setting and achievement of quality objectives, and the working methods they use to do so. Supervisory boards of PIE audit firms have impact on the preconditions for quality and may reduce vulnerabilities in the structure of the audit sector. The extent to which differs per supervisory board, partly due to challenges in the governance.

At the same time, we observed that supervisory boards face challenges that could reduce their impact. For instance, they have to deal with the influence of partner-shareholders and the international network to which the audit firm belongs. We called upon supervisory boards to reflect on those challenges and perhaps to learn from other supervisory boards, so that they can make the most effective contribution to a sustainable safeguarding of quality within their audit firm.

In general, we noticed that the PIE audit firms were working actively on the quality of their statutory audits, and on setting up the necessary preconditions.



Preparation and design for the supervision of 260 audit firms

The Minister of Finance announced in 2020 that the AFM would be exercising operational supervision over all audit firms from 1 January 2022 under the Audit Firms (Supervision) Act (Wta). This means that from that date the AFM will be exercising operational supervision over audit firms with a licence to carry out statutory audits of public interest entities (PIEs), as well as of audit firms with an regular licence.

Preparations, development of methodology and information sessions

2021 was an important transition year: we prepared and developed a data-driven methodology for risk-based supervision. We also encountered the audit firms, through an outreach campaign consisting of 20 small-group online information sessions. Around 200 audit firms took part. During the sessions, we explained the new supervision methodology and what it means for them. The outreach campaign was positively received by the audit firms that took part.

Collaboration and revised covenants with NBA and SRA

Until the end of 2021, the NBA and SRA conducted quality reviews under the Wta. To prepare for full operational supervision of audit firms, we agreed on [memorandums of understanding](#) with the NBA and SRA for transfer and collaboration from 1 January 2022. The existing agreements we had with the NBA and SRA were replaced, as the new covenants primarily relate to the exchange of information. The new covenants also contain a transition provision concerning arrangements for the changeover, including the completion of ongoing reviews (and follow-up reviews), the transfer of files and the provision of access to past files (review history). The [new agreements](#) were published in the Government Gazette on 12 January 2022 and took effect on the same day.

Data analysis of statutory audit quality

In 2020, we performed an update of an [analysis](#) of the outcomes of audit firm reviews by the NBA and SRA. In our analysis, which was published in February 2021 at the request of the Minister, we examined whether certain characteristics of these audit firms correlated to a negative review outcome from the NBA or SRA. We based our analysis on information from the annual AFM Monitor and on NBA and SRA quality reviews.

The analysis showed that audit firms with certain characteristics, such as performing fewer than 15 statutory audits per year, had a significantly higher likelihood of a negative review outcome. The level of turnover and the fee per audit were also relevant. In collaboration with the 'non-PIE-platform', we had a discussion with low-turnover audit firms about their quality challenges.

New methodology for risk-based supervision

For our supervision of audit firms, in 2021 we developed a methodology for risk-based supervision. This methodology is largely based on qualitative and quantitative data. We are aiming to deploy our supervisory capacity in the areas where the risks are highest. In 2021 we rolled out data pilots, with 9 and 37 audit firms respectively taking part on a voluntary basis. Our data requests related to their organisation and to one or more statutory audits.

Another pilot will be performed in 2022, which will also involve an initial test of the use of the AFM Portal. We used the information from the first pilot, data from the AFM Monitor and other information to identify trends, developments and risks. We then used this market overview to decide where to focus our supervisory efforts in 2022. The market overview will be updated each year based on the latest quantitative and qualitative data.

Staged build-up of supervision

We expect to require an additional 25 FTEs to deal with the changeover of operational supervision of audit firms holding an regular licence. They are being recruited in stages between 2021 and 2024. We hired 12 new staff members in 2021.

With the revision of the agreements with the NBA and SRA, hiring new staff, the development and implementation of a new supervision methodology and holding sessions to meet with the audit firms, we have made strong progress with our preparations. The AFM is ready to build up its supervision activities in several stages, and we will give the audit firms as much information as possible about our expectations from them.



Supervision of non-financial reporting

Transparency by listed companies with regard to the reporting of non-financial information is increasingly important for protecting investors. It must be clear to users of this information what impact sustainable factors (social and climate-related matters) have on the company and its value creation in the long term. Companies must also explain their own impact and influence on these factors.

International attention on the quality of non-financial reporting

Reporting on sustainability plays an increasingly important role in non-financial reporting. In addition to financial information, investors need relevant, reliable and comparable sustainability information to be able to estimate the impact on the value of a business. At the climate summit in Glasgow in the autumn of 2021, the creation of the International Sustainability Standards Board (ISSB) was announced. The ISSB will be tasked with creating global standards for sustainability reporting.

The AFM sits on the Technical Experts Group (TEG) of the International Organisation of Securities Commissions (IOSCO). The TEG will assess whether the standards developed by the ISSB will actually meet investors' information needs. Through our role in the TEG, we can achieve that greater attention is given to the inclusion of adequate sustainability information in financial statements and management reports.

Exploratory study and dialogue on the use of non-financial information

In February 2021, we reported on an exploratory study into the use of non-financial information by institutional investors and analysts. Our [exploratory study](#) revealed that institutional investors and analysts continue to make limited use of non-financial information, and that reporting companies could do a better job of encouraging them to use such information by providing relevant, reliable non-financial information. New rules and uniform standards would help in this regard.

As a follow-up to our exploratory study, we conducted a survey of investors concerning the importance and use of non-financial information when making investment decisions. The majority of respondents indicated that they take non-financial information into account in their investment decisions, but it is not clear to what extent such

information plays a decisive role. They also said that they think it is important for companies to take steps towards greater connectivity in their reporting, for instance by clearly stating the effects of their non-financial performance and risks on their future financial performance. Integrated reporting could be an appropriate means of doing this. Providing assurance on non-financial reporting would add value, particularly in combination with statutory audits.

Since the Decree on the disclosure of non-financial information took effect, large public-interest organisations such as listed companies, banks, insurers and credit institutions with more than 500 employees must include a non-financial declaration in their management reports. We are increasingly integrating supervision of compliance with this decree into our supervision of financial reporting. As a result, we increasingly find ourselves having conversations with companies or sending them written questions about compliance with the rules for non-financial information. We analysed the 2020 management reports of a number of companies that were found in previous reviews to have fallen short in their reporting of non-financial information. We engaged in dialogue with companies where improvements were still required, and made stipulations with regard to future reporting. We will follow up on these stipulations in 2022.

We held discussions with interested parties throughout the year. These discussions reflect the increasing interest, by NGOs in particular, in non-financial reporting by listed companies. In early 2022 we organised two roundtable discussions with representatives from the business sector, investor groups, audit committees, supervisory authorities and policymakers. In the discussions we spoke about the outcomes of our exploratory study and questionnaire and about future developments in the area of non-financial information.

Other activities

Dialogue with stakeholders about effective supervision of audit firms

To bring about sustainable improvement in the quality of statutory audits, the government has taken the next step on a number of proposed measures. It has bundled these proposals together into the Future of the Audit Sector Bill, which it consulted on in 2021. The AFM endorsed the proposed measures in its [response](#) to the consultation.



In 2021, we had regular discussions with the special envoys for the Future of the Audit Sector, who were appointed by the Minister and have been tasked by the government with implementing some of the measures. We also had discussions with the special envoys about the introduction of a set of audit quality indicators (AQIs).

The proposed measures resulted in a proposal for intensification of our supervision of PIE audit firms. Owing to the caretaker status of the government, it was not considered by the House of Representatives in 2021.

We also had discussions at the international level in 2021 about improving the supervision of audit firms. In two European and international partnerships of audit supervisory authorities, the Committee of European Auditing Oversight Bodies (CEAOB) and International Forum of Independent Audit Regulators (IFIAR), we contributed to discussions about vulnerabilities in the structure of the audit sector.

The quality of statutory audits is not an issue that is unique to the Netherlands; several countries have taken measures to improve the quality of statutory audits. These measures are mainly focused on the structure of the sector. In leading an IFIAR working group, the AFM mapped the various measures reported by IFIAR members. We used the outcomes from that research to boost international dialogue on the subject and keep it up to date.

Exploratory study on materiality in financial statements

Materiality in the audit opinion on financial statements can play a role in the economic decisions of investors, analysts and financiers. Information is material if its omission or misstatement could influence an economic decision. When auditing financial statements, statutory auditors must assess what is material. In conjunction with the CEOB, the AFM explored how materiality is applied by the Big 4 audit firms to their statutory audits.

This exploratory study revealed that there are differences between these audit firms in terms of their methodology and its application for determining materiality. These insights provide starting points for a dialogue between users of financial statements, companies, audit committees and auditors. For example, users can ask auditors how they determined materiality. These kinds of questions can be asked at shareholders' meetings.

Strengthening the role of audit committees of listed companies with regard to the quality of reporting and statutory audits

Audit committees are an important link in the chain of parties tasked with safeguarding good reporting. Audit committees provide advice to a company's supervisory board about the selection of auditors and monitoring reporting. The AFM aims to strengthen the capacity of audit committees to perform their role.

In early 2021, we published a [report](#) which contained a series of recommendations for audit committees. The report followed on from thematic research we had conducted in 2020. Our research revealed that audit committees have sufficient expertise to perform their selection and monitoring tasks, but that more final responsibility could be taken for the selection of a statutory auditor. We also observed that they could be more transparent with shareholders about the selection process.

In addition to our assessment of the role of audit committees, in other publications we turned our attention to ways in which they could use information in their supervision of the company. For example, in our reports about the progress of PIE audit firms in improving quality and about [materiality](#) in financial statements, we included specific annexes with sample questions audit committees could use in their dialogue with the company and the audit firm. Through recommendations, good practice examples and engaging in dialogue, we have given audit committees practical tools to help them in their duties, and we will continue to do so in 2022.

Financial reporting in ESEF

Securities-issuing companies in the European Union were supposed to be publishing their annual reports in a digital format, known as the European Single Electronic Format (ESEF), from 1 January 2020. This standard format is designed to make corporate reporting more accessible to users and facilitate the analysis and comparison of annual financial reports.

Because of the ongoing coronavirus crisis, the European Commission offered member states the option of deferring the introduction of the ESEF for a year. In [January 2021](#), Minister of Finance Wopke Hoekstra announced that the Netherlands would take advantage of this option. To help companies and their audit firms to prepare better, we organised information webinars in November 2021 with the professional associations NBA and XBRL Nederland. We used the webinars to share lessons learned



and examples of good practice. We also made a testing facility available to companies. Although that companies were not obliged to submit their 2020 financial reports in ESEF, 18 of the approximately 170 companies chose to do so.

Developments in the analysis of financial data

As well as the ESEF, European policymakers have been busy developing the European Single Access Point (ESAP), which will give centralised access to all financial registers in Europe within a few years. These types of activities will make a huge quantity of data

available. The AFM intends to analyse this data to make its supervision more effective and efficient.

To this end, in collaboration with universities and data experts we have developed an algorithm that we can use to assess the risk of a mistake in a company's annual financial reports. That model will be validated and compared with other risk analysis methodologies to enable us to measure the actual impact of a mistake. We will also review and improve the model on an annual basis, using actual outcomes from manual analyses.

Activities relating to integrity supervision in audit firms

Study into the management of corruption risks

Corruption remains an important topic for audit firms and the social impact of an incident can be huge. The responsibility to prevent corruption lies at first instance with the audit firm's clients, but audit firms themselves also have obligations. They have to assess the risk of corruption on the part of their clients and take measures to prevent involvement in corruption. In 2021, the AFM completed a [review](#) in which we assessed how audit firms manage corruption risks.

The review showed that audit firms could improve their knowledge of corruption risks and do a better job of keeping that knowledge up to date through training courses and technical consultation with other professionals. They could also gain better insights into such risks through better, more centralised reporting. We shared areas for improvement and examples of good practice, which audit firms can use to assess their own policies and adjust them where necessary.

Collaboration with the Financial Supervision Office

In 2020, the AFM signed a partnership agreement with the Financial Supervision Office (BFT). The BFT is responsible for supervision of audit firms under the Money Laundering and Terrorist Financing (Prevention) Act. In 2021, we concluded additional working arrangements with the BFT about exchanging information, and set up structural collaboration.

Development of a vision on fraud

Fraud, and how audit firms deal with it in their statutory audits, is an important subject. Fraud disrupts economic activity and undermines confidence in the financial system. Auditors have an important gatekeeper role in relation to fraud. Because of the importance of this topic, in 2021 we started developing a supervisory vision on fraud. In doing so, we focused on questions such as: What obstacles do audit firms encounter in practice? What do we want to achieve as the AFM, in collaboration with the sector, the chain and stakeholders? And what role can we play as the supervisory authority? We analysed the answers to these questions during 2021 and discussed the issue with various groups of stakeholders. As the next step, we hope to use their knowledge, views and analyses, together with those of the audit sector and academia, to gain a deeper understanding of this subject.



Ongoing activities

Supervision of the quality of reporting by listed companies

The financial reporting of listed companies is an important source of information for investors, analysts, financiers and other parties who want to form an opinion of the financial position and performance of a company. Corporate reporting must therefore comply with legal requirements, and there are [specific areas for attention](#) that we often point out to companies.

In 2021, we saw a significant increase in the number of listed companies as a result of IPOs. We also conducted more investigations in response to signals. In doing so, we found that these signals often related to compliance with the legal rules concerning non-financial information. Measures taken in 2021 included issuing six notifications (in 2020 we issued two), and we made agreements with a number of companies following investigations relating to their 2019 and 2020 annual reports.

By the end of 2020, we had sent letters to 21 companies setting out our concerns around how they could have spelt out the consequences of the coronavirus crisis more clearly in their reports, after having investigated their half-year reports earlier in 2020. The 2020 financial reports showed that companies had taken on board our concerns.

In 2021, we also evaluated our own supervisory activities, by having discussions with various market parties about possible improvements to our supervision of the reporting of listed companies. We will apply the suggestions for improvement we identified to our supervision of 2021 reports.

Licences, integrity tests and suitability tests

We issued five regular licences to audit firms in 2021. Fourteen regular licences were withdrawn at the request of the audit firms concerned and two licences lapsed because the audit firms concerned no longer exist.

When we receive a licensing application, we always conduct an intake interview with the audit firm concerned. During this interview, we explain the importance of the systematic integrity risk analysis (SIRA). This helps ensure audit firms are more aware of the risks relating to integrity.

The AFM notes that the total number of licence holders has decreased slightly, partly because licences have been withdrawn and partly due to acquisitions and partnerships under a joint licence.

Those who set the policies of an audit firm, whether solely or collectively, must have integrity and/or, in certain circumstances, be suitable to perform the role. The AFM conducts tests to determine their integrity and suitability.

Follow-up of reports and incidents

Audit firms, companies and other stakeholders notified the AFM with regard to a variety of reports and incidents in 2021. We also detected possible wrongdoing ourselves, including by closely monitoring media reports. In total, we reviewed 260 reports about audit firms in 2021. Of those, 159 reports were submitted by audit firms as part of their legal obligations to make certain reports to the AFM. These include incident reports, reports about PIEs under European legislation and reports of premature termination of a statutory audit engagement.

Audit firms have a legal obligation to inform us of incidents that could have serious consequences for their ability to perform their role with integrity. The law does not provide a precise definition of 'incident'. We have provided an interpretation, but in practice audit firms do not always find it clear. Accordingly, in 2021 we [consulted](#) a clarification of our interpretation.

Disciplinary proceedings

The AFM submitted one disciplinary complaint against an auditor in 2021.

In July 2021, the Disciplinary Court for Auditors upheld all aspects of the AFM's complaint in [disciplinary proceedings](#) against the former Deloitte auditor of Steinhoff International Holdings N.V. We had filed a disciplinary complaint after uncovering serious deficiencies in the statutory audit of Steinhoff's 2015/2016 financial statements. The Disciplinary Court for Auditors imposed a disciplinary measure on the auditor in the form of temporary deregistration for a period of three months. The statutory auditor has appealed the decision.



Committee on Financial Reporting and Accountancy

The AFM has a Committee Financial Reporting and Accountancy. In 2021, the committee had six members, consisting of experts from the accountancy sector, science and from interest parties. The committee made an important contribution to the

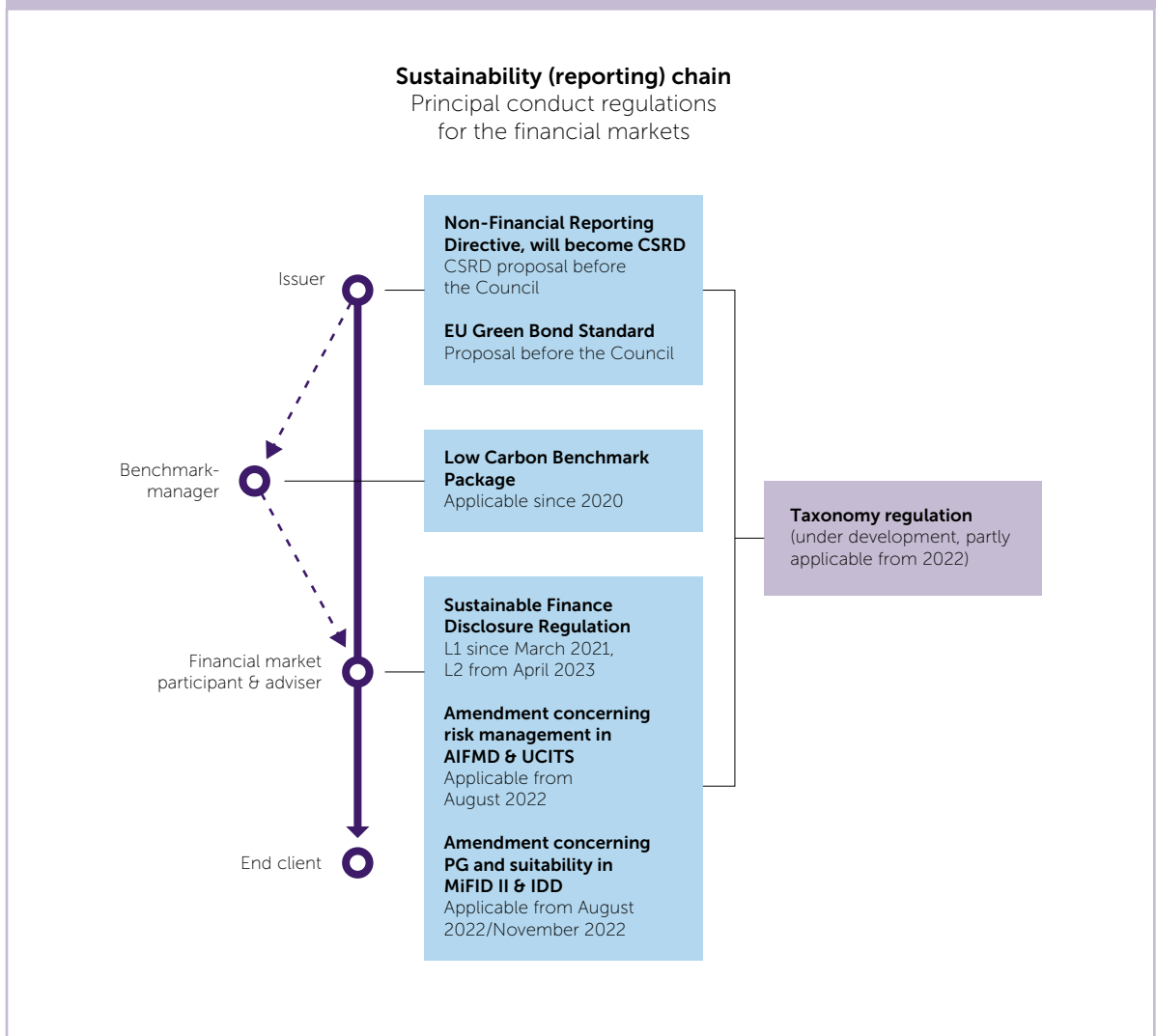
broader assessment of our supervision. For example, she was involved in the preparations for the changes in our supervision of the accountancy sector. She also contributed to our reviews of the internal quality audits at PIE audit firms, and of the impact and working methods of supervisory boards. At the end of 2021, the committee was reinforced with three new members.

AFM-wide supervisory priority

Sustainability

The financial sector has a significant contribution to make in the transition to a sustainable society. Investment and lending are needed to fund this transition. A large amount of regulation is on the way to guide the financial sector in a positive direction in this respect, much of it from Europe.

Figure 5: sustainability reporting



Overview of relevant regulations for financial markets participants with respect to sustainability reporting.



An important new piece of European legislation is the Sustainable Finance Disclosure Regulation (SFDR). The SFDR prescribes rules with respect to transparency around sustainability on the part of financial market participants and financial advisers. The SFDR is part of the European Commission's Action Plan for Financing Sustainable Growth.

The activities and associated results will be described in more detail in the section on the relevant area of supervision.

Study on the pre-contractual provision of information in prospectuses (compliance with Articles 6, 8 and 9)

We conducted a study involving 100 managers of 1,250 Dutch funds. It looked at compliance with Articles 6, 8 and 9, which focus on the pre-contractual provision of information in the prospectus. The outcomes of the study can be found in the chapter on the supervision of asset management.

Review of the application of aspects of integrated reporting, including sustainability aspects.

On 16 February 2021, we published the results of our study into the application of the sustainability aspects of integrated reporting. The study showed that institutional investors and analysts still make limited use of non-financial information, for example when making investment decisions. Companies could also do a better job of encouraging them to use such information by providing relevant, reliable non-financial information.

Review of the potential risks of financial products offered that feature sustainability.

This study is exploring the retail offering of sustainable investments. It aims to identify what types of investments are being offered, what sustainability claims are being made in respect of these investments, and how the claims are reflected in the investment policy. The goal of the exploratory study is to obtain a better understanding of this market and to identify any possible risks. The study is still ongoing.

Contribution to regulations at national and international level, including the SFDR The AFM has contributed to the development of secondary legislation related to the SFDR. The European Supervisory Authorities (ESAs) submitted these draft pieces of secondary legislation (technical standards) to the European Commission for approval in 2021.

06

Tests relating to individuals and measures





Tests of persons

In 2021, as in 2020, the focus for tests relating to individuals was on the quality and consistency of the tests. However, processing times continued to be an area of concern. This was partly due to the increase in the number of tests. The total number of tests increased by 25% in 2021, compared with 2020. The increase is largely a result of numerous tests relating to third-country audit firms as a consequence of Brexit, and a trend towards consolidation of financial service providers that means a number of 'other policymakers' have had to be tested again.

Over the past year, there were no applications that were either not considered or were rejected. There were applications that were withdrawn by the applicant during processing, as a result of which the

total number of applications was higher than the number granted. Table 2 shows the total number of AFM tests, broken down into categories.

Table 2: number of tests per category

Number of tests per category	2021	2020	2019
Advisers/intermediaries/credit providers	1,577	1,235	1,409
Investment firms/collective investment schemes	439	448	348
Investment objects and stock exchange	15	24	32
Audit firms	199	85	125
Double testing	12	19	32
Retests*	33	5	11
Total number of tests	2,275	1,816	1,957

* The 2020 and 2019 figures exclude retests resulting from the supervision of audit firms

Measures

In 2021, the total number of supervisory measures rose by more than 35% to 1,232, compared to 906 in 2020. This increase was driven by the number of informal measures. The number of measures of which enforcement was the primary focus (44) remained the same as in 2020.

The number of measures can fluctuate considerably from year to year. With regard to formal measures, this is often due to the complexity of the investigations. For informal measures, the number largely depends on the thematic projects carried out in the year concerned. If deficiencies are detected during these projects we inform the market, sometimes right across the sector, which can lead to a large number of standards information letters.

More stringent monitoring of how banks, insurers and credit providers bring products to the market was once again a priority for the AFM in 2021, and will continue to be a focus in 2022. We will also continue to closely supervise companies that are doing too little to combat money laundering, or that do not make proper notifications of stock exchange transactions, preventing insider trading from being detected in a timely manner.

Our starting point is to take a proactive approach, using influence for example, to ensure legal compliance and prevention of harm. Indeed, if we relied on remediation after the fact, the damage to consumers, markets, the economy and confidence in the financial sector would already have been done.



This means that if the AFM becomes aware of a situation in which the rules are not being observed, we will take action to bring this situation to an end. The way in which the AFM's supervisors succeed in doing so and the decision of whether to apply formal or informal measures depend on the specific situation and the effect we want to achieve. This starting point does not affect the fact that the AFM may set priorities in its enforcement actions on the basis of its risk-based approach and available capacity.

Formal measures

Fines

The AFM imposed 2 administrative fines in 2021, compared to 13 in 2020. The number of administrative fines is lower than the average for previous years. The process leading up to the decision of whether or not to impose a fine requires intensive preparation, research and consideration. We impose fines in a targeted manner, meaning that the social effect is more important than the number of fines imposed. The total amount of the fines imposed in 2021 (€2.7 million) was slightly higher than the 2020 amount (€2.2 million).

We do not recognise fines as income in our financial statement until they have become irrevocable and we have actually received the amount. This means that the fines recognised as income in the financial statement may vary from the total amount of the fines imposed.

Orders for incremental penalty payments

Orders for incremental penalty payments are used to obtain information from companies that fail to respond to our normal requests for information. Orders for incremental penalty payments are also used to bring an end to an ongoing infringement or to prevent the recurrence of an infringement. Five orders for incremental penalty payments were imposed in 2021 (2020: 4).

Licence withdrawals

Licence withdrawals include full or partial withdrawals due to a failure to comply with the requirements of professional competence and/or controlled business operations. There were eight withdrawals in 2021, compared to three in 2020.

Informal supervisory measures

The total number of informal supervisory measures imposed was 1,188 (2020: 862). The three options for informal measures are warning letters, standards compliance letters and standards information letters. There has been a shift away from warning letters to standards compliance or information letters, which began in 2020. The rising trend in the number of informal measures is mainly due to our proactive approach, in which we prefer wherever possible to impose measures that might prevent infringements.

The measures imposed related to issues such as: reports about provision of information, illegal conduct, appointments without prior approval from the AFM and failure to provide personal background information.



Table 3: overview of formal and informal measures

Formal supervisory measures	2021	2020	2019
Administrative fines imposed	2	13	15
Orders for incremental penalty payments imposed	5	4	12
Reports to the Public Prosecution Service	5	-	-
Licence withdrawals	8	3	5
Instructions	4	3	3
Public warnings	14	17	30
Notification without recommendation (Wtfv)	6	2	3
Complaints to the Disciplinary Court for Auditors	-	2	-
Total number of formal measures	44	44	68
Informal measures	2021	2020	2019
Warning letters regarding an infringement of standards	105	125	316
Standards compliance letters following an infringement of standards	255	232	132
Standards information letters following an infringement of standards	828	505	168
Total number of informal measures	1,188	862	616
Total number of formal and informal measures	1,232	906	684

07

Stakeholder dialogue





We conduct our supervision on a problem-driven and risk-driven basis in order to fulfil our statutory mandate as effectively and efficiently as possible. This means, as stated in our approach to supervision, that we strive to identify the major risks and devise structural solutions accordingly. This requires continual analysis and interpretation of risks, including new and changed risks. Dealing with these risks may involve updating our supervisory activities, or, in some cases, the legislative framework. It is therefore important that we maintain regular dialogue with our external stakeholders, such as the financial sector and its representatives, the Ministries of Finance and Social Affairs and Employment and the European institutions.

Supervision of financial services

For our supervision of financial services, we keep in close contact with a large number of industry associations and umbrella organisations such as the Federation of the Dutch Pension Funds, the Dutch Banking Association, Dutch Fund and Asset Management Association (DUFAS), the Association of Asset Managers and Advisers (VV&A), the Dutch Association of Insurers, and the Association of Independent Financial Advisers (Adfiz).

We participated as an advisory member of the Steering Group for Development of the Pensions Agreement, chaired by the Ministry of SZW, in which we pointed out the importance of protecting scheme members in the transition to a new pensions system.

The AFM contributed to events related to our supervision on several occasions. For example, a member of the Executive Board of the AFM was a [speaker at the Investor Fair](#). We also gave a number of lectures to representatives of advisers and insurers. Subjects related to the new pensions system came up at meetings at which we participated, along with pension fund board members, pension providers, pension advisers and pension consultants.

The pensions system was also a central topic of discussion at AFM roundtables with various stakeholders, with the main issues being risk preference research, decision-making guidance and pension advice.

As a follow-up to our study into personalised pricing we held discussions with a range of parties, including insurers and academics. The same applies to topics such as the use of algorithms, insurance technology, climate risks and insurability, in relation to the floods in Limburg this summer.

We spoke to the banks on several occasions about subjects such as interest-only mortgages, the impact of the coronavirus crisis, investment policy and the SFDR. We also contributed to the sector plan entitled 'Joining forces for mortgage customers', an idea driven by the NHG to support customers with coronavirus-related issues.

We engaged in dialogue with umbrella organisations about our [findings on ongoing customer support](#) and the principles we published at the end of the reporting year. We also held discussions with companies about thematic research, including communication about capital at maturity for profit-sharing insurance, collective value transfers and management of late payments.

In 2021, we organised webinars about interest-only mortgages and met with influencers to discuss the rules around investment advice.

We invited the boards of directors and chairs of supervisory boards of large insurers and umbrella organisations to share their thoughts on strategic developments that have common ground with the principle of putting customers' interests first.

We also believe it is important to make contributions to education programmes for the financial sector that reflect the developments we are seeing in the area of financial services. Finally, through our participation in 'Wiser in money matters' we're contributing to the financial education of consumers.



Supervision of the capital markets

For our supervision of prospectuses, we engaged in discussions with various lawyers specialising in finance to obtain a better understanding of certain cases and/or specific issues. In our supervision of proprietary traders, we had discussions with the Association of Propriety Traders (APT), an industry association. These discussions helped us to better understand the issues and problems faced by proprietary traders.

We also met with the Capital Markets Committee on three occasions. The Capital Markets Committee advises the AFM on cases, legislative matters and interpretations relating to public takeover bids, market abuse issues and prospectus issues.

We held discussions with the European Commission on an ad-hoc basis, at its request, and also with the Ministry of Finance. Finally, we engaged in ad-hoc discussions with other supervisory authorities (through supervisory colleges).

Joining the NL AI coalition

The NL AIC is a public-private partnership with a focus on sharing knowledge between participating parties and accelerating the development of artificial intelligence (AI). The coalition facilitates these goals by coordinating working groups, organising events and promoting relevant training courses. This partnership is supported by government bodies such as the Ministry of Economic Affairs and Climate Policy, but major companies such as Philips, IBM, Microsoft and Ahold Delhaize are also members. Many knowledge institutions are also affiliated, such as the TNO and major Dutch universities. Our fellow supervisory authority the ACM joined in 2021, and there is interest from the financial sector. The AFM has been a member since late 2021 and is participating in working groups such as 'Human-oriented AI', 'Data sharing' and 'Financial services'.

Observer in international (PSSL on securitisation) and national (DCB on bonds) networks

These are networks in which we participate and listen to gather information, to ensure we know the market inside and out. In the case of the DCB, for example, this is a group of around 30–50 bond market participants (banks, pension funds and investors) that talk to each other about current events, trends and innovations in the bond market. We are an observer, as are the Dutch Central Bank (DNB) and the Ministry of Finance.

Supervision of asset management

As part of our supervision of the asset management sector, we engage in frequent contact with the sector and with other stakeholders. The SFDR is a major new regulation in the asset management sector. Because this new regulation is important and there are still many ambiguities around the details, the AFM has engaged in dialogue with several stakeholders. For example, we organised roundtable discussions with DUFAS, the VV&A and the NVB, among other parties. We also participated in the annual Morningstar debate and various seminars and roundtable discussions with market parties and non-profit organisations.

We discussed proposals for amending the AIFMD with various stakeholders and interest groups. We frequently made contact with institutions in response to notifications of major changes in controlled business operations. This enabled us to take timely action. We also had meetings in which we prepared market parties for the entry into force of the Investment Firm Regulation and Investment Firm Directive (IFR/IFD) and the 'Directive with regard to cross-border distribution of collective investment undertakings' (CBDF Directive).

We had frequent discussions with De Nederlandsche Bank, which has a mandate for prudential supervision of the asset management sector, to coordinate our supervisory activities. Because of the internationalisation of the sector, we also had regular discussions with our fellow supervisory authorities in other countries and with international bodies such as the ESMA, IOSCO and the ESRB.

Supervision of audit firms and reporting

From 2022, the AFM will be exercising operational supervision of audit firms with an ordinary (Wta) licence. We have held discussions with the audit firms about what will change for them. For instance, in 2021 we held small-group sessions so we could get to know the audit firms and explain how we will conduct our supervision and what we expect from them. The audit firms were able to register for sessions voluntarily, and they did so in large numbers. Afterwards, they told us they thought the sessions had been useful. During the year we had frequent conversations with the SRA and NBA about the transition and collaboration from 2022. We made



agreements about these matters, which resulted in changes to our existing covenants.

In 2021, we had regular discussions with the special envoys on the Future of the Audit Sector, who were appointed by the Minister and have been tasked with implementing the recommendations of the Committee on the Future of the Audit Sector to bring about lasting improvements in the quality of statutory audits. We also had discussions with the special envoys about the introduction of a set of audit quality indicators (AQIs).

Following on from our own research, which was described in the chapter on the supervision of audit firms and financial reporting, we engaged in discussions with PIE audit firms about the design and implementation of their internal quality reviews and the quality of their statutory audits. We presented our findings to other key stakeholders, such as supervisory boards and audit committees.

In the context of non-financial reporting by listed companies, we held talks throughout the year with a variety of stakeholders. As a result of those talks, in early 2022 we organised roundtable discussions with representatives from the business sector, investor groups, supervisory authorities and policymakers.

Members of our Executive Board and staff regularly participated in events and meetings organised by the sector in 2021. For example, representatives of the AFM participated in 'the Rode Loper' debate in December. We also regularly took part in online sessions: we attended a number of online meetings during the year and appeared in podcasts. We were also twice invited to appear as a guest speaker on Busy Season Talks, the 'auditors' living room'.

Digital Regulation Collaboration Platform

In 2021, together with the Netherlands Authority for Consumers and Markets (ACM), the Data Protection Authority (AP) and the Dutch Media Authority (CvdM), we [announced that we would be engaging in intensive collaboration](#) to strengthen supervision of digital and online activities. To this end, we and the other supervisory authorities launched the Digital Regulation Collaboration Platform (SDT).

Within the SDT, supervisory authorities will collaborate by exchanging knowledge and experiences from supervisory practice on topics such as artificial intelligence, algorithms and data processing, online design, personalisation, manipulation and deception. We also want to collectively invest in knowledge, expertise and skills. The supervisory authorities will also look at where we can support each other's enforcement processes, including through a collective approach to digital market issues.

Digital security

Since 2021, the AFM has been part of the Threat Intelligence-Based Ethical Red-teaming (TIBER) programme. Together with the DNB we performed TIBER tests with companies, who were happy to cooperate with the programme. In the tests, the tactics, techniques and procedures of real hacker groups were simulated to test the resilience of financial companies in the face of advanced cyber attacks. The TIBER programme is an initiative of the European Central Bank that is being run throughout the EU.

Advisory panel

In 2021, the AFM organised two meetings with the advisory panel, one online meeting in April due to the coronavirus measures and one in-person meeting in October. The panel includes organisations with an interest in our supervision.

During the April meeting we talked about the AFM's 2020 annual report, the AFM-wide priorities and the transition to data-driven integrity supervision. During the meeting in October, the AFM consulted on its draft agenda for 2022, the cost framework and the 2022 budget. The panel members provided input to the AFM in anticipation of the drafting of its 2022 agenda. Finally, during both meetings the members who were present separated into sub-sessions based on the AFM's four areas of supervision.



Consumer surveys

The AFM conducted a number of surveys of consumers to allow them to have input into our supervision. We ran the AFM Consumer Monitor survey in spring and autumn. One questionnaire had a broad focus on a representative group of Dutch citizens. In the other surveys, we focused more specifically on mortgage borrowers, mortgage lenders and private investors. That helped us obtain a greater insight into developments in the market and possible risks.

The [survey of mortgage borrowers](#) revealed that advisers are increasingly asking about student

loan debts in their interviews with customers. The [questionnaire for private investors](#) primarily focused on execution-only investing. As mentioned earlier in the annual report, an increasing number of consumers are choosing to invest in this way. In total, nearly two million Dutch citizens have investments.

Financial Markets Hotline and Business Desk

We received thousands of enquiries and notifications (reports) through our Financial Markets Hotline and Business Desk. In 2021 we received 4,803 reports.

Table 4: number of contacts with the AFM by type.

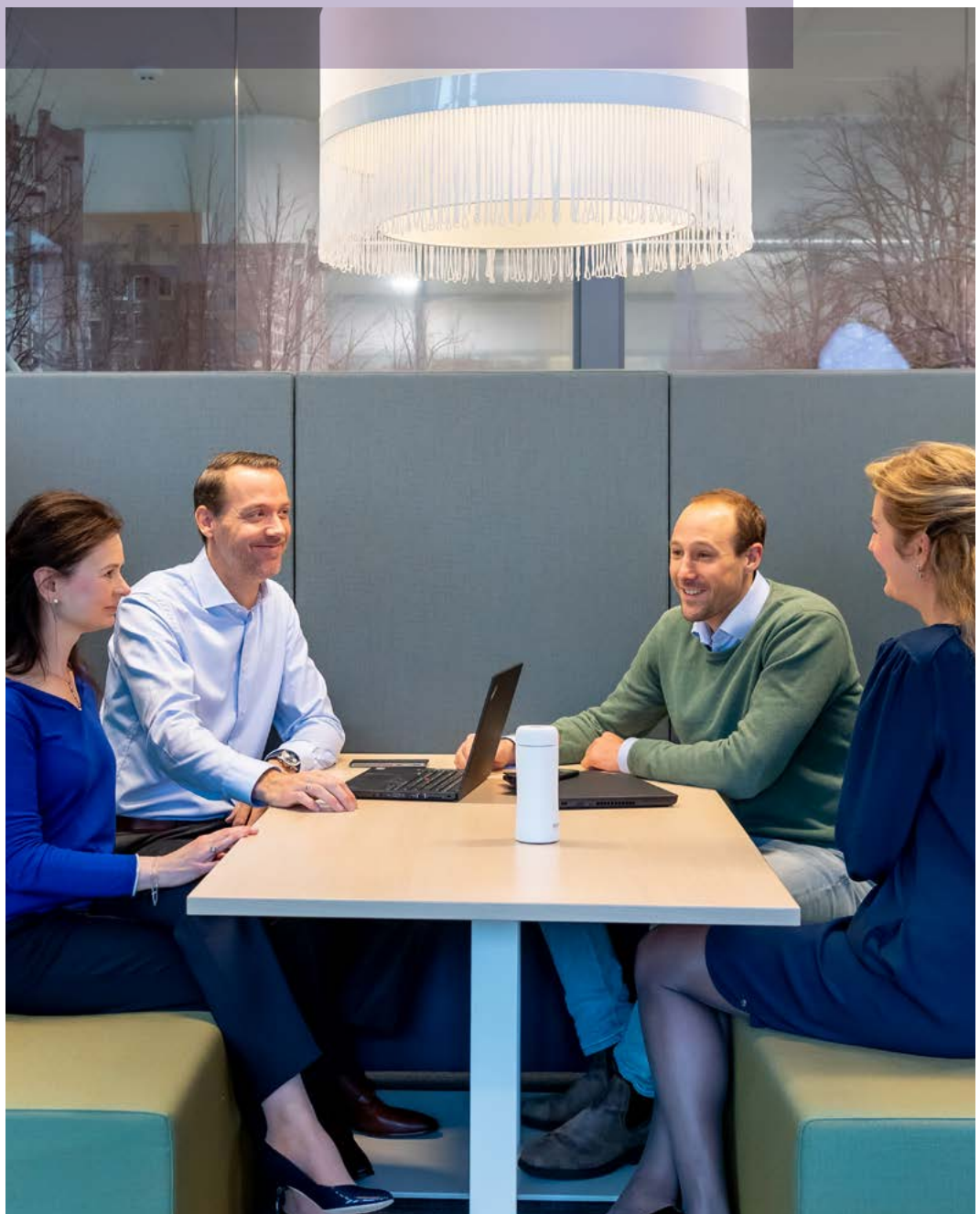
Contact channel	Email	Telephone
Business Desk	10,950	720
Financial Markets Hotline	9,167	345
Sum total	20,117	1,065

Table 5: number of contacts with the AFM per year.

Contact channel	2020	2021
Business Desk	13,718	11,670
Financial Markets Hotline	8,674	9,512
Sum total	22,392	21,182

08

AFM as a professional organisation





The continuing coronavirus pandemic is not only significantly impacting the financial sector, it is also affecting the AFM and its internal organisation. Particularly in times of uncertainty, maintaining and advancing the development of a professional organisation are essential. We are therefore working hard to provide our employees with everything they need for optimal execution of our supervision. This includes areas such as IT and internal processes, as well as a strong focus on their personal well-being and development.

The coronavirus pandemic continued to place great demands on our employees' resilience and creativity in 2021. While the summer and steadily rising vaccination rates permitted a partial return to working at the office, it became clear by the autumn of 2021 that this marathon was not over yet and we all had to revert to working from home again. At the same time, the new location-independent way of working has slowly but surely become the new normal and both the internal organisation and our employees have adapted effectively to this.

Working@AFM

The coronavirus pandemic has made a future-proof work environment even more essential. In 2021, we outlined our vision of how we want to work in the future, entitled Working@AFM. We are aiming for a work environment enabling employees to get the best out of themselves and each other, work with a focus on results and efficiency, and keep in touch with colleagues as well as with contacts outside the AFM. We work on the basis of trust, professionalism and personal leadership.

Guided by this vision for the future and the experience of working at the office and from home, we formulated a number of principles for location-independent ways of working. This always pivots on two questions: how can I achieve, effectively and efficiently, my objectives and those of my team, department and the AFM? And how can I keep in touch with the AFM, the institutions subject to supervision and the other elements of my working environment? Testing and evaluating enable us to continually develop and where necessary adapt this way of working.

Naturally, we will not implement this new way of working in isolation. We maintain close connections with the institutions subject to our supervision and with the world around us to be able to perform our supervisory duties effectively. This means, accordingly, that the type of work concerned is the decisive principle for choosing the work location and that we therefore prioritise the most effective manner of executing supervision.

We acquired initial experience with this in 2021. In the autumn of 2021, for example, we required management to complete a self-assessment (see figure X). This revealed that the defined frameworks can be effectively implemented in practice. They give us scope to work with flexibility, without endangering the results. The self-assessment also revealed, however, that management is insufficiently aware of its role in the duty of care in connection with the set-up of the workstation. In our role as employer, we naturally ensured that employees can work from home in a safe manner by offering the option of setting up a fit-for-purpose workstation, but under their duty of care, employers are also required to actively monitor this. We will devote greater attention to this in 2022.



Figure 6: Management self-assessment



Management self-assessment on flexible working by employees.

At an organisational level, our office building was adapted in 2021 to facilitate location-independent ways of working. More meeting rooms have been equipped with video-conferencing facilities and work spaces have been prepared for video calls. In addition, changes have been made in areas such as parking policy, the commuting allowance and train season tickets.

Outsourcing of ICT services

A large part of our ICT services was outsourced to Cegeka in order to realise our ICT ambitions and to create greater scope for innovation. The contract was signed in May 2020, and from 1 June 2021, Cegeka commenced the transition targeted at a phased transfer of the service provision within a period of one year. The year 2021 was governed by that transition, under which the regular IT service provision had to be kept running while at the same time delivering an ambitious IT projects portfolio (see box).

The need to carry out the entire transition during a worldwide pandemic had of course not been foreseen. The coronavirus crisis presented substantial challenges. Instead of being able to work side by side for the necessary transfer of knowledge, this had to be achieved remotely. That did not make the transition any easier and also caused some delays.

The transition was completed in December 2021, six months later than planned. The majority of the service provision has therefore now been transferred to Cegeka. Cegeka is providing a completely new data centre infrastructure, workstation solution and help desk for users. This was achieved through four projects:

Migration and set up data centre: Cegeka first ensured that all infrastructure components (network, servers, databases, internet connections, storage and applications) were set up in the Cegeka data centre, and then migrated the AFM components from the AFM data centre.

Set up management organisation: a Cegeka management organisation has been established to execute the standard IT service provision for Data centre, Workstation and Applications.

Set up application services: the technical management of AFM self-built and the AFM standard applications has been transferred to Cegeka, including the application development of the AFM self-built applications (CRM platform).

Set up workstations: a new workstation concept was designed and made available on the basis of Windows 10, Office 365 (e.g. Exchange online and Teams), Microsoft management for AFM tablets and AFM smartphones, VPN technology and the AFM Application Portal (Liquit).



IT projects portfolio: need for good data

We saw an increasing need in 2021 for high-quality data with regard to the IT projects portfolio. The steps taken to address this data collection issue included further changes to our [AFM Portal](#), for instance to improve the authorisations module and the reliability form. The transfer of the AIFMD reporting for licence holders from the Dutch Central Bank (De Nederlandsche Bank) also proceeded smoothly. In addition, a call for tenders for data collection was issued, as a result of which we changed to a new supplier (from Centerdata to Visma). This means we have found a professional solution that complies with the latest security standards. At the same time, connecting Visma to the entire data collection process (from the CRM system to the managed data platform) will still require further efforts. Lastly, a first step was taken to ensure close alignment of the various chains and work processes of the AFM, for instance in the levy process.

The focus in the year ahead will be on increasing customer satisfaction, closer alignment of the AFM and Cegeka processes and delivering the agreed modernisation projects.

Human Resources

We seek to be a learning organisation, in which we learn both from the outside world and from each other. We offer employees meaningful work and seek to enable everyone to develop optimally and deploy their qualities. We aim for an inclusive culture, in which everyone can be themselves and a safe and healthy work environment is promoted. Therefore, in tandem with Working@AFM, in 2021 we vigorously

pursued themes such as vitality, diversity & inclusivity, recognition & remuneration and development.

Vitality

In 2021, the coronavirus pandemic again made it especially important for us to focus sufficiently, as an employer, on our employees' resilience and robustness. This included offering Goodhabitaz workshops and Lifeguard team sessions and organising Vitality week, as well as other steps, during which we focused extensively on the various aspects of vitality (both physical and mental). Social connection was pursued on our intranet through blogs and popular hashtags such as #AFMstaypositive and #AFMcoronacoupe. The AFM Work-from-home Festival (see box) is another example of this.

AFM Work-from-home Festival

The first AFM Work-from-home Festival was organised by and for AFM staff in the spring of 2021. Over a period of four weeks, colleagues organised an extensive and varied range of 38 festival activities (online). This ranged from lectures, work-outs and cookery workshops to walks, mini-concerts and quizzes. With 611 registrations, the festival contributed successfully to reinforcing the connection between colleagues and the AFM.

'It's so nice to get together again and to talk about what it's like to work at the AFM. Seeing each other hugely strengthened our feeling of being connected and was very energising. We should do this more often!'

Diversity & inclusivity

On the way to an inclusive culture, activities were launched in 2021 aimed at providing an environment in which diverse talents are maximally utilised. This includes recruiting a more diverse pool of employees, for example by formulating texts on vacancies in a bias-free manner and better reflecting diversity in our labour market campaigns.

In addition, the participants in our *Future leadership* programme used the Cultural Diversity Barometer of Statistics Netherlands (CBS) to examine cultural diversity within the AFM in 2021. This revealed that 77% of our employees have a Dutch background, 11% have a Western migration background and 12% a non-Western migration background. Those percentages are virtually the same as the average of the employed working population. Participation in the barometer



serves as a frame of reference for the AFM enabling it to further develop its policy on diversity.

We will follow Statistics Netherlands in 2022 in basing the categorisation applied on where persons were born themselves rather than on where their parents were born. The word migration background will no longer be used in that context. The primary categorisation into Western/non-Western will be replaced by a categorisation based on continents and frequently occurring immigration countries.

In terms of gender diversity, the AFM's workforce was again evenly balanced in 2021 (see figure 5). Benchmarking by the Talent to the Top Monitoring Committee also showed that the AFM is performing well in this area. Our organisation outscored the public-sector average on all dimensions examined – leadership, strategy and management, HR management, communication, knowledge and competences and climate (see figure 6). Lastly, we examined the possible existence of a pay gap within the AFM. There proved to be none; we will continue to monitor this closely when taking on new employees.

Figure 7: male-female 2021 & 2020

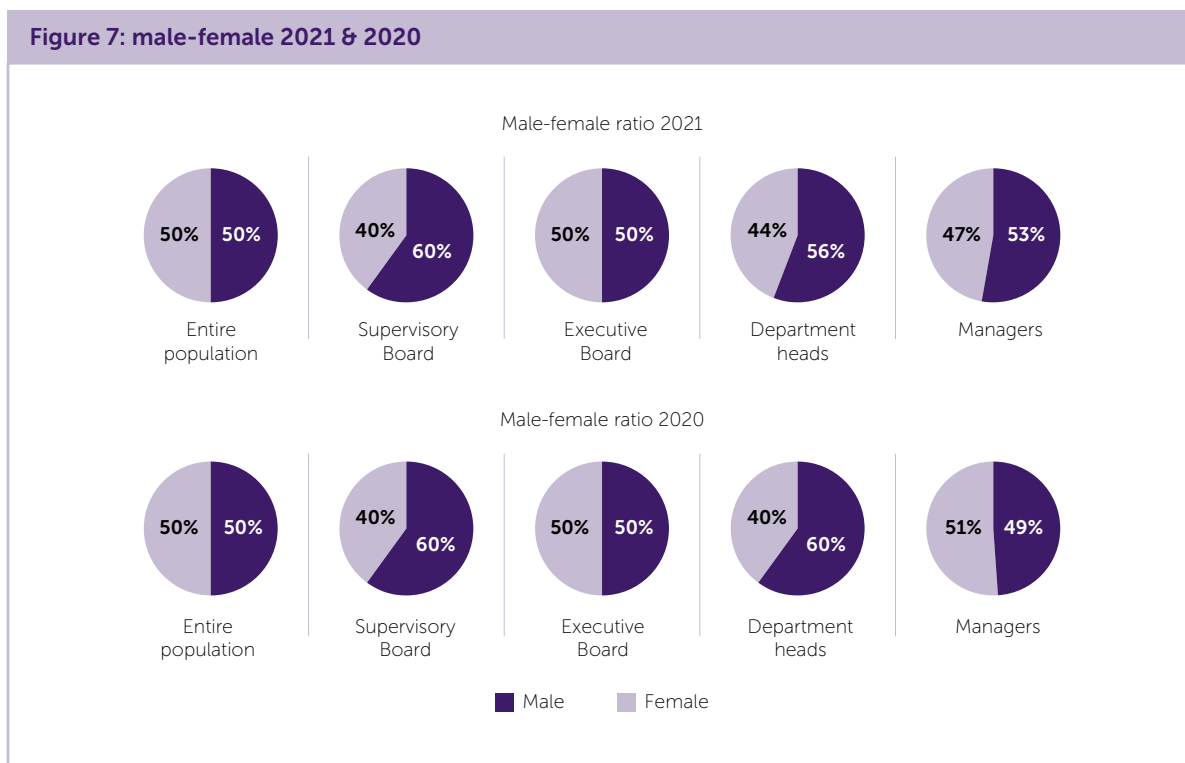
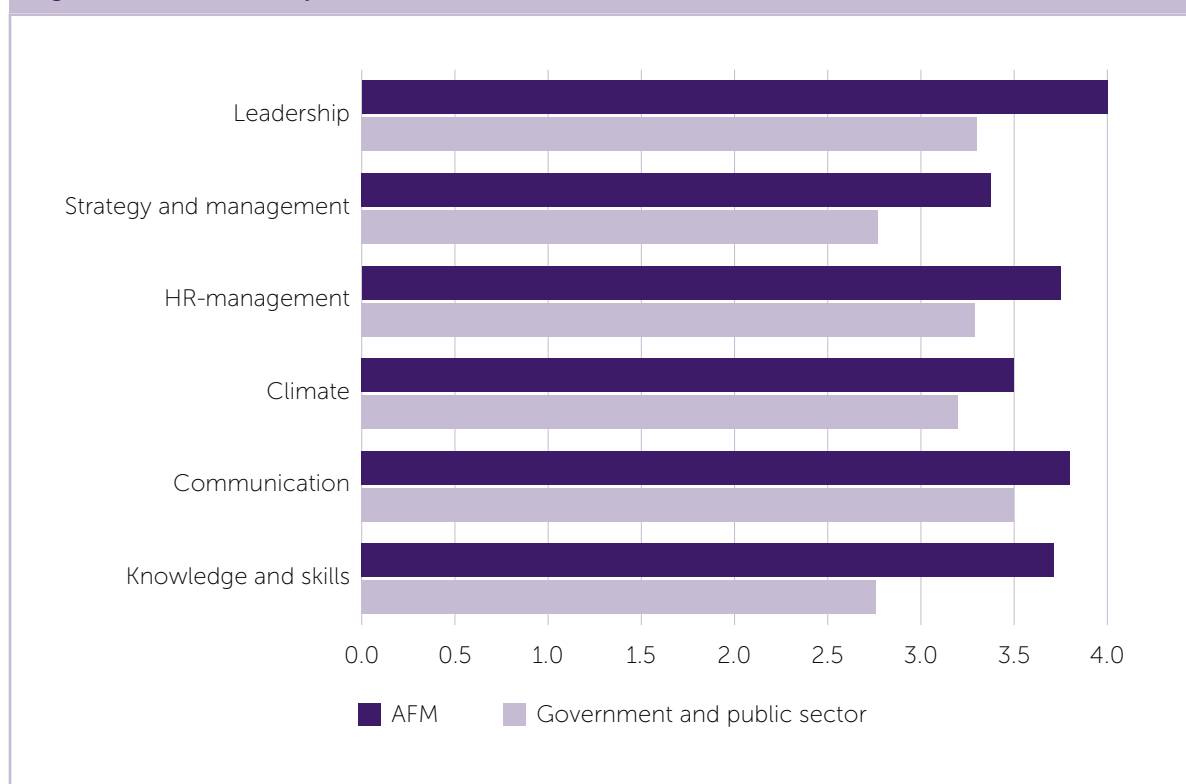



Figure 8: talent to the top


Results of survey by Talent to the Top Monitoring Committee.

Recognition & remuneration

We aim to change our evaluation system and to pursue a policy centred on development, continual dialogue and transparent remuneration. This is aligned with the inclusive and learning culture we aim to attain. We are in dialogue on this with the Works Council and employees. It has been decided to allow enough time to ensure a good transition. This is also a response to the signal not to carry out changes in a period that was already full of challenges entailed by the coronavirus pandemic. Training has nonetheless commenced on 'a productive conversation' for managers and employees. This also specifically serves to support increasingly working remotely based on the vision Working@AFM and the thinking that drives recognition & remuneration. Subject to approval by the Works Council, the starting date of the new policy on recognition & remuneration is 1 January 2023.

Development

High-quality employees are required for the effective performance of our duties (also see box Employees). As a learning organisation, we therefore maintain a strong focus on the development of our employees. The training budget was not fully utilised in 2021. This was mainly because of training that the coronavirus prevented from going ahead. As much attention as possible was nevertheless given to the training and development of our employees.

Supervision Academy

Many training courses are provided internally via the Supervision Academy, the AFM's internal learning and development centre. In addition to the Basic Supervision Course for new employees, the Supervision Academy develops and delivers e-learning courses, knowledge lunches (with external experts) and training modules for current supervisors. In 2021, the focus was on ensuring all modules went ahead, despite the COVID-19 measures. See page 66 for the most frequently taken knowledge and competence modules.



Top 5 Knowledge modules

1. IFR/IFD: New framework for investment firms
2. Policy development
3. OPIT: Supervision of operational and IT risks
4. Technological developments - basic
5. Introduction to Financial Law

Top 5 Competences modules

1. Pyramidal writing; structuring clearly
2. Agile & scrum
3. Techniques for supervisory interviews
4. Interviewing strategically and analytically
5. System-based thinking: learning different ways of seeing and therefore of intervening

Top 5 Knowledge lunches

1. What can we learn from investigative journalists
2. Interview techniques and how memory works
3. Influence in the EU
4. Low literacy and control of financial affairs
5. Dealing with political and social pressure and making mistakes

Leadership development

We again invested in our (potential) leaders in 2021. For the third time, a group of talents took part in the Future Leadership programme and a group of new managers commenced a leadership development programme. This practice-based programme uses case studies for themes such as coaching for results and talent, personal leadership and working with others. Training courses were also started on the basis of the projects recognition & remuneration and Working@AFM.



Employees

Performing our duties effectively requires highly qualified employees and this means AFM has to position itself as an attractive employer in the labour market. Many employees opt to join the AFM because they want to contribute to our mission and can deliver meaningful work with us. Accordingly, we home in on this as much as possible in our labour market campaigns.

In 2021 we engaged as proactively as possible in dialogue with candidates and researched the market in various ways, including on social media and in professional journals. And that is certainly necessary, as we are seeing progressive tightening of the labour market. Many employers are looking for the same specialists and this is not set to lessen in the years ahead. Being an attractive employer will therefore remain a key spearhead in the coming years.

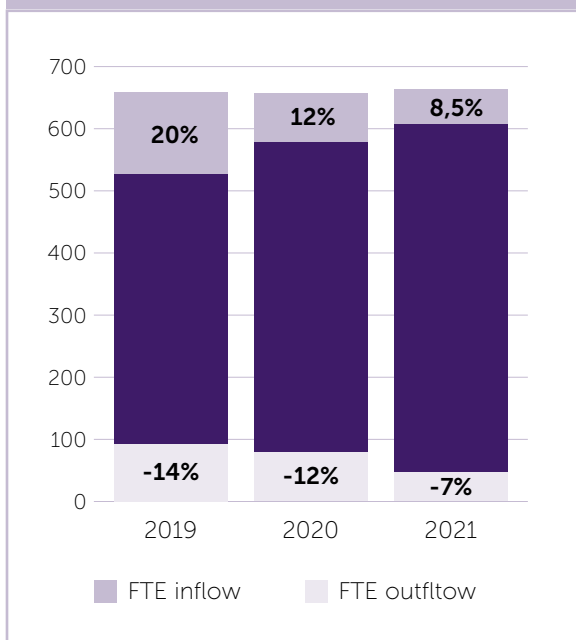
Absenteeism

Average absenteeism in 2021 of 2.98% was slightly higher than in 2020: 2.65%. These numbers are also edging up on a nationwide basis. The sickness reporting frequency in 2021 was 0.9, unchanged from the preceding year.

Inflow and outflow

We achieved our recruitment targets in 2021, despite the tight labour market, as we continued building talent pools and disseminating narratives about working at the AFM. Another contributing factor was that we optimised the candidate experience – from applying for to completing the first 100 days in a job. We did so, for example, by setting up a job application portal, by expanding our onboarding app to ensure the time between signing and actually joining proceeds as smoothly as possible, and by introducing a 100 days interview.

Figure 9: number of FTEs employed



The number of FTEs has increased over the years, while the number of personnel changes has declined.



Expansion of supervision of audit firms

The AFM undertook preparations in 2021 for the expansion of its supervision of auditing to include non-PIE audit firms. We recruited nine new supervisors to that end. The labour market is clearly becoming increasingly tight within this target group as well, and we have had to step up our efforts to reach the target group. Employment benefits are also beginning to play a more significant role than in the past.

Executive Board

Linda Sas joined the AFM with effect from 1 May 2021 to take up a position on the Executive Board as Internal Operations Director. As a Board member whose appointment is not mandated by the articles of association, she is responsible for the central coordination and further professionalisation of operations, succeeding Ellen van Schoten in that capacity, who left the AFM at the end of 2020. In her most recent position, Linda Sas (49) worked at the Central Agency for the Reception of Asylum Seekers (COA), after working at the housing association Ymere for many years.

Towards a sustainable organisation

The AFM is increasingly focusing on sustainability as well. As a professional organisation, we are pleased to take this responsibility on board. We are currently working on a vision on sustainability for the period 2022-2025. This includes creating greater focus and coherence within and across the various sustainability initiatives that are deployed in our organisation.

More specifically, we sharply reduced – partly as a consequence of the COVID-19 measures – the number of kilometres travelled by air, from 1.2 million in 2019 to 250,000 in 2020 and 115,000 in 2021. On our way to becoming a paperless organisation, we also treated printing and printed matter in a more sustainable manner. For example, we used 50% less paper for printing in 2021 than in 2020 and more than 80% less compared with the pre-COVID-19 year 2019. Additionally, our laptops are recycled in a safe manner for projects in Africa when written off.

Operational risks and control measures

The AFM carries out risk analyses as a fixed part of its control cycle and project methodology. Risks are assessed and managed in conjunction with one another. We do this to achieve the organisation's objectives and to safeguard its values, which are embodied in its people, information, capital and image.

All departments periodically perform a risk assessment to identify risks and to evaluate the control measures in place. The results are consolidated and reporting on the operational risks

to the Executive Board and to the Audit Committee of the Supervisory Board takes place three times a year. Several risks were identified in this process in 2021 that require additional attention across the organisation; we report on these below.

Insight into chain and process interdependencies

An adjustment in a component, process or system of the organisation may produce undesirable consequences. Cross-organisation insight into interdependencies is required to prevent this as much as possible. If that insight is not up to date, there is a risk that the progress of developments may be hampered and that innovation is insufficiently aligned with business requirements. This may compromise the targeted quality. A pilot project was launched for a number of processes in 2021 to systematically improve this insight. This included starting to clarify the various responsibilities in the levy process. This improvement process will continue in 2022.

Filling vacancies

Sufficient numbers of highly qualified employees are necessary to perform our supervisory duties effectively. Filling vacancies is difficult in the present labour market. Finding good new employees is a challenge with a view to the expansion of our supervision to include non-PIE audit firms and the additional supervisory duties entailed by the new pension system. Where possible, processes are designed to be more efficient, for instance by means of automated workflow technologies.

Data management and governance

The transition to becoming a data-driven supervisor, in combination with privacy requirements and security requirements, necessitates further expansion



of data management processes. The organisation will require time to appropriately design and embed data management. A working group was however launched in 2021 that checks the contact details of institutions for CRM. Those checks are also used in the levy process.

Information security

The risk of a cyber-attack is undiminished and remains high. We therefore periodically test our information security. The security and continuity of the IT infrastructure were improved in 2021 by outsourcing our IT services. Legacy systems were purged and a specialised Security Operations Center (SOC) monitors the cyber-security domain.

The focus on information security is an ongoing process. We therefore urge employees to remain continually alert to any suspicious circumstances such as phishing emails, and several times a year, the AFM has the security measures tested by independent (external) cyber-security experts. We use the outcomes of these reviews to minimise the potential risk and impact of cyber-incidents.

Privacy

The AFM processes personal data for its supervisory duties and for its own operations. The privacy rules are periodically tested. A project to embed various privacy measures in the organisation was started in 2021. This includes updating the privacy policy and guidelines for our employees, and for others.

In 2021, 21 incidents relating to personal data were examined. None of the incidents needed to be reported to the Dutch Data Protection Authority (*Autoriteit Persoonsgegevens*).

Business continuity management

Participants in the emergency response organisation were trained in 2021 and drills took place for multiple scenarios. The AFM also took part in the nationwide cyber-exercise ISIDOOR, organised by the National Cyber Security Centre.

As in 2020, the AFM ensured that all employees could continue working effectively and safely during the coronavirus crisis and that the continuity of its operations was not disrupted. The office has been adapted to the 1.5 metres social distancing requirement and hybrid working (from home of from the office) has become the new standard. The occupancy levels at the office are monitored daily and the safe maximum number of employees in the office was not exceeded during the various coronavirus phases.

A BCM audit performed by the internal audit department showed that the organisation is managing to move effectively in sync with both upscaling and downscaling of COVID-19 measures.

09

Organisation and management





Report of the Supervisory Board

The year 2021 was an eventful year and was again dominated by the coronavirus. The uncertainties around the pace of economic recovery remain. Further examples of external developments that impact the AFM's supervision include the overheating of the housing market and the stock markets, the persistent low interest rates, the increasing digitalisation as well as climate goals.

The AFM worked hard in 2021 on preparations for pensions supervision when the new pensions system takes effect in 2027. The transition to the new system in the coming years will be an extensive and complicated process. The implementation of the Uniform Recovery Framework for Interest-rate Derivatives (*Uniform Herstellkader Rentederivaten*, UHK) was completed in mid-2021. This represented a major milestone. Partly on the recommendation of the Board, the AFM proactively shared its reflections on the conduct of the UHK.

The Executive Board and the Supervisory Board would like to thank all employees for the way in which they performed and the commitment to the AFM's work they demonstrated in 2021. This again called for great resilience, persistence and additional effort this year. The year 2022 will present new challenges and the Supervisory Board has every confidence that these will be met vigorously.

Activities

Procedure

A top 10 of priorities is defined each year. The Executive Board informs the Supervisory Board about the progress on these priorities in its memorandum to the Supervisory Board. This does not only provide information on substantive progress; rather, it specifically also discusses dilemmas, risks or concerns. That enables the Supervisory Board both to fulfil its sounding-board role in an effective manner and to assess the way in which the Executive Board implements the strategy. Specific strategic supervisory topics are also placed on the agenda for each meeting, with the aim of conducting a discussion on the main current issues.

Priorities and strategic topics

On several occasions in 2021, the Supervisory Board discussed the new pensions system, and specifically the role of the AFM, which is being given new supervisory duties. The Pensions Transition programme has been started up, which has both an external (preparing the sector) and an internal focus

(preparing the internal organisation). The Supervisory Board is already involved at an early stage to enable it to provide timely and specific input on issues such as how much guidance is to be provided or how compliance is to be monitored. In the Supervisory Board's opinion, acting jointly with the sector and other relevant stakeholders on this important subject in this preparatory phase is essential.

The AFM's supervision is becoming increasingly data driven, with the aim of enhancing its effectiveness and efficiency. The data-driven supervision aids the AFM in identifying risks even sooner and thereby delivering more pro-active supervision. The focus is now on embedding this way of working in the organisation. The Supervisory Board is informed of progress and acts as a critical sounding board for implementation in the organisation.

The Executive Board actively involved the Supervisory Board in the Revision of the View of Duty of Care (*Herijking Visie Zorgplicht*) programme. The Supervisory Board was given insight into the topic of duty of care in the management phase on the basis of a number of case studies. The Supervisory Board provided active input and this ultimately led to the publication of principles. The Supervisory Board also worked hard on a uniform supervisory methodology for the supervision of financial services.

Progress on the supervision of Audit Firms was discussed, in particular the preparations for the practical supervision of the audit firms with a regular licence that are subject to the AFM's supervision as from 2022. The Supervisory Board was informed of the outcomes of the reviews that were performed, including the review of the quality of statutory audits at PIE audit firms. Jointly with the Executive Board, the Supervisory Board discussed the appropriate tone in communications on these important reviews.

Sustainable financing impacts almost all aspects of the AFM: reporting, trading venues, green bonds, benchmark managers, asset managers, investment



firms, insurers and credit providers. Together with the Executive Board, the Supervisory Board considered this strongly growing market and the role of the AFM in this connection.

The Supervisory Board has taken appreciative note of the survey carried out into the financial vulnerability of Dutch citizens with a non-Western migration background and the correlation with access to financial services. For 2022, jointly with the Executive Board, the Supervisory Board aims to actively review the AFM's role in the public dialogue on broadly distributed prosperity.

The Supervisory Board has taken note of the conclusions of the non-departmental public body (NDPB) evaluation assessment performed by KWINK group for the Ministry of Finance. This evaluation sought to obtain insight into the effectiveness and efficiency of the execution of its duties by the AFM in the period 2016-2020. The Supervisory Board has discussed the conclusions and recommendations with the Executive Board. In the Supervisory Board's opinion, this is an accurate assessment as well as a pleasing result. With regard to the recommendations, the Supervisory Board considers collaboration with other supervisors to be important and will return to this topic in 2022 for discussion with the Executive Board.

During the annual offsite meeting, the Supervisory Board discussed the added value of algo-trading for supervision with the Executive Board. Various external experts stimulated debate and provided valuable insights. In addition, the Supervisory Board deliberately brought in the outside world by arranging for sharing of examples of data-driven working methods in the financial sector.

Besides the matters mentioned above, the Supervisory Board was also informed in 2021 about the evaluation of the capital markets supervision, the learning points from the GameStop case and the legal reporting.

Business operations

The Supervisory Board assessed the regular financial reporting in 2021. It also approved the 'Agenda 2022' (including budget). The Board also signed the engagement of the external auditor of the National Audit Service (*Auditdienst Rijk*, ADR) and approved the appointment of the certifying auditor. With regard to operations, the Supervisory was also regularly informed of the progress of the improvement

process for the levies, recognition and remuneration, the IT outsourcing and the AFM pension scheme.

Governance and compliance

In 2021, the Supervisory Board approved the mandate regulations. All current regulations and rules are available on the AFM's website.

At each meeting, the Supervisory Board reviewed the register of ancillary positions with the compliance officer in attendance. It also assessed various ancillary positions on the basis of the applicable test framework. In addition, the periodic reports of Compliance & Integrity were discussed.

Departures and appointments of members of the Executive Board and members of the Supervisory Board

The composition of the Executive Board under the articles of association and the Supervisory Board did not change in 2021. With effect from 1 May 2021, Linda Sas took up her position as successor to Ellen van Schoten as Internal Operations Director (formerly COO).

Appointments and Remuneration Committee

The Appointments and Remuneration Committee received extensive information about the proposed changes to AFM's system for 'recognition and remuneration' and acted as sounding board. It strongly supports discontinuing the linkage between recognition and remuneration and pursuing continual dialogue between the employee and the manager. Succession planning was also discussed in the Appointments and Remuneration Committee. Specifically, ways in which to ensure that the group of employees who have been with the AFM for a long time can continue to develop were discussed.

Audit Committee

The Audit Committee extensively discussed the progress of the IT outsourcing with the Executive Board in 2021. The Audit Committee was informed on the progress, issues and risks in regular reports. The transfer to Cegeka was completed in 2021. While IT continues to require enhanced attention, the Audit Committee also requests attention for the internal discipline in appropriately filling the systems.

The strengthening of risk management was continued in 2021. The principal operational risks were identified and the aim for 2022 is to further integrate the operational risk management in the AFM's planning and control cycle. The Internal



Audit Service (IAS) prepared several audit reports for the committee's agenda, and the audit committee approved the annual plan and the charter for the IAS. The capacity of the IAS was less than usual in the second half of 2021 owing to staff turnover and the temporary absence of the head of the IAS. The Audit Committee conducted consultations on this with the Executive Board. Arrangements were made for the temporary coordination of the team. Owing to the absence of the head of the IAS, the Audit Committee did not hold a separate meeting with the head of the IAS this year. The Supervisory Board held separate discussions with the external auditor without the Executive Board being present. The audit committee prepared for these discussions. The issues raised included IT automation, levies, experiences with the performance of the external audit and a number of specific audit findings.

Permanent education and the provision of information

The Supervisory Board continued to engage with stakeholders in 2021 and spoke with a number of relevant umbrella organisations. In those talks, the Supervisory Board considered the future developments in the market and their effects on the AFM. This is an important source of information for the Supervisory Board in assessing whether there are gaps in connection with which the AFM can or should play a role. That was also the reason why the Supervisory Board considered, in the permanent education session, a number of developments that will impact the AFM's supervision in the years ahead.

The European *Digital Finance Strategy* will impact the AFM's supervision. In particular, the regulations of the Digital Operational Resilience Act (DORA) and MiCAR lead to additional supervision. DORA sets requirements for financial organisations concerning IT risk management, IT incidents, periodic testing of digital resilience and risk management in connection with outsourcing to (critical) third parties. With the introduction of MiCAR, part of the cryptos will be subject to supervision. The Supervisory Board has obtained insight into the dilemmas that this Digital Finance Strategy will entail. The Supervisory Board will continue the talks on this in 2022, including those with the various stakeholders. The European playing field analysis was also discussed and the Supervisory Board received information on retail investing.

Members of the Supervisory Board attend consultative meetings with the Works Council twice a year. The Board meets with the Ministry of Finance

twice a year on the basis of a fixed consultation structure. Lastly, the Supervisory Board spoke with the Supervisory Board of the Dutch Central Bank DNB, on topics including cooperation between the AFM and DNB.

Evaluation of the Supervisory Board and the Executive Board

Following up on the 2020 evaluation, the Supervisory Board and the Executive Board made room early in 2021 to invest in closer acquaintance and deeper connectivity between them. The topics that the Supervisory Board wanted to discuss and the role that was required of the Supervisory Board were also looked at closely.

At the end of 2021, the Supervisory Board conducted the annual evaluation, without external guidance this time. The results were discussed by the Supervisory Board and the Executive Board. The relationship between the Supervisory Board and the Executive Board is good. The Supervisory Board is involved in a timely manner on far-reaching resolutions. The Supervisory Board also notes that the composition of both the Supervisory Board and the Executive Board is adequate and sufficiently complementary. In 2022, the Supervisory Board aims to receive input not only from external stakeholders but also from the internal organisation. Further, the Supervisory Board identified four topics that it will prepare and will discuss with the Executive Board.

The Supervisory Board is of the opinion that the Executive Board's performance is good and that it performs its tasks satisfactorily. The evaluation of the individual members of the Executive Board and of the Executive Board as a whole was carried out at the beginning of 2021. Input for this was obtained from (among others) department heads, fellow directors and the Supervisory Board. The Supervisory Board subsequently held individual interviews with Executive Board members, covering both areas of development and necessary training.

Meetings of the Supervisory Board and its committees, and attendance of Board members

- The Supervisory Board met on seven occasions in 2021, on one occasion without the Executive Board being present. There was one further discussion by conference call or digital connection when this was necessary. The meetings took place both in digital and in physical form. Supervisory Board members Van Dolen and De Jong did not attend one of these meetings. Their attendance



rate was therefore 86%. Supervisory Board member Voetelink did not attend two of these meetings and his attendance rate was therefore 72%. In addition, Supervisory Board member Van Dolen did not attend the PE session.

- The audit committee held three regular meetings in 2021. The regular meetings were attended by all committee members. The meetings took place both in digital and in physical form. The meetings were held in the presence of the Chair of the Executive Board, the Internal Operations Director (BIB), the Head of Planning, Control and Finance, and a delegation from the Internal Audit Service. The external auditor from the Government Audit Department (*Auditdienst Rijk*, ADR) attended the meetings at which the financial statements, the budget, the management letter and the confirmation of engagement of the ADR were discussed.
- The Appointments and Remuneration Committee held two regular meetings during 2021 and also consulted without holding a meeting (by conference call) as necessary. The meetings took place both in digital and in physical form. The regular meetings were attended by all committee members. The meetings were held in the presence of the Chair of the Executive Board and the Head of Human Resources & Facility Services. In recent years, the Committee had comprised three members so as to spread the time required. This proved no longer necessary this year and the number of members of the Committee was therefore reduced to two again.

Independence and conflicting interests

The articles of association state that members of the Supervisory Board must perform their duties independently and not bound by instructions. In the performance of their duties, they must focus on the interests of the Foundation and consider the reputation of the Foundation and its statutory and social tasks and objectives. Any form of conflict of interest must be avoided. This is further defined in the regulation on conflicts of interest. If a member of the Supervisory Board has a direct or indirect personal interest that conflicts with the interests of the AFM, they shall not attend the consultation or decision-making with respect to the matter in question. This did not arise in 2021.

About this report

The Supervisory Board has approved the annual report and the financial statements for 2021. The AFM's external auditor was in attendance during the discussion of the financial statements.

Amsterdam, 10 March 2022

The Supervisory Board of the AFM



Composition Supervisory Board

In 2021 the Supervisory Board consisted of:



Chair
Martin van Rijn

1956, Dutch citizen, first appointed as Chair on 24 May 2019, current term to 24 May 2023, first appointment as member 15 February 2018, ending on 23 May 2019

- Member of the appointments and remuneration committee



Vice-Chair
Willemijn van Dolen

1972, Dutch citizen, first appointed as member on 1 September 2016, reappointed on 1 September 2020, current term until 1 September 2024



Member
Wendy de Jong

1966, Dutch and Canadian citizen, first appointed as member on 15 February 2019, current term until 15 February 2023

- Chair of the audit committee



Member
Rob Langezaal

1958, Dutch citizen, first appointed as member on 1 September 2019, current term until 1 September 2023

- Chair of the appointments and remuneration committee



Member
David Voetelink

1953, Dutch citizen, first appointed as member on 15 July 2019, current term until 15 July 2023

- Member of the audit committee



Composition Executive Board

In 2021 the Executive Board consisted of:



Chair
Laura van Geest

1962, Dutch citizen, first appointed on 1 February 2020, current term until 1 February 2024



Member
Hanzo van Beuzekom

1972, Dutch citizen, first appointed on 1 June 2018, current term until 1 June 2022



Member
Jos Heuvelman

1962, Dutch citizen, first appointed on 1 September 2018, current term until 1 September 2022



Internal Operations Director
(BIB) **Linda Sas**

1972, Dutch citizen, first appointed on 1 May 2021

The portfolio allocation for the Executive Board is shown in the organisational diagram on the website of the AFM. The ancillary positions of members of the Supervisory Board and the Executive Board, as well as the profile descriptions for the Supervisory Board and the Executive Board, are shown on the website of the AFM.



Governance at the AFM

Organisation and management

The AFM is a non-departmental public body (NDPB) with statutory powers for the supervision of conduct in the financial markets. Under the Framework Act for NPDBs, an NDPB is an administrative body of the central government that under or pursuant to legislation is invested with public authority and is not hierarchically subordinate to the Minister. The AFM is a foundation (legal entity) with an Executive Board and a Supervisory Board.

The Supervisory Board supervises the manner in which the Executive Board of the AFM carries out its duties. The Minister of Finance appoints the Executive Board and the members of the Supervisory Board. The Supervisory Board may make non-binding nominations for these appointments.

The Dutch Financial Supervision Act (*Wet op het financieel toezicht*, Wft) contains various provisions regarding the governance of the AFM, including rules for the appointment and remuneration of members of the Executive Board and the Supervisory Board. The Wft also states the duties of the AFM. The governance and these provisions are further elaborated in the articles of association and regulations of the AFM.

AFM Works Council

The key themes of the year 2021 for the Works Council were two important projects within the AFM, i.e. the new Recognition & Remuneration that is proposed within the AFM and Working@AFM, the project that includes our way of location-independent working and employees' vitality.

The Works Council engages in active dialogue with the AFM's Executive Board and HR on these topics. In particular, the Works Council asked for attention for the well-being of the individual employee. In addition, the Works Council conducted talks and advised on reorganising the supervision of audit firms. In this advisory process, the Works Council especially requested attention for the adequate implementation of the proposed changes and for whether the objective targeted in advance will be achieved.

The Works Council conducted ongoing consultations throughout 2021 on the AFM pension. A future-proof pension is on the agenda again in 2022. Lastly, the Works Council also continually fulfilled its signalling function, for instance with regard to the IT facilities.

In 2021, the Works Council completed four requests for advice and requests for consent:

- Reorganisation of supervision of audit firms
- Privacy statement
- Change in sickness absence management
- Policy on smoking

Corporate Governance Code

As far as possible and relevant, the AFM fulfils the same governance requirements as those applying to listed companies subject to its supervision. The AFM accordingly voluntarily complies with the Dutch Corporate Governance Code ('the Code').

Dutch listed companies are expected to report in 2022 on their compliance with the Code in 2021. For its analogous reporting on compliance with the Code in 2021, the AFM has prepared an overview of all the provisions in the Code that are applied within its organisation. This overview, the Corporate Governance Code Matrix, also shows the provisions that apply only partially or do not apply because the AFM is a non-departmental public body (NDPB) with the form of a foundation. For instance, provisions in the Code that apply to supervisory boards are in the AFM's case applied by analogy to the Supervisory Board. This matrix is published on the website of the AFM.

Best practice provision 2.1.6 of the Code states that the corporate governance statement contains a report on the application of a diversity policy. The AFM's view with respect to diversity is to have an inclusive culture. The formulated objectives are:

1. a diversified composition of the Executive Board and the Supervisory Board;
2. promoting an inclusive culture;
3. increasing external management exposure with respect to inclusivity.

The target figure for gender diversity is 40%. This percentage was achieved for both the Executive Board (including the Internal Operations Director (*Bestuurder Intern Bedrijf*, BIB)) and the Supervisory Board in 2021. Additionally, the AFM formulated a vision on diversity and inclusivity. This vision outlines, among other things, where these topics impact the AFM's supervision activities. The view also covers employership (including onboarding at the AFM and decision-making (multiple consideration)).



Compliance & integrity

Compliance and integrity are high priorities for the AFM. Confidence in the AFM will be weakened if its employees are involved in unethical behaviour, either intentionally or otherwise. In its capacity as the supervisory authority for the financial markets, AFM employees have to set an example with respect to integrity.

The organisation as a whole is also expected to set an example in this respect. The position and reputation of the AFM as a supervisory authority can only be assured if we lead the way when it comes to integrity and policy relating to integrity.

We have established a Compliance Charter and appointed compliance officers in order to promote and safeguard compliance and integrity. This assures a direct reporting line to the Chair of the Executive Board and the Chair of the Supervisory Board, as well as access to information and availability of sufficient resources.

The compliance function at the AFM in 2021 consisted of a two compliance officers, with additional support as needed (for example for training, screening and investigations).

Activities in 2021

Many of the activities of the compliance function are regular in nature. The duties include making employees, the Executive Board and the Supervisory Board aware by means such as training courses, informing employees by intranet messages, annual confirmation statements that employees are required to present in which they confirm that they are aware of the obligation to comply with the AFM's Code of Conduct and the associated regulations and consultation sessions (by telephone). There was also monitoring of matters such as personal investment transactions, ancillary activities, invitations and gifts. The Supervisory Board is also advised with respect to ancillary positions and activities of members (or prospective members) of the Supervisory Board and the Executive Board. Besides dealing with individual ancillary positions, the meeting of the Supervisory Board regularly devotes attention to compliance and integrity policy in a wider context.

Besides those regular activities, the efforts were focused on creating *awareness* in relation to the revised code of conduct and the associated regulations of the AFM, which came into effect on

1 January 2021. Attention was drawn to a number of important topics such as personal investment transactions, ancillary positions and behaviour by posting messages and instruction films on the intranet and the AFM website. This led to more questions and reports relating to compliance and integrity matters.

The AFM stimulates an open culture with regard to mistakes, in which all employees feel safe to raise doubts, dilemmas and potential breaches for discussion. Attention was also drawn to this with messages on the intranet and training.

The reporting procedure was also aligned with the new directive (EU) 2019/1937 on the protection of persons who report breaches of Union law, which entered into force on 17 December 2021. The AFM considers it important that reporting can at all times be done swiftly and safely by (current, former as well as future) employees of the AFM, to enable action to be taken. That is why the internal reporting channel has been further expanded and clarified. In addition, in accordance with the law, a new [reporting facility on the website](#) has been set up for persons who have (had) or will shortly have a work-based relationship with the AFM.

Enforcement

The compliance officers of the Compliance, Integrity and Risk management department review integrity signals in accordance with the regulations 'Reporting (suspected) abuses and integrity violations' and 'Integrity assessment and sanctions'. The signals received concerning 2021 related to personal investment transactions, ancillary positions and confidential information.

In principle, each relevant signal leads to an investigation of the facts. Enforcement action is then taken or not, depending on the outcome of this investigation. In 2021, 22 out of the total of 37 reports led to an investigation. In addition, 3 reports from the end of 2020 were investigated and their processing was completed. Further to the outcomes of these 25 investigations of the facts, an entry in the file of the employee concerned was made in 15 cases (this relates to a minor sanction). The other reports that were investigated did not trigger any sanctions.

A large part of the reports that led to an investigation related to compliance with the regulations on personal investments, which apply to all AFM employees in order to avoid any semblance of



insider trading. This mainly concerned administrative errors, such as tardy registration of an investment account and/or performing personal investment transactions without the prior approval of the compliance officer. In almost all cases this concerned personal transactions that, if they had been registered in advance with the compliance officer, were permitted.

In 2021, the number of reports increased compared with previous years. This may be attributable to the activities that have taken place to create greater awareness in relation to the revised code of conduct and the associated regulations of the AFM, which came into effect on 1 January 2021.

Complaints scheme / General Counsel

The AFM and its employees must behave correctly in their treatment of others. If a person believes this is not the case, they may submit a complaint to the General Counsel of the AFM. Complaints are dealt with carefully by the AFM in accordance with its complaints scheme and the General Administrative Law Act (Algemene wet bestuursrecht, or Awb).

In 2021, the General Counsel handled one complaint. This complaint concerned, inter alia, the AFM's policy and external statements and was partly upheld by the General Counsel. Questions and general complaints regarding the policy of the AFM are responded to on the General Counsel's behalf. Complaints regarding institutions subject to supervision are flagged internally in order to support the implementation of our supervision.

Legal proceedings and notes

Objections and appeals

We received 172 objections in 2021, 117% more than in the previous year (2020: 79). Most of the objections (151) were against the levies imposed on the basis of the [The Financial Supervision \(Funding\) Act](#) (*Wet bekostiging financieel toezicht*, Wbft). The objections related to levies for non-recurring supervisory procedures and levies for ongoing supervision.

The other 21 objections were against various decisions, including notices of intention to impose a fine (6), orders for incremental penalty payments (3) and withdrawals or refusals to grant licences (2).

A total of 88 objections were dealt with in 2021. 50 of these were withdrawn, 24 were declared inadmissible, 2 were fully or partially upheld, 11 were declared to be unfounded and 1 was partly allowed. In over 97% of the cases, we made a decision regarding the objection within the statutory allotted period.

Legal proceedings

The total number of legal proceedings instituted declined slightly in 2021 compared to 2020 (27 in 2021 compared to 38 in 2020). Rulings were issued in 27 legal proceedings (provisional rulings, appeals and higher appeals) in 2021. A number of the proceedings also involved legal formation and were fundamental in nature. There were 20 rulings in favour of the AFM, 3 partly in our favour and 4 against in the year under review. The rulings were (generally) favourable to the AFM in more than 79% of the cases. This applies for instance if a ruling requested by an opposing party is rejected, an appeal or a higher appeal by an opposing party is declared to be unfounded, or if the stance of the AFM is generally upheld.

Appeals committee

Before deciding on an objection, we give the interested parties the opportunity to present their arguments orally to the appeals committee. The appeals committee held 7 hearings in 2021. This procedure is only not held if there is no possible reasonable doubt regarding the decision to be taken. If the interested parties state that they do not wish to make use of the right to be heard, no hearing by the appeals committee is held.

The AFM appeals committee, which is not an advisory committee in the sense of Section 7:13 of the General Administrative Law Act, consists of an external Chair, a legal expert from the Legal Affairs department and (in some cases) a representative from the department that prepared for the primary decision that is the subject of the objection. The appeals committee had three external Chairs in 2021: Mr C.O.W. Dubbelman, Ms C.M. Grundmann – Van de Krol and Mr J.A.F. Peters.



Control cycle

The AFM uses a control cycle for internal control and external reporting. This cycle concerns the processes of planning (including strategic planning), implementation, direction and reporting within the financial preconditions. The issue of whether the AFM is 'on track' is assessed based on various interim measurements. Adjustments are made when necessary. External stakeholders are informed as to progress. The AFM gives account of the results and effects of its efforts in its annual report.

Risk management

The Executive Board and management are responsible for the design, existence and operation of a risk management framework. This system includes a risk management process, in which risks are identified that relate to the goals to be achieved, control measures are implemented (if necessary) and the development of risks is monitored. We have integrated and embedded our risk management in our control cycle. This is part of the dialogue between the Executive Board and the department heads with respect to performance. The design of our risk management has been approved by the Supervisory Board and the external auditor.

We distinguish between risks occurring in the market (market risks) and the risks experienced by it as an organisation (operational risks). The specific controls of the key risks are described in the initial sections of this annual report.

The operational risks that have a financial impact on the financial statements are also monitored by means of a system of in-control statements.

Market risks

It is a statutory and social duty of the AFM to supervise conduct in the financial markets. We continually review which conduct can be considered as undesirable and where and how our supervisory capacity can be applied. The key risks are identified in agreement with our stakeholders. These supervisory priorities form part of our 2021 Agenda. Management was actively directed at achieving the results defined in the Agenda during the year. In addition, new developments in the financial markets are monitored and consideration is given to whether adjustments or additions to our strategic objectives would be appropriate.

Operational risks

Operational risks concern all the possible events that could have an impact on our values or the realisation of our goals.

The operational risk management framework was further developed in the organisation in 2021. Risk self-assessments at all departments were carried out by our central risk function. These risk assessments resulted in risk overviews for each portfolio or Executive Board member and a risk overview for the organisation as a whole.

These risk overviews ensure that the prevailing risk overview is confirmed and more accurately defined. The types of risk that have the highest net scores for the AFM are explained further elsewhere in this annual report. Based on the risk overviews from the self-assessment, we considered whether the departmental targets for 2022 needed to be adjusted in order to reduce risk. In the Operational Risk Board, the first, second and third line regularly discuss and issue directions with respect to risks that could affect the AFM's realisation of its objectives.

In-control statement

The in-control statement is one of the ways in which the Executive Board gives account of the quality of the controls in the internal business processes. In particular, the in-control statement focuses on the quality and reliability of the external reporting. In order to arrive at a positive (and well-founded) opinion, a description is provided of the processes and their associated risks and the control measures in place. By signing an in-control statement, the process owners declare that both the design and the operation of the risk control measures are up to standard. Based on the underlying system of in-control statements, the AFM is of the opinion that the systems of internal risk control and controls of the business processes have operated satisfactorily and provide a high level of assurance that the financial reporting is free of material misstatements.



Report on the legitimacy of the financial management

Progress was achieved in 2021 on the chosen pathway to professionalise the procurement function.

The possibilities of the tender module of the procurement system are being used even more effectively and the registration of documents in the contracts module has been significantly improved and as a result the contract files are essentially complete.

Steps were also taken to put in place an automatic linkage between the financial system and the procurement system. This is expected to be completed in the first quarter of 2022.

The procurement process for the European tenders is progressing in a controlled manner. This is partly due to the involvement of the expertise of the Procurement Team in all European tenders.

The support and supervision by the Procurement Team on procurement carried out locally (below the European tendering threshold) has increased, and consequently the process for this procurement flow has improved. The internal approval and signing process for (subsequent) agreements takes place fully digitally now. This is proceeding efficiently. The cooperation between the Procurement Team and the Legal Affairs department is progressing very satisfactorily and was stepped up further in 2021.

The AFM remained well within the government-wide tolerance level (2% of actual costs) for unjustified procurement in 2021. For 2021, this was 0.33%. The professionalisation that has been initiated is bearing fruit and will be continued in the coming years as well.

In 2021 the AFM implemented a programme to optimise and digitalise the levy process for ongoing supervision. The aim of this improvement programme is to ensure that levies are charged correctly, fully and in good time and that a clear audit trail is generated. To this end, analyses were performed that led to adjustments involving both debits and credits with respect to levies for ongoing supervision imposed in previous years. This led to additional income that is part of the operating balance. The operating balance is settled with the sector in accordance with the funding system in the following year. Further details are provided in the financial statements under items 'a. Levies', 'k. Other

receivables, accrued income and prepaid expenses' and 'o. Operating balance to be settled'.

Audit

The AFM's financial statements are audited by an external auditor. In line with the provision of Section 7 (2) of the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*), this auditor is not subject to supervision by the AFM. The Government Audit Department (*Auditdienst Rijk, ADR*) that carries out the internal audit function for various ministries, including the Ministry of Finance, was selected.

Since the ADR, like the AFM, falls under the Ministry of Finance, the Ministry has taken specific measures with respect to the audit of the AFM to ensure independence. The audit is conducted by an auditor who is not involved in issues that are in any way related to the AFM as a result of his position at the ADR or his responsibility for work at the ADR for other clients.

AFM funding

Laws and regulations on funding of financial supervision

Financial enterprises that are subject to supervision pay for the costs for this, as provided for in the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht, Wbt*).

The Financial Supervision (Funding) Decree (*Besluit bekostiging financieel toezicht, Bbt*) stipulates, among other things, how the budgeted costs of supervision are to be allocated between 16 different categories. In principle, the percentage share per category is determined once every 5 years by the Ministers of Finance and of Social Affairs and Employment. The percentage shares are determined on the basis of registered hours in supervision (and support of supervision) on supervision codes. These hours recorded are allocated annually to the various categories. The average of the 3 preceding years and an estimate of changes in supervisory efforts for the next 2 years are used to determine the percentage shares.

The charges for ongoing supervision in any year to be rebilled are determined by the budget for that year plus or minus the operating balance of the previous year minus the budgeted income for non-recurring



procedures. Non-recurring procedures are settled on a cost-effective basis

The charges for ongoing supervision are allocated across the 16 categories in accordance with the percentage shares that have been determined. The annual charges are determined by the Ministers of Finance and of Social Affairs and Employment in the Financial Supervision (Funding) Regulation (*Regeling bekostiging financieel toezicht*), partly on the basis of the size of the population of enterprises per category and the measures used to determine the contribution to the costs of supervision per enterprise. The Act, the Decree and the annual Financial Supervision (Funding) Regulation can be viewed via [the AFM website](#). You will also find a contribution there that provides context on the costs of the AFM.

Changes in costs of supervision

The AFM budgets costs by cost types and by supervisory areas. The AFM's supervision is risk driven and often conducted by means of thematic reviews. Various disciplines, often from different departments, contribute to this supervision. Accordingly, hours are recorded by supervisors and support staff, on the basis of which the percentage shares in the costs are ultimately determined.

The changes in the costs of the AFM are determined on a multi-year basis in a cost framework defined by the Ministers of Finance and of Social Affairs and Employment. The [current cost framework](#) covers the years 2021 to the end of 2024 and is as follows.

Table 6: cost framework

AFM cost framework 2021–2024 (in millions)	2020	2021	2022	2023	2024
Base amount (starting point = 2020 budget)	106.2	105.9	105.9	105.9	105.9
Known expansion of tasks		3.0	4.6	6.1	7.1
Strengthening data-driven supervision		3.5	3.5	-	3.0
Savings		1.7-	3.1-	-	3.7-
New base amount		110.7	110.9	112.1	112.3
Remit		0.4-	0.8-	1.2-	1.6-
Wage adjustments*		0.8	2.1	3.5	4.9
Price adjustments*		0.6	1.3	1.9	2.5
Budget framework		111.7	113.5	116.2	118.1
Cost item for contingencies		1.5	2.0	3.0	4.0
Multi-year framework		113.2	115.5	119.2	122.1

* An increase of 1.9% was assumed for wage and price adjustments for 2023–2024

The basic amount in the 2021–2024 cost framework is the 2020 budget, geared to the AFM's statutory duties. The increase in the supervision costs in the current cost framework relates to known additions to our supervisory duties, particularly for the supervision of audit firms and the supervision of the capital markets, pensions and financial and economic crime. These duties are allocated to the AFM by the government and in part arise from European legislation and regulations.

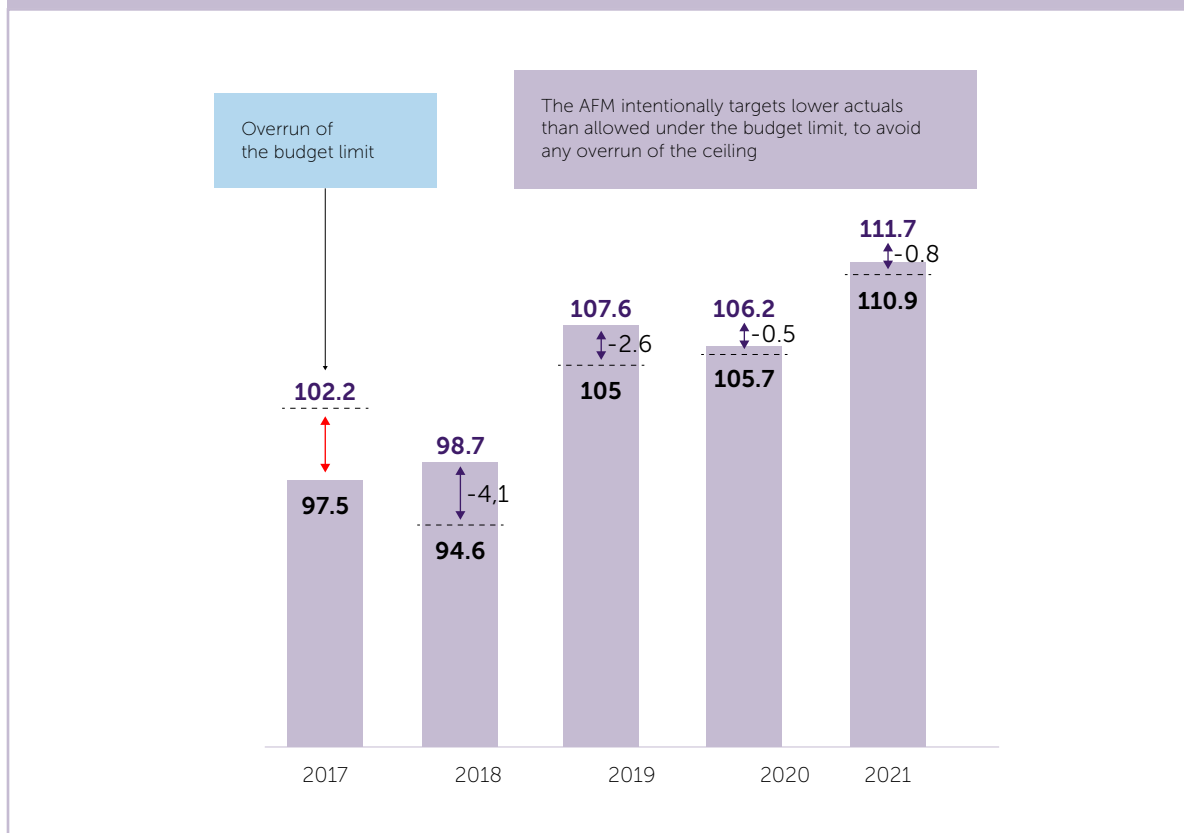
In addition, scope for investment has been defined to strengthen data-driven supervision. The increase in the supervision costs is partly offset by savings and an imposed remit. These are implemented during

the cost framework period by prioritisation in the execution of the existing range of duties and by increased operational efficiency.

The wage and price adjustment is determined annually on the basis of price indexes of Statistics Netherlands and the Netherlands Bureau for Economic Policy Analysis (*Centraal Planbureau*, CPB). Lastly, an item for contingencies is included for unforeseen developments. This was not utilised in 2021 and can only be used on the basis of a substantiated proposal from the Executive Board that has been approved by the Supervisory Board and that is known to the Ministry of Finance.



Figure 10: Developments in the budget framework 2017–2021 compared to actual figures (in millions of euros)

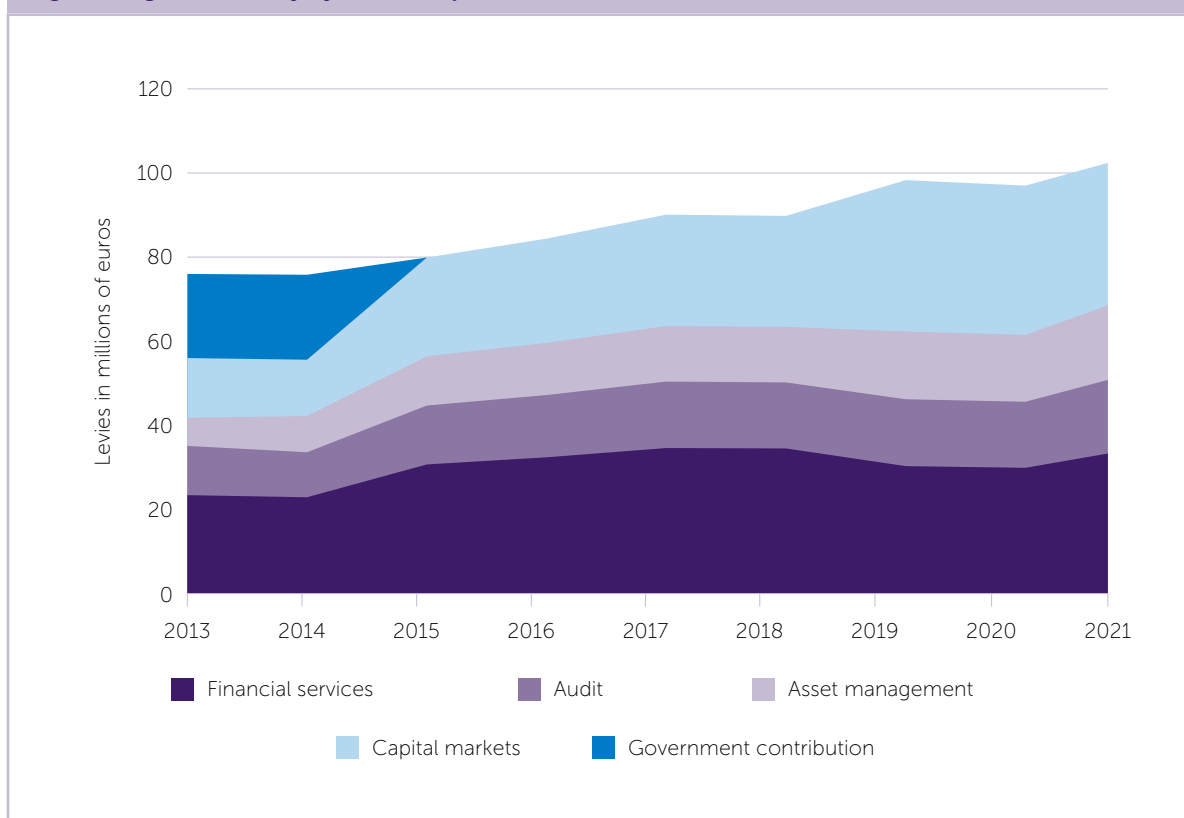


The figure above shows the multi-year trend in actual supervision costs, compared with the agreed budget limit for the years concerned. In recent years, the budget has been at the same level as the cost framework (excluding the item for contingencies as from 2021 which has not been budgeted). The significant increase in the budget in 2019 is attributable to the €7.7 million increase in the cost framework to enable us to prepare for the expansion of the supervision of the capital markets owing to the Brexit. Including the wage and price adjustment, the budget limit for 2021 was €111.7 million.

The figure shows that the AFM has always operated within the budget and the cost framework since 2018.

Charging of costs in levies for ongoing supervision

The chart below shows the costs charged to institutions subject to supervision by supervisory area. The 16 levy categories fall under these areas. Some categories cannot be clearly assigned to a supervisory area. While this is therefore a rough classification, it does depict the general development for each supervisory area.


Figure 11: growth in levy by area of supervision


Overall, there was a significant increase in levies in 2015. This was attributable to the discontinuation of the government contribution of some €20 million. It should be noted that cost increases do not by default lead to an increase in the levies per institution. This depends on the category to which the costs are assigned, the development of the population within it, the rates determined annually and the measures used to determine the contribution to the costs of supervision.

Financial services

Levies for financial service providers have remained more or less stable, edging down as from 2019. Supervision was tightened following the financial crisis and subsequently stabilised.

Audit firms

Levies have increased slightly for audit firms. This is attributable to the quality improvement in the sector, which was initially slow to get off the ground and necessitated an intensification of supervision. The costs are set to rise in the years ahead due to the expansion and intensification of supervision decided on by the government.

Asset management

The increase in the levies relating to asset management is attributable to new packages of legislation, including the AIFMD.

Capital markets

Far-reaching developments have taken place concerning capital markets (e.g. the financial crisis, CMU and Brexit). A great deal of new European legislation (such as EMIR, MIFID II) was drawn up in response to the financial crisis and the decision to proceed to a single capital market in Europe. In addition, Brexit has driven a sharp increase in supervision costs since 2019. Lastly, the transition to data-driven supervision, whether voluntary or EU-mandated, has caused an increase in supervision costs and the levies.

10

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Statement of income and expenditure

for the years ending on 31 December

(Figures in EUR x 1,000)		2021	Budget 2021	2020
Income				
Levies	a.	117,266	111,169	104,116
Fines	b.	1,222	-	4,592
Orders for incremental penalty payments	b.	7	-	304
Government contributions	c.	445	580	389
Total income		118,940	111,750	109,401
Expenses				
Employee expenses	d.	84,163	88,896	85,632
Depreciation costs on non-current assets	e.	1,262	1,350	1,211
Other operating expenses	f.	25,528	21,523	18,874
Total expense		110,954	111,770	105,717
Financial income and expense	g.	- 17	- 20	- 14
Total expenditure	h.	110,936	111,750	105,703
Operating balance	o.	8,004	-	3,698



Balance sheet

at 31 December

(Figures in EUR x 1,000)		2021	2020
Assets			
Non-current assets			
<i>Property, plant and equipment</i>			
Rebuilding	i.	2,029	1,853
Inventory		679	1,040
Computer equipment & software		369	772
		3,077	3,665
<i>Financial non-current assets</i>			
Rental guarantee account	n.	688	688
		688	688
		3,765	4,353
Current assets			
<i>Receivables</i>			
Debtors	j.	14,893	20,794
Other receivables, accrued income and prepaid expenses	k.	5,584	11,624
		20,476	32,419
<i>Cash and cash equivalents</i>			
Cash and cash equivalents	l.	3,583	117
		3,583	117
		24,059	32,536
Sum total		27,824	36,889
Liabilities			
Provisions	m.	3,877	3,874
Current liabilities (up to 1 year)			
Current account Ministry of Finance	n.	-	16,823
Still due (repayable) to Ministry of Finance	n.	135	42
Operating balance to be settled	o.	8,777	3,169
Creditors		2,889	2,256
Tax and social insurance contributions		4,310	4,087
Other payables and accruals	p.	7,835	6,640
		23,947	33,015
Total		27,824	36,889



Statement of cash flow

for the years ending on 31 December

(Figures in EUR x 1,000)		2021	2020
Cash flow from operating activities			
Operating balance		8,004	3,698
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	e, i.	1,262	1,211
Divestments of property, plant and equipment	i.	65	-
Movement in provisions	m.	3	1,241
		1,330	2,452
<i>Increase (-/-) / decrease in working capital</i>			
Current receivables		11,942	1,440
Current liabilities		- 14,677	- 5,813
		- 2,734	- 4,374
Payment of fines and orders for incremental penalty payments due to the State according to Section 11 of the Financial Supervision (Funding) Act (Wet bekostiging financieel toezicht, or Wbft)		- 2,396	- 721
Cash flow from operating activities		4,204	1,054
Cash flow from investment activities			
Investments in property, plant and equipment	i.	- 739	- 946
Cash flow from investment activities		- 739	- 946
Net cash flow		3,466	109
Closing balance 31 December	l.	3,583	117
Less: opening balance 1 January	l.	117	9
Movement in cash and cash equivalents		3,466	109



Notes

General

The Dutch Authority for the Financial Markets is a foundation with its registered office at Amsterdam and is registered at the Chamber of Commerce under number 41207759.

As stated in the Non-Departmental Public Bodies Framework Act, the AFM's financial statements are as far as possible presented in accordance with Title 9 Book 2 of the Dutch Civil Code (*Burgerlijke Wetboek*, hereinafter: 'BW'). Instances where the provisions of Title 9 Book 2 BW are not followed are explicitly disclosed. The AFM's financial statements must in addition meet the requirements of the Financial Supervision (Funding) Act (*Wet bevestiging financieel toezicht*, or 'Wbft') and the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*, or 'WNT').

All figures in these financial statements are stated in thousands of euros, unless otherwise stated. The figures in the tables are rounded, which may result in rounding differences.

Accounting policies

Income and expenditure are allocated to the financial year to which they relate.

The AFM's costs are mainly covered by income from annual levies raised from the companies subject to its supervision. Its income also includes fixed sums linked to the processing of applications and registrations (non-recurring procedures) and government contributions for BES supervision. The AFM also has the power to impose fines and orders for incremental penalty payments.

In cases where an objection, appeal or higher appeal against a levy imposed is upheld, the amount to be repaid is deducted from the income from levies.

Income from fines and orders for incremental penalty payments is recognised as income once the following two facts apply: (a) they are declared irrevocable and (b) the AFM has actually received the amounts

imposed. In this respect, the AFM deviates from the provisions of Title 9 Book 2 BW. Section 8 of the Financial Supervision (Funding) Act (*Wet bevestiging financieel toezicht*, or *Wbft*) states that income from fines and orders for incremental penalty payments in excess of €2.5 million accrue to the State. Realised income of up to €2.5 million is set off against the levy for ongoing supervision in the subsequent year. See the note to letter o. 'operating balance to be settled'.

The AFM is exempt from value-added tax for the performance of its statutory duties. The AFM is not automatically exempt from corporate income tax. The AFM carried out an analysis of its activities in 2021, which revealed that the vast majority of its activities were not subject to corporate income tax, as was the case in previous years. Based on this analysis, the AFM submitted a request to the Tax & Customs Administration to not submit a corporate income tax return form for the 2021 financial year. This request was honoured by the Tax & Customs Administration.

Accounting policies in the statement of financial position

Assets and liabilities are measured at nominal value, unless otherwise stated.

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition and is depreciated over the estimated economic life on a straight-line basis.

The following terms are generally used for depreciation:

- five years for inventory;
- three years for computer equipment and software;
- rebuilding: the remaining term of the lease.

Current assets

The measurement of the 'debtors' item takes account of the risk of inability to collect.

The item 'provision for the risk of inability to collect' for levies is determined using the static method. The percentage of levies for which no payment had been received within 12 months was unchanged in 2021 at 0.225%.



As reported under 'Accounting Policies', income from fines and orders for incremental penalty payments is recognised as income once the following two facts apply: (a) they are declared irrevocable and (b) the AFM has actually received the amounts imposed. Payments due and irrevocable are therefore recognised under 'provision for risk of inability to collect' until these are actually received by the AFM.

Provisions

Provisions are measured at nominal value, with the exception of the provision for transitional arrangements for employees, which is carried at current value.

In accordance with RJ 271, the AFM forms provisions for transitional arrangements in relation to employment benefits.

Pension scheme

The AFM placed its pension scheme with the pension provider 'De Nationale APF' (DNA) on 1 January 2018. The accrued pension entitlements of the scheme members are placed in a specific (separate) AFM scheme.

The main features of the pension scheme and the administration agreement are as follows:

- A collective defined contribution (CDC) pension scheme.
- Pension accrual based on a conditional average pay system (target pension accrual) and pension entitlements are (conditionally) indexed if indexation can be funded from the investment returns and the contribution and indexation deposit in the AFM scheme.
- The pension contribution of 25% of the uncapped total salary (the fixed pension contribution) is charged to the AFM annually.
- DNA calculates a cost-effective pension contribution annually. The positive difference between the fixed pension contribution and the cost-effective pension contribution necessary to achieve the target pension accrual is paid into a contribution and indexation deposit in the AFM scheme. This is for both indexation and equalisation. If the cost-effective pension contribution is higher than the fixed pension contribution, the target pension accrual in the year in question is reduced so that the cost-effective pension contribution equals the fixed pension contribution.

- For active scheme members in service on 31-12-2015, a transitional measure applies whereby a single contribution is charged for the period from 2016 to the end of 2025 for the unconditional indexation of their pension entitlements.
- This unconditional indexation is limited to the annual wage index with a cap at 1.5%.

Discount rate for provision for transitional arrangements for employees

- -0.39% (based on an average term of 1.3 years and on the 'Nominal interest-rate term structure for pension funds (zero coupon)' from De Nederlandsche Bank (DNB).

Wage inflation (only for the calculation of transitional arrangements for employees):

- 1.50%

The following principles apply for the Pension Ruling provision:

- Number of active scheme members on 31/12/2015: 612.
- Average turnover rate 2016-2020: 11.57%.
- Turnover rate in 2021: 8%.
- Life expectancy table: Actuarial Association (AA) 2018.
- The indexation principles for the AFM scheme with DNA.

Retirement age:

- The standard retirement age is 68 years.

Principles for the statement of cash flow

The cash flow statement is prepared using the indirect method.



Notes to the statement of income and expenditure

(figures in € x 1,000, unless indicated otherwise)

General

The operating surplus in 2021 came to €8.0 million, and is the net result of lower expenditure (-€0.8 million) and higher income (€7.2 million) than estimated. Lower expenses were due to lower employee expenses (-€4.7 million), lower costs of amortisation and depreciation (-€0.1 million) and higher other operating expenses (+€4.0 million).

The higher than budgeted income is the result of higher income from levies (+€6.1 million) and unbudgeted income from fines and orders for incremental penalty payments (+€1.2 million) and a lower contribution from the government (-€0.1 million).

a. Levies

The analysis of the income from levies is as follows:

To be levied in 2021					
	A	B	C=A+B		
Actual 2021	Budget 2021	To be settled from 2020 in 2021	Total to be levied in 2021	Actual 2020	
Levies under Wbft					
Levies for ongoing supervision Wbft	106,665	102,493	- 773	101,720	97,134
Levies for non-recurring procedures Wbft	10,590	8,661	-	8,661	6,972
Total Wbft	117,254	111,154	- 773	110,381	104,107
Levies BES					
Total BES	12	16	-	16	10
Total levies	117,266	111,169	- 773	110,397	104,116

For most of the supervision, the activities related to ongoing supervision, or supervision relationship management. The costs of this are covered by annual levies raised from all companies subject to supervision in a particular supervisory category. The levy in any year is based on two components: 1) the amount to be levied in the budget for that year (column A) and 2) the amount to be settled from the previous year (column B). For a proper comparison therefore, the amount to be settled from 2020 is stated as well as the budgeted figure.

The total amount to be levied is divided according to a legally established allocation formula across categories of companies subject to supervision.

Within the supervisory category in question, the AFM divides the sum to be levied via a fixed amount per company and/or a variable charge based on a levy measure. This measure varies per supervisory category and is usually related to the size of the individual company. Levy measures include variables such as: number of FTE, total balance sheet and average market capitalisation.

Levy income of €117.3 million was realised in 2021. This is €6.9 million higher than the amount to be levied of €110.4 million. The higher income consists of an increase of €4.9 million in income from ongoing supervision and an increase of €1.9 million in income from non-recurring procedures. Differences



between the sums to be levied and actual receipts from supervisory categories normally arise from unforeseen changes in the population of companies subject to supervision and the fact that the measures used to set the levy may differ from the values used to calculate the rates. An additional specific factor in 2021 concerned the levy improvement programme,

With the AFM's introduction of a programme to optimise and digitalise the levy process for ongoing supervision. The programme is designed to ensure that levies are charged correctly, fully and in good time and that a clear audit trail is generated. As part of this process, analysis was made that resulted in adjustments to the levies for ongoing supervision charged in previous years (2017-2020), involving both debits and credits. These adjustments from the improvement programme were due to various administrative shortcomings identified in the AFM's registration. On balance, these subsequent levies for 2021 resulted in additional income of 2.9 million. This additional income is part of the operating balance.

The operating balance is settled with the sector in accordance with the funding system.

In cases where the AFM carries out non-recurring supervisory activities for companies subject to supervision, separate charges are made where possible. Examples of this include dealing with licence applications, registrations, exemptions, testing of directors and assessments of public offerings or issue prospectuses. These levy rates are in principle cost-effective and are set by the Minister of Finance and the Minister of Social Affairs and Employment. The €1.9 million additional income from non-recurring procedures was mainly due to a combination of higher income from supervision of prospectuses and lower income from licences.

The income from non-recurring procedures in 2021 was €3.6 million higher than the actual figure in 2020. This was mainly due to higher income from supervision of prospectuses and public offerings.

b. Fines and orders for incremental penalty payments

The analysis of fines and orders for incremental penalty payments is as follows:

	2021	Begroting 2021	2020
Fines and orders for incremental penalty payments to be settled with market parties	1,229	-	2,500
Fines and orders for incremental penalty payments due to the State	-	-	2,396
Total fines and orders for incremental penalty payments	1,229	-	4,896

Under Section 8 Wbft, the AFM has to pay income from fines and orders for incremental penalty payments in excess of €2.5 million in any year to the State. Since this income was below this level in 2021, all the proceeds of €1.2 million will be paid to

the companies subject to supervision. In the next year, this amount will be settled through the levies for ongoing supervision (see the note o. for the operating balance to be settled).



c. Government contributions

The analysis of the government contributions is as follows:

	2021	Budget 2021	2020
Total BES	445	580	389
Total government contributions	445	580	389

The government reimburses the costs of BES supervision (The Caribbean Netherlands, or Bonaire, Sint Eustatius and Saba) to the extent that these exceed the income from levies. The government

contribution for BES supervision was lower than budgeted in 2021 because no regular supervisory visits to the Caribbean Netherlands took place in the first half of 2021 due to the corona pandemic.

d. Employee expenses

The analysis of employee expenses is as follows:

	2021	Budget 2021	2020
Salaries	58,495	57,021	55,738
Social insurance contributions	6,816	7,501	7,130
Pension costs*	13,257	11,933	14,071
Temporary personnel	3,448	7,985	6,261
Other employee expenses	2,147	4,457	2,431
Total employee expenses	84,163	88,896	85,632

* The pension costs concern the pension contribution paid to 'De Nationale APF' less the personal pension contributions from the AFM employees (net pension contribution) plus the contribution to the Pension Ruling provision. The policy funding ratio at 31 December 2021 of 'De Nationale APF', AFM scheme, is provisionally set at 103.2%. The policy funding ratio at 31 December 2020 was 97.3%.

Employee expenses were €4.7 million below budget. This is the net result of higher salary, social insurance and pension costs (+€2.1 million), lower costs for temporary personnel (-€4.5 million) and lower other employee expenses (-€2.3 million).

Salary, social insurance and pension costs were €2.1 million higher despite the average number of FTE in service (657) being slightly lower than budgeted (665). The higher costs were mainly due to the contribution to the Pension Ruling provision, higher than budgeted allocation of pension indexation, higher expenses for non-recurring payments and an increase in the leave balances because less leave was taken during the corona crisis. The higher expenses were offset by a non-recurring windfall in social insurance contributions.

The expenses for temporary employees were €4.5 million below budget. €2.1 million of this was due to

a shift of budgeted temporary employee costs to IT costs as result of the outsourcing of IT. In addition, an item for unforeseen expenses of €1.0 million was budgeted under temporary employees, but was applied to other costs. Finally, the AFM generally made less use of temporary employees than budgeted, including for the IT project portfolio, the Review of Supervision of Audit Firms and projects at Human Resources.

The other employee expenses were €2.3 million below budget. This was mainly due to lower costs as a result of the corona crisis for commuting costs, training, recruitment & selection and congresses and seminars.

Employee expenses were €1.5 million lower than in 2020 due to higher salary, social insurance and pension costs (+€1.6 million), lower costs for temporary personnel (-€2.8 million) and lower other employee expenses (-€0.3 million).



Collectively, salary, social insurance and pension costs were €1.6 million higher than in 2020, mainly due to higher average salary costs per FTE in employment in combination with a lower contribution to the provision for the Pension Ruling and a non-recurring windfall in social insurance contributions in 2021. The lower costs of temporary personnel (-€2.8 million) were mainly due to less temporary personnel hired for the IT project portfolio and the outsourcing of IT. Other employee expenses were €0.3 million lower, mainly due to lower costs for commuting.

The table below gives a breakdown of the average number of FTE by the various supervisory and other areas. The lower number of FTE including temporary personnel is largely due to a shift in IT change capacity to IT expenses as a result of the outsourcing of IT. In addition, the number of FTE excluding temporary personnel was slightly below budget, chiefly due to limited understaffing at Direct Supervision Support in combination with the transfer of duties from Direct Supervision Support to Financial Services.

	Including temporary personnel			Excluding temporary personnel		
	Actual 2021	Budget 2021	Actual 2020	Actual 2021	Budget 2021	Budget 2020
Financial services	181	178	176	180	173	175
Capital markets	86	86	85	86	84	85
Asset management	39	42	39	38	41	38
Audit	53	56	49	52	51	48
Sub-total Supervision	359	361	349	356	350	346
Direct supervision support	174	184	172	169	180	165
Other departments	146	173	172	132	135	146
Total average number of employees (FTE basis)	680	718	693	657	665	657



Remuneration of the Executive Board and Supervisory Board

As a non-departmental public body (NDPB), under the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*, or WNT) the AFM is obliged to report the remuneration of its directors and certain other officials if applicable. In accordance with Section 4.2 WNT, the AFM has chosen to deviate from reporting in accordance with the BW.

The WNT remuneration cap in 2021 is €209,000.

The Executive Board members Van Geest, Van Beusekom and Heuvelman receive a remuneration in the amount of the current WNT remuneration cap.

The senior officers stated in this report did not receive any payments in the form of bonuses or severance payments in either 2021 or 2021.

The reporting reads as follows:

Figures in EUR		2021					
Senior officers	Position	Days in service	Extent of employment (in FTE)	Rewards	Average pension contribution costs and other remuneration payable over time (*)	Total remuneration according to WNT	
L.B.J. van Geest	Chair	365	1.0	183,592	25,408	209,000	
H.L. van Beusekom	Executive Board member	365	1.0	185,531	23,469	209,000	
J.R. Heuvelman	Executive Board member	365	1.0	183,592	25,408	209,000	
L.E. Sas (in dienst vanaf 1 mei 2021)	Member for Internal Business	245	1.0	110,709	16,825	127,534	



Figures in EUR		2020				
Senior officers	Position	Days in service	Extent of employment (in FTE)	Rewards	Average pension contribution costs and other remuneration payable over time (*)	Total remuneration according to WNT
L.B.J. van Geest (from 1 February 2020)	Chair	335	1.0	163,426	20,550	183,975
H.L. van Beusekom	Executive Board member	366	1.0	178,535	22,465	201,000
J.R. Heuvelman	Executive Board member	366	1.0	178,535	22,465	201,000
G.J. Everts (until 31 December 2020)	Executive Board member	316	1.0	164,349	19,352	183,701
E.M.A. van Schoten (until 31 December 2020)	Chief Operating Officer	366	1.0	166,320	22,465	188,785

* The employer's contribution reported in the pension contribution is a calculated gross average contribution taking account of the Executive Board member's personal contribution. The WNT table thus allows for a direct comparison with the WNT remuneration cap, as this cap is also based on the average contribution system.

Figures in EUR	2021	2020
Supervisory Board	Fixed annual remuneration	Fixed annual remuneration
M.J. van Rijn (temporarily stepped down as Chair from 20 March to 9 July 2020)	31,350	20,924
W.M. van Dolen (member, and Acting Chair from 20 March to 9 July 2020)	20,900	23,175
W.E.M. de Jong	20,900	20,100
R.G.J. Langezaal	20,900	20,100
D.W. Voetelink	20,900	20,100

The WNT states that the annual remuneration for the Chair of the Supervisory Board may not exceed 15% of the WNT remuneration cap. For the other members of the Board, this percentage is set at 10%.

The remuneration levels stated are, in accordance with the provisions of the WNT, stated excluding 21% VAT.



e. Depreciation costs on non-current assets

	2021	Budget 2021	2020
Rebuilding	407	497	269
Inventory	336	394	329
Computer equipment & software	518	460	613
Total depreciation costs on property, plant and equipment	1,262	1,350	1,211

The total depreciation costs on non-current assets in 2021 were in line with the budget. Since work was performed mainly from home due to the corona pandemic, some of the planned investments in premises were postponed. As a result, depreciation on rebuilding works and inventory was somewhat lower

than budgeted. No investment in IT was budgeted for 2021 due to the outsourcing of IT. Since there is still some limited investment in this area, depreciation of computer equipment and software was slightly above budget. Depreciation was slightly higher than in 2020, mainly due to investments in premises.

f. Other operating expenses

	2021	Budget 2021	2020
Premises costs	4,056	4,647	4,124
Consultancy expenses	2,015	2,628	3,966
Incidental expenses change of pension provider	- 135	-	-
IT expenses	16,672	11,567	8,278
General expenses	2,921	2,681	2,507
Total other operating expenses	25,528	21,523	18,874

Other operating expenses came to €25.5 million and were €4.0 million above budget. The excess was due to higher IT expenses (+€5.1 million) and higher general expenses (+€0.2 million) and lower expenses for premises (-€0.6 million) consultancy (-€0.6 million) and a release of part of the provision for the change of pension provider (-€0.1 million).

Premises costs were €0.6 million lower than budgeted due to lower costs for cleaning, maintenance and external meetings, mainly due to the increase in working from home due to the corona pandemic.

Consultancy expenses were €0.6 million below budget, mainly due to lower legal expenses.

IT costs were €5.1 million above budget. €2.1 million of this was due to shift of costs for "hiring of temporary personnel" to "IT expenses" as a result of the outsourcing of IT. The actual increase in IT expenses compared to the budget is therefore

€3.0 million and is due to higher hosting costs and higher costs associated with the transition to the outsourcing of IT.

IT expenses were €8.4 million higher than the actual figure in 2020. This was due to the already noted increase above the budget for 2021 (€5.1 million) and the increase in the budget for 2021 compared to the actual figure in 2020 (€3.3 million). The increase in the budget for 2021 compared to the actual figure in 2020 was due to temporary transition costs in 2021, as well as a shift of internal employee expenses to external outsourcing costs with effect from September 2020.

General expenses were €0.2 million higher than budgeted, partly due to the costs of developing a new website.

Fees for the certifying auditor

The fees for the audit by the certifying auditor are included in the general expenses item.



The analysis of these fees by type is as follows:

	2021	Budget 2021	2020
Fees for audit of the financial statements	210	200	188
Total fees for the external auditor	210	200	188

The fees for the certifying auditor include the estimated costs for the activities relating to the current reporting year.

g. Financial income and expense

	2021	Budget 2021	2020
Interest expense	-	10	-
Interest income	18	30	15
Total financial income and expense	- 17	- 20	- 14

h. Costs of supervision

The table below summarises the total actual costs, the budgeted costs and the costs in the previous financial year, expenses, divided by statutory framework.

	2021	Budget 2021	2020
Total Wbft	110,479	111,154	105,304
Total BES	457	596	399
Total costs of supervision	110,936	111,750	105,703

Under the Wbft, the costs of supervision on the BES Islands (Bonaire, St. Eustace and Saba) pursuant to the BES Islands Financial Markets Act (Wet financiële markten BES, or 'Wfm BES') and the Money Laundering and Terrorism Financing (BES Islands) Act (Wet ter voorkoming van witwassen en

financierien van terrorisme BES, or 'Wwft BES') must be disclosed separately.

The difference between the budgeted and the actual costs are shown in items d to g.



Notes to the statement of financial position

(figures in € x 1,000, unless indicated otherwise)

i. Property, plant and equipment

The development of this item was as follows:

	2021	2020
Balance at 1 January	3,665	3,931
Investments	739	946
Depreciation	- 1,262	- 1,211
Divestments	- 65	-
Balance at 31 December	3,076	3,665
Expiring total of property, plant and equipment written off		
Acquisition value	- 1,688	844
Depreciation	1,688	- 844
Cumulative acquisition value	33,255	34,269
Cumulative depreciation	- 30,178	- 30,604
Carrying amount at 31 December	3,077	3,665

The specification is as follows:

	At 31 December 2020	Investments	Depreciation	Divestments	At 31 December 2021
Rebuilding	1,853	582	- 407	-	2,029
Inventory	1,040	41	- 336	- 65	679
Computer equipment & software	772	116	- 518	-	369
Total property, plant and equipment	3,665	739	- 1,262	- 65	3,077

The item 'rebuilding' concerns capitalised costs of architectural changes to the offices leased by the AFM. The item 'computer equipment & software' concerns capitalised costs of standard hardware and software.



j. Debtors

	2021			
	< 43 days	43-75 days	> 75 days	Sum total
Debtor balances consisting of levies classified by age	10,507	1,221	3,898	15,625
Debtor balances consisting of fines and orders for incremental penalty payments classified by age	175	51	554	779
Provision for risk of inability to collect				- 1,512
Balance of debtors item at 31 December 2021				14,893

	2020			
	< 43 days	43-75 days	> 75 days	Sum total
Debtor balances consisting of levies classified by age	16,124	3,826	1,420	21,370
Debtor balances consisting of fines and orders for incremental penalty payments classified by age	-	-	1,047	1,047
Provision for risk of inability to collect				- 1,622
Balance of debtors item at 31 December 2021				20,794

The above division for classification by age has been chosen because it reflects the collection process. Levies have a payment term of 42 days and are referred for collection if necessary if payments are not made.

The balance of the debtors item in the statement of financial position at year-end 2021 was €5.9 million lower compared to the previous year, as the levies for ongoing supervision were charged earlier

in the year than in 2020, meaning that more levy payments were received during the financial year than was the case in 2020.

The balance of the provision for risk of inability to collect of €1.5 million (2020: €1.6 million) is made up of €0.7 million (2020: €0.6 million) in levies and €0.8 million (2020: €1.0 million) in fines and orders for incremental penalty payments imposed.

k. Current receivables, accrued income and prepaid expenses

	2021	2020
Prepaid rent	192	170
Miscellaneous prepaid expenses	1,786	948
Levies to be invoiced and other items	2,971	9,724
Other prepayments and accrued income	635	782
Balance of current receivables, accrued income and prepaid expenses at 31 December	5,584	11,624

The item 'levies yet to be invoiced and other items' in 2021 of €3.0 million includes €2.0 million in levies

for ongoing supervision yet to be imposed and €0.9 million from non-recurring procedures.



A significant part of the levies for ongoing supervision yet to be imposed originates from the levy procedure improvement programme, amounting to €1.9 million. This amount for the part of the levies for ongoing supervision yet to be invoiced is an estimate by the AFM, based on historical data known to the AFM. This improvement programme was implemented in 2021 in order to optimise and digitalise the procedure for levies for ongoing supervision. The programme is designed to ensure that levies are charged correctly, fully and in good time and that a clear audit trail is generated. This included analysis that led to adjustments

involving both debits and credits with respect to levies for ongoing supervision imposed in previous years. These adjustments from the improvement programme were due to various administrative shortcomings identified in the AFM's registration.

The 'regular' levies for ongoing supervision for 2021 have virtually all been invoiced, as have the 'regular' levies for ongoing supervision yet to be invoiced for 2020. As the backlog in the 'regular' invoicing of levies for ongoing supervision in 2020 has virtually been removed, the item 'levies yet to be invoiced and other items' is substantially lower than in 2020.

I. Cash and cash equivalents

	2021	2020
Current account Rabobank	7	117
Current account Ministry of Finance	3,577	-
Balance of cash at 31 December	3,583	117

m. Provisions

	2021				2020
	< 1 year	1-5 years	> 5 years	Sum total	Sum total
Provision for transitional arrangements employees	21	35	-	56	101
Former Wabb reserve	-	-	279	279	279
Provision for IT strategy	332	485	-	816	1,297
Provision for pension ruling	65	2,661	-	2,726	2,197
Balance of provisions at 31 December	418	3,181	279	3,877	3,874



The development of the provisions was as follows:

	2021	2020
Provision for transitional arrangements employees		
Balance at 1 January	101	134
Interest accrual	- 1	- 1
Revised calculation due to adjustment of various parameters	2	1
Release	- 23	- 20
Paid out	- 23	- 13
Balance at 31 December	56	101
Former Wabb reserve		
Balance at 1 January	279	279
Balance at 31 December	279	279
Provision for IT strategy		
Balance at 1 January	1,297	1,061
Contribution	7	743
Release	- 110	- 187
Used	- 378	- 320
Balance at 31 December	816	1,297
Provision for pension ruling		
Balance at 1 January	2,197	-
Contribution	872	2,197
Paid out	- 342	-
Balance at 31 December	2,726	2,197

The item 'Provision for transitional arrangements for employees' concerns potential or actual claims for compensation for differences in employment benefits of personnel transferring to the AFM as part of a transfer of supervision and rights of employees under an agreed transitional arrangement that are still in force for a limited group of employees.

The 'former Wabb reserve' (Insurance Brokerage Business Act, or *Wet Assurantiebedrijfsbedrijf*) was formed in 2006 from a sum of €0.9 million from the Social and Economic Council (*Sociaal Economische Raad*, or SER). This provision is formed to cover employment law claims made at the time of the transfer of a number of employees of the SER to the AFM on 1 January 2006, in connection with the coming into effect of the Financial Services Act (*Wet financiële*

dienstverlening). Any unused part of this remaining will be repaid to market parties in due course.

The AFM Executive Board established the implementation of the new IT strategy, approved it and communicated to the AFM employees in August 2018. The IT strategy comprised the engagement of an outsourcing partner, the transfer of the management of the AFM's IT applications and IT landscape to an outsourcing partner and the formation of a management organisation at the AFM.

The 'provision for IT strategy' was formed because of the actual obligation that existed as a result of the new IT strategy and concerns the non-recurring costs related to the realisation of this strategy.



The principles of the 'provision for IT strategy' were revised as a result of new information becoming available in 2021. Based on this new information, the estimates and assumptions in relation to the provision for IT strategy made in 2021 were adjusted during the current financial year. Firstly, this led to a net release from the provision of €0.1 million in 2021.

The 'provision for Pension ruling' is formed for a current legal proceeding relating to a difference of opinion regarding the application of the AFM pension scheme on 1 January 2016, and includes the costs of external legal assistance.

The AFM pension scheme was amended on 1 January 2016, with the aim of migrating to a more affordable scheme that was more in line with market practice. Ultimately, some scheme members started legal proceedings against this change, as they felt they would be disproportionately disadvantaged by the change. The AFM's arguments were fully upheld by the sub-district court, after which the scheme members concerned lodged an appeal, which ruled partly against the AFM.

The AFM Executive Board decided to initiate cassation proceedings at the Supreme Court. The Supreme Court is expected to rule on the case in mid-2022.

n. Financial relationship between the AFM and the Ministry of Finance.

This is as follows:

		2021	2020
Current account Ministry of Finance	See point n. Cash and cash equivalents	3,577	-
Current account Ministry of Finance	See balance sheet: Current liabilities	-	- 16,823
Rental guarantee account		688	688
Still due (repayable) to Ministry of Finance		- 135	- 42
		4,129	- 16,177

The Ministry of Finance current account concerns a current account relationship with an overdraft facility agreed with the Ministry of Finance. The overdraft facility at 31 December 2021 was up to €70.0 million. No charge is made for the unused part of the facility.

The rental guarantee account is provided by the Ministry of Finance and serves to cover an ongoing guarantee provided by the Ministry to the lessor of the AFM's office premises in 2018. The guarantee is for €0.7 million, and remains in force from 01-01-2018 to 31-03-2026 (three months after the maturity date of the lease extended on 1 January 2018). This account is recognised under 'Financial non-current assets'.

The item 'Still due (repayable) to Ministry of Finance' relates to the government contribution for BES supervision (Caribbean Netherlands) to be repaid of €0.1 million, and is presented under current liabilities.



o. Operating balance to be settled

	2021	Begroting 2021	2020
Operating balance Wbft to be settled with the market from previous year (A)	773	-	- 528
Levies for ongoing supervision (regular)	103,769	102,493	97,134
Levies for ongoing supervision (adjustments due to incorrect/incomplete levies in the past)	2,895	-	-
Levies for non-recurring procedures	10,590	8,661	6,972
Fines and orders for incremental penalty payments to be settled with market parties	1,229	-	2,500
Fines and orders for incremental penalty payments due to the State	-	-	2,396
Total income Wbft	118,483	111,154	109,002
Total expense Wbft	110,479	111,154	105,304
Operating balance Wbft in current year (B)	8,004	-	3,698
Operating balance Wbft to be settled in following year (=A+B)	8,777	-	3,169
Of which to be settled with the market in following year	8,777	-	773
Of which due to the State	-	-	2,396

A positive sum to be settled means a receivable to market parties and/or the State from the AFM. The operating balance to be settled and the comparative figure are recognised under current liabilities in these financial statements.

Operating differences occur every year due to differences between budgeted and actual expenses and income.

Section 8 Wbft states that the AFM that the AFM will not pay the proceeds of fines and orders for incremental penalty payments amounting to €2.5 million or less per year to the State. This realised income of up to €2.5 million is set off against the levy for ongoing supervision in the subsequent year. The income from fines and orders for incremental penalty payments of €1.2 million in 2021 was below this limit and will be fully set off against the levies for ongoing supervision in the subsequent year.

The amount of €8.8 million under 'to be settled in the subsequent year with the market' will be repaid to the market and is the result of:

1. an amount to be settled from 2020 (+€0.8 million);
2. higher than budgeted income from levies for ongoing supervision (+€1.3 million);
3. higher income from levies for ongoing supervision due to adjustments for incorrect or incomplete levies in the past (+€2.9 million);
4. higher than budgeted income from levies for non-recurring procedures (+€1.9 million);
5. lower than budgeted costs (+€0.7 million);
6. income from fines and orders for incremental penalty payments not budgeted to be settled with the market (+€1.2 million).

The total income for ongoing supervision was €4.9 million higher than the amount to be levied for 2021. This consists of +€0.8 million to be settled from 2020 and +€4.2 million higher than budgeted income in 2021.



Operating balance BES	2021	Budget 2021	2020
Levies	12	16	10
Government contribution BES	445	580	389
Total income	457	596	399
Total expense BES	457	596	399
Operating balance BES	-	-	-

The government pays the costs of BES supervision (Caribbean Netherlands) to the extent that the levy income is not sufficient. The operating difference is therefore nil.

Recapitulation of operating balance to be settled	At 31 December 2021	At 31 December 2020
To be settled with the market in 2022 (2021 respectively)	8,777	773
To be settled with the government in 2022 (2021 respectively)	-	2,396
Balance sheet value of operating balance to be settled at 31 December	8,777	3,169

The proposed appropriation of the operating balance is stated in the appendix 'Other Information'.

p. Other payables and accruals

	2021	2020
Unused vacation days and overtime	3,707	3,260
Liabilities related to pensions	39	3
Non-recurring expenses payable due to switching pension administrator	100	530
Other expenses payable	3,989	2,846
Balance of other payables and accruals and deferred income as at 31 December	7,835	6,640

The item 'unused vacation days and overtime' increased by €0.4 million, because less leave was taken during the corona crisis. The item 'Other costs due' consists mainly of invoices for goods and services not yet received, individual transition-related payments and income from fines imposed that are not yet declared to be irrevocable.

This item was €1.1 million higher at year-end 2021 than at year-end 2020. This was mainly due to the item 'invoices for goods and services not yet received', in which the IT outsourcing component has increased by €0.8 million.

The AFM pension scheme was placed with the pension provider 'De Nationale APF' on 1 January 2018. €0.1 million of the item 'Non-recurring costs payable for transfer to pension provider' concerns purchase invoices not yet received in relation to the transition to the pension provider 'De Nationale APF' and the costs of liquidation of 'Stichting Pensioenfondsen AFM'.



Liabilities not shown in the statement of financial position

Multi-year financial obligations

The liabilities can be specified as follows:

	< 1 year	1-5 years	> 5 years	Sum total
Lease	3,080	9,240	-	12,319
Office equipment	128	101	24	252
Other lease contracts	39	57	-	97
Total liabilities not shown in the statement of financial position	3,247	9,398	24	12,668

A guarantee of €0,7 million was issued to the lessor of the office premises of the AFM on 1 January 2018 in relation to the extended lease that commenced on that date. The guarantee was provided by the Ministry of Finance.

Unrecognised liabilities

Claims for liability

Maatschap QI Collectief (MQIC)

The Maatschap Quality Investments Collectief (MQIC) has appealed against the ruling of the Court of Amsterdam on 22 August 2018, in which a claim of €200 million by MQIC was rejected in the first instance. MQIC is a Belgian partnership that represents mostly Belgian residents who were injured parties as a result of purchasing life settlements products from Quality Investments (QI) between 2007 and 2011. MQIC takes the view that the AFM was seriously deficient in the performance of its supervisory duties with respect to QI and that it acted in contravention of its statutory duty and the standard of care to which it is subject. MQIC argues that the participants represented by MQIC suffered losses as a result, estimated by MQIC at over €193 million. The Court of Amsterdam rejected the claims of MQIC in a ruling on 22 August 2018. MQIC has appealed against this ruling. The oral hearing of the further appeal took place on 29 January 2021, after which the Court postponed the ruling until 1 March 2022.

AFM in appeal in cassation against ruling by the Court of Amsterdam over unilateral application of the AFM pension scheme

The AFM pension scheme was amended on 1 January 2016, with the aim of migrating to a more affordable scheme that was more in line with market practice. Ultimately, some scheme members started legal proceedings against this change, as they felt they would be disproportionately disadvantaged by the change. The AFM's arguments were fully upheld by the sub-district court, after which the scheme members concerned lodged an appeal, which ruled partly against the AFM.

On 4 November 2020, the Court of Appeal at Amsterdam, hereinafter referred to as 'the Court', ruled that the AFM had a substantial interest in unilaterally amending the pension scheme and the related pension agreement. However, the Court also ruled that the amendments made had gone further than permitted on the basis of the ban on impairment of previously accrued claims in Section 20 of the Pensions Act (*Pensioenwet*, or PW).



In the Court's opinion, the following elements of the AFM pension scheme (among others) should not have been unilaterally changed on 1 January 2016:

- The obligations of the employer on the basis of the administration agreement of 2014:
 - a. Obligation to rectify the employer's contribution, equal to 10% of the annual pension contribution;
 - b. Obligation of the employer to pay the administration costs for overruns in excess of €700,000;
 - c. Obligation of the employer to make an additional contribution in the event of a change to the principles of the fund other than the actuarial interest rate;
- Introduction of a contribution cushioning system in the pension scheme applying from 1-1-2016 that could be to the disadvantage of all beneficiaries.

The AFM Executive Board decided to initiate cassation proceedings at the Supreme Court. The Supreme Court is expected to rule on the case next year.

No provision has been formed for the elements stated above, since it is not considered likely that the Supreme Court will rule against the AFM on these elements. The AFM has submitted adequate complaints against the Court of Appeal's ruling that are considered likely to succeed.

In the unlikely event that the Supreme Court rules against the AFM on these elements, this could lead to an additional loss item of between €15 million and €30 million for the AFM.

Indemnities

The Board of Trustees of Stichting Pensioenfonds AFM and Stichting Pensioenfonds AFM are indemnified by the AFM against all possible claims brought by current or former AFM employees on the basis of their pension agreement with the AFM after the introduction of the 2016 Pensions Agreement and the group transfer of accrued benefits to 'De Nationale APF'. Proceedings relating to the transition of the AFM Pension Fund to 'De Nationale APF' are not expected to lead to an outflow of assets.

Affiliated parties

AFM Pension Fund

Until year-end 2017, the AFM placed its pension scheme with the Stichting Pensioenfonds Autoriteit

Financiële Markten (the AFM Pension Fund). The AFM terminated the administration agreement with the AFM Pension Fund on 1 January 2018 and DNB ended its local supervision of the AFM Pension Fund on 7 December 2021. The pension fund is currently engaged in the remaining activities to effect actual liquidation. Without further restrictions, the pension fund is expected to be deregistered with the Chamber of Commerce on 1 February 2022, as a result of which actual liquidation of the Foundation will be effected. For the transactions relating to the liquidation of the AFM Pension Fund, see the following sections in the financial statements:

- Item p. Other payables and accruals;
- Unrecognised liabilities, indemnities.

The transactions with the AFM Pension Fund were effected on a commercial basis.

Ministry of Finance

The AFM is a non-departmental public body (NDPB). The Minister of Finance has the following powers with respect to the AFM by law and under its articles of association:

- The right of approval with respect to the established or amended profile description formulated by the Supervisory Board for members of the AFM's Executive Board;
- Appointment of members of the AFM's Executive Board by means of Royal Decree;
- The power to suspend members of the AFM's Executive Board and to dismiss members of the AFM's Executive Board by Royal Decree if they no longer meet the requirements for the exercise of their duties or have seriously failed to perform their duties;
- The right of approval of the remuneration for members of the AFM's Executive Board established by the Supervisory Board;
- The right of approval of proposals to amend the expenses and facilities arrangements for the Supervisory Board;
- The right of approval of proposals to amend the expenses and facilities arrangements for the Executive Board by the Minister of Finance (in accordance with Section 1:26(5) Wft);
- Receipt of all relevant information that the Minister needs to exercise their powers with respect to Stichting AFM. This information will be provided by both the AFM Executive Board and Supervisory Board in a timely manner;



- The Chair and the members of the Supervisory Board are appointed by the Minister of Finance and a member of the Board may be suspended or dismissed by the Minister in case of unsuitability or incompetence in their position. The Supervisory Board is also tasked with formulating a profile description for the Supervisory Board. The establishment or amendment of this profile description is subject to approval by the Minister of Finance. Voluntary dismissal of a Board member is effected by the Minister of Finance;
- Setting the remuneration of the members of the Supervisory Board, taking account of the WNT;
- Attending the advisory panel of the AFM;
- Approval of the AFM's budget and the AFM's annual financial statements;
- Determining the appropriation of a positive balance on liquidation if the Executive Board of the AFM resolves to dissolve the Stichting Autoriteit Financiële Markten;
- The right to inspect the audit procedures conducted by the certifying auditor of the AFM.
- The right of approval regarding proposed amendments to the articles of association of the AFM.
- For further details of the transactions with the Ministry of Finance, see the following items in the financial statements:
 - Item b. Fines and orders for incremental penalty payments, Fines and orders for incremental penalty payments due to the State;
 - Item c. Government contributions, total BES;
 - Item n. The financial relationship between the AFM and the Ministry of Finance.
- The transactions with the Ministry of Finance were effected on a commercial basis.

Ministry of Social Affairs and Employment

The Minister of Social Affairs and Employment has the following powers with respect to the AFM by law and under its articles of association:

- Approval of the AFM's budget and the AFM's annual financial statements with respect to elements relevant to the Ministry of Social Affairs and Employment and receipt of the AFM annual report;
- Attending the advisory panel of the AFM;
- The right to inspect the audit procedures conducted by the certifying auditor of the AFM.

No material transactions took place between the Ministry of Social Affairs and Employment and the AFM.



Actual figures for 2021, budget for 2021 and 2022

(Figures in € x 1,000)

The table below gives an overview of the budgeted and actual figures for 2021 and the income and expenses budgeted for 2022.

(Figures in EUR x 1,000)	2021	Budget 2021	Budget 2022
Income			
Levies	117,266	111,169	112,923
Fines	1,222	-	-
Orders for incremental penalty payments	7	-	-
Government contributions	445	580	583
Total income	118,940	111,750	113,506
Expenses			
Employee expenses	84,163	88,896	87,925
Depreciation costs on non-current assets	1,262	1,350	1,577
Other operating expenses	25,528	21,523	24,024
Total expense	110,954	111,770	113,526
Financial income and expense	- 17	- 20	- 20
Total expenditure	110,936	111,750	113,506
Operating balance	8,004	-	-

The budget for 2022 is presented in the AFM's 'Agenda 2022'

The total sum to be levied by the AFM in 2022 is €104.1 million. This is the balance of the estimated levies in 2022 of €112.9 million less the operating balance in 2021 of €8.8 million to be settled with the market (see proposal for appropriation of the sum to be settled in 'Other Information').

Amsterdam, 14 March 2022

The Executive Board

Laura van Geest, Chair
H.L. van Beusekom
J.R. Heuvelman

The Supervisory Board

M.J. van Rijn, Chair
W.M. van Dolen
W.E.M. de Jong
Ms R.G.J. Langezaal RM
Ms D.W. Voetelink

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Other information



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Appendix 1 External KPIs

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Appropriation of the operating balance

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Appendix 2 Abbreviations

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Independent auditor's opinion

To: The Supervisory Board of the Dutch Authority for the Financial Markets

A. Statement regarding the 2021 financial statements included in the annual report

Our opinion

We have audited the 2021 financial statements (hereinafter: 'the financial statements') of Stichting Autoriteit Financiële Markten (hereinafter: 'the foundation' or 'the AFM') of Amsterdam.

In our opinion, the financial statements included in this annual report give a true and fair picture of the size and composition of the assets of the AFM at 31 December 2021 and the result in 2021 as far as possible with analogous application of Title 9 Book 2 of the Dutch Civil Code (BW), the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*, or *Wbft*), the Non-Departmental Public Bodies Framework Act (*Kaderwet zelfstandige bestuursorganen*), Section 1.2 of the Financial Supervision Act (*Wet op het financieel toezicht*, or *Wft*), the BES Islands Financial Markets Act (*Wet financiële markten BES*) and the provisions of and pursuant to the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*, or *WNT*).

The financial statements consist of:

1. the statement of financial position at 31 December 2021;
2. the statement of income and expenses for 2021;
3. the statement of cash flow for 2021; and
4. the notes, with a description of the accounting policies used for financial reporting and other disclosures.

We are also of the opinion that the 'Report on the legitimacy of the financial management' gives a true and fair picture of the legitimate collection and appropriation of resources by the AFM.

The basis for our opinion

We performed our audit in accordance with Dutch law, under which the Dutch accounting standards, the Audit Protocol for financial reporting by the AFM (*Controleprotocol financiële verantwoording AFM*) and the 2021 WNT Audit Protocol Regulations (*Regeling*

Controleprotocol WNT 2020) fall. Our responsibilities on the basis of the above are described in more detail in the section entitled 'Our responsibilities for the audit of the financial statements'.

We are independent of the AFM as required in the Regulation on the Independence of Auditors in Assurance Engagements (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, or 'ViO') and other independence regulations relevant to the engagement in the Netherlands. We have also complied with the Code of Conduct and Professional Practice for Accountants Regulation (*Verordening gedrags- en beroepsregels accountants*, or *VGBA*).

We believe that the audit evidence we have obtained is sufficient and appropriate as a basis for our opinion.

Materiality

Based on our professional opinion, we have determined the materiality for the financial statements as a whole at €2,219,000. Materiality is defined as 2% of the total expenses as stated in the Audit Protocol for financial reporting by the AFM. With regard to the audit of the WNT information included in the financial statements, we have applied the materiality requirements laid down in the WNT Audit Protocol Regulation 2021.

We also took account of misstatements and/or potential misstatements that in our opinion could be material for users of the financial statements on qualitative grounds.

We agreed with the Supervisory Board that we would report misstatements involving amounts in excess of €221,900 identified during our audit to the Board as well as smaller misstatements that in our opinion were relevant for qualitative reasons.

The key issues in our audit

The key issues in our audit describe the issues that in our professional opinion were the most important during our audit of the financial statements. We have



communicated the key issues in our audit to the audit committee, however our discussions were not restricted to these key issues.

We have designed our audit procedures in relation to these key issues in the context of the audit of the financial statements as a whole. Our findings with regard to the individual key issues should be viewed in this context, and not as separate opinions regarding these key issues.

Levies

Income from levies is by far the largest category of income for the AFM. Levies consist firstly of annual levies imposed on the institutions subject to supervision (for ongoing supervision) and secondly of fixed amounts linked to the processing of applications and registrations (non-recurring activities). When implementing the levy improvement programme, the AFM identifies administrative shortcomings in its registration for levies for ongoing supervision for a limited number of institutions subject to its supervision. The resulting subsequent levies led to additional income for the AFM in 2021, with some additional levies imposed in 2021 and others recognised as levies yet to be invoiced. The item 'levies yet to be invoiced' largely concerns positions estimated by the AFM. We have audited the correctness and completeness of the levies for ongoing supervision on the basis of the information available at the AFM. We have performed additional procedures in this respect, consisting of an assessment of the issue list of potential additional levies to be imposed and substantiation of the estimates for the item 'levies yet to be invoiced'.

Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (Wet Normering bezoldiging topfunctionarissen publieke en semipublieke sector, or WNT)

As a non-departmental public body, the AFM is subject to the WNT. We have audited the section titled 'Remuneration of the Executive Board and Supervisory Board'. We also established whether the disclosure meets the requirements set out in the WNT. We performed our procedures in accordance with the procedures set out in the WNT Audit Protocol Regulation 2021.

Compliance with non-cumulation provision in WNT not audited

In accordance with the 2020 WNT Audit Protocol Regulations, we have not audited the rule against overlapping referred to in Section 1.6a WNT and Section 5(1)(n) and (o) of the Regulation implementing the WNT. This means that we have not audited whether or not the remuneration of a senior executive may have exceeded the standard as a result of possible employment as a senior executive at other institutions subject to the WNT, or whether the required disclosure in this respect is correct and complete.

Appointment

We were engaged by the Supervisory Board as the auditor of Stichting AFM on 2 July 2013, as of the audit of the financial year 2013, and we have operated as the external auditor since that financial year. We confirm the agreements and conditions made in relation to the audit of the financial statements annually.

B. Statement regarding the other information included in the annual report

In addition to the financial statements and our audit report thereon, the annual report contains other information, consisting of the report of the Executive Board, the report of the Supervisory Board and the other information.

Based on the following procedures, we are of the opinion that the other information:

- is consistent with the financial statements and is free of material misstatements;
- contains all the information required under Title 9 Book 2 BW for the management report and the other information.

We have read the other information and, on the basis of our knowledge and understanding obtained from the audit of the financial statements or otherwise, considered whether the other information contains material misstatements.

By performing these procedures, we have complied with the requirements in Title 9, Book 2 BW and the Dutch Standard 720. These procedures are not performed in the same depth as our audit procedures for the financial statements.

The Executive Board is responsible for the preparation of the other information, including the report of the Executive Board and the other information, in accordance with Title 9, Book 2 BW.



C. Description of responsibilities in relation to the financial statements

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for the preparation and the true and fair presentation of the financial statements as far as possible with analogous application of Title 9 Book 2 of the Dutch Civil Code (BW), the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*, or Wbft), the Non-Departmental Public Bodies Framework Act (*Kaderwet zelfstandige bestuursorganen*), Section 1.2 of the Financial Supervision Act (*Wet op het financieel toezicht*, or Wft), the BES Islands Financial Markets Act (*Wet financiële markten BES*) and the provisions of and pursuant to the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*, or WNT).

The Executive Board is also responsible for giving account with respect to the legitimacy of its collection and appropriation of resources, as stated in the Audit Protocol for financial reporting by the AFM.

In this context, the Executive Board is also responsible for the institution of the internal control measures it considers necessary to enable preparation of financial statements that are free from material misstatement as a result of fraud or error.

When preparing the financial statements, the Executive Board must consider whether the foundation is in a position to continue its activities as a going concern. Based on the above-mentioned reporting standards, the Executive Board must prepare the financial statements on the basis of the going concern assumption unless the Executive Board is proposing to dissolve the foundation. The Executive Board must disclose events and circumstances that could reasonably cast doubt on the foundation's ability to continue its activities in the financial statements.

The Supervisory Board is responsible for the supervision of the foundation's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform our audit engagement so as to obtain sufficient and appropriate audit evidence for the opinion that we are to issue.

Our audit is performed with a high but not absolute degree of certainty, as a result of which it may be the case that we have not discovered all material errors or fraud during our audit.

Misstatements may arise as a result of fraud or error, and are material if it can reasonably be expected that the misstatements, either separately or collectively, could influence the economic decisions made by users on the basis of these financial statements. Materiality affects the nature, timing and scope of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is given in the appendix to our auditor's opinion.

The Hague, 11 March 2022

The National Audit Service (*Auditdienst Rijk*)

A.V. Nandram RA



Appendix to the audit report

We conducted this audit with an attitude of professional scepticism, and, where relevant, used our professional opinion in accordance with the Dutch audit standards, ethical provisions and requirements in relation to independence. Our audit included:

- the identification and estimation of the risks that the financial statements contain material misstatements as a result of fraud or error, the selection and implementation of audit procedures appropriate to these risks, and the obtaining of audit evidence that is sufficient and appropriate as a basis for our opinion. In case of fraud, the risk that an undiscovered misstatement may be material is greater than in case of error. Fraud may involve collusion, falsification of documents, intentional failure to record transactions, intentional misrepresentation of issues or the violation of internal controls;
- the obtaining of information on the internal controls that are relevant to the audit, with the aim of selecting audit procedures appropriate in the circumstances. These procedures are not performed with the intention of expressing an opinion on the effectiveness of the entity's internal control;
- the evaluation of the appropriateness of the accounting policies used for financial reporting and the evaluation of the reasonableness of the assumptions by the Executive Board and the related notes in the financial statements;
- establishing that the use of the going concern assumption by the Executive Board is acceptable. In addition, establishing on the basis of the audit evidence obtained whether there are events and circumstances that could reasonably cast doubt on the entity's ability to continue its activities as a going concern. If we conclude that there is a material uncertainty, we are obliged in our audit report to draw attention to the relevant related disclosures in the financial statements. If the disclosures are inadequate, we must amend our report. Our conclusions are based on the audit evidence obtained until the date of our audit report. Future events or circumstances may however lead to a situation in which an entity is no longer able to continue as a going concern;
- the evaluation of the presentation, structure and content of the financial statements and the disclosures included therein; and

- the evaluation of whether the financial statements present a true and fair picture of the underlying transactions and events.

Due to the measures in relation to Covid-19, we performed more of our procedures remotely during our audit. This has made it more difficult for us to make certain observations, as a result of which certain signals may have been missed. In the planning of our procedures, we considered the risks associated with this and we planned and performed additional procedures where this was necessary. We therefore believe that the audit evidence we have obtained is sufficient and appropriate as a basis for our opinion.

We communicate with the Supervisory Board with respect to matters including the planned scope and timing of the audit and significant findings identified during our audit, including any significant shortcomings in the internal controls.

We also confirm to the Supervisory Board that we have complied with the relevant ethical provisions with regard to independence. We also communicate with the Board regarding all relations and other issues that reasonably could affect our independence and regarding the related measures to safeguard our independence.

We determine the key issues of our audit of the financial statements on the basis of all the matters we have discussed with the Supervisory Board. We list these key issues in our audit statement unless this is prohibited by legislation or regulation or in the extraordinarily rare circumstances in which doing so would not be in the public interest.



Appropriation of the operating balance

The amount to be settled for 2021 in 2022 (Wbft) of €8.8 million as reported in item o. of the financial statements, is fully included in accordance with article 8 third paragraph of the Wbft in calculating the amount to be charged to the market for 2022.



Appendix 1

External KPIs

1 Financial services

Protection of consumers in vulnerable situations

1.1 Sustainable contribution from products and services with material long-term effects

Activities

- + Application of the **revised view of duty of care requirements** for the various parties within the distribution chain during the term of a financial product.
- + Mortgage providers apply the AFM strategy for dealing with **interest-only mortgages**.
- + **Development of the pensions system** (legislative process, implementation): The AFM view is incorporated in three key elements of the transition to the new pensions system: freedom of choice, communication and new contracts.

Score: ■

Notes

- + The revised view of duty of care requirements was finalised and the principles and the interpretation were published on our website on 15 December 2021.
- + Interest-only mortgages: In 2021, we followed through on dealing with interest-only mortgages and monitored providers' progress. The focus for 2021 was on the areas requiring attention as identified in the review in 2020: implementing a policy for a customised approach for vulnerable customers and a continuous management process. In total, the mortgage providers approached more than 1.1 million customers, and assessed for more than 290,000 of them whether they would be able to pay the costs in the future. The initial customer approach will be completed at all mortgage providers in the coming year.
- + In the new pensions system, the risks will be borne more explicitly by scheme members. The risks that the AFM sees in the pension transition and that the AFM has put forward in the legislative process are: (a) that the new pension system is not aligned with the risks that participants are able and prepared to bear, (b) that unrealistic expectations are created about the new pension system and participants' pension, owing to information that is not correct, not clear or not provided on time, and (c) that the pension system and the choices made in connection with it are not properly explainable.

1.2 Organisation and culture of financial companies

Activities

- + Carry out **Tone at the Top self-assessment** using the VICA methodology developed by the EC in 2020.

Score: ■



1 Financial services

Protection of consumers in vulnerable situations

Notes

- + By means of a self-assessment at a number of large insurers and advisers and intermediaries, the AFM obtained an understanding of the extent to which directors set an example in putting the customer's interests first. The AFM will pursue further consultation on this with the enterprises concerned in 2022 and will also carry out the self-assessment at major banks.

1.3 A position of influence in the supervision of financial services

Activities

- + In policy discussions, the AFM promotes **lending within the lending standards**, including issues relating to improving the sustainability of homes and private leases.

Score: 

Notes

- + The AFM worked in 2021 to promote responsible lending within the lending standards. For instance, in granting a licence to the Warmtefonds, the AFM actively looked together with the Warmtefonds at, and worked towards ensuring, responsible lending in the terms and conditions of sustainability-improvement loans to people who are unable to finance improvement of the sustainability of their home themselves but are also unable to borrow. Another example concerns bringing private leases within the scope of supervision by formulating new legislation, on which the AFM liaised closely with both the Ministry of Finance and with the EU with a view to the revision of the Consumer Credit Directive.



2 Capital markets

A robust infrastructure and ethical trading

2.1 Safeguarding a robust infrastructure

Activities

- + The supervision **directed at operational processes**, IT systems and defences against cyber-attacks is increasingly integrated in day-to-day supervision.
- + **Expanding our supervision** of multiple, complex instruments, institutions and systems.
- + **The review of MiFID II** is an important issue for next year. The EC and ESMA are expected to come up with a proposal to amend MiFID II rules for equity, commodities and investor protection and the bond and derivatives markets.

Score: ■

Notes

- + A review of Information Management was carried out jointly with the AFM's Expertise Centre in 2021. This will be followed in 2022 by a review of Information Security.
- + The AFM provided significant input for the European Commission's proposals for the MIFID rules.
- + The supervision of transaction reporting and notifications was further intensified in the past year. This will continue to be a key focus area in 2022, including the creation of necessary data-driven tools.
- + In addition, the relocation of the CO2 emissions derivatives market to the Netherlands by ICE-Endex has required special attention to integrate supervision of this trading into the day-to-day supervision.

2.2 Increasing the effectiveness of detection, investigation and enforcement in the supervision of market abuse

Activities

- + We work with our fellow supervisors at national and international level to detect and penalise **harmful trading behaviour**, and raise this item in European supervisory committees.
- + Besides the detection of market abuse in the equities market, we will now also concentrate more on detecting **market abuse in the bond and derivatives markets**.

Score: ■

Notes

- + In 2021, 3 reports of possible insider trading were filed and additionally various signals were shared with fellow supervisors. These signals were discussed with the supervisors concerned and the possibility of initiating a joint investigation was examined.
- + In connection with the intensification of multi-asset market abuse detection and investigation, the AFM devoted special attention to improving the quality and quantity of STORs. STORs are an important source for investigating market abuse where the compliance level of one or more platforms is not yet up to standard. Lastly, we cooperated closely with the French financial market authority on a bilateral basis.

2.3 Supervision of prospectuses and public offerings



2

Capital markets

A robust infrastructure and ethical trading

Activities

- + The **notification processes will be further automated** and the portal function for prospectuses will also be organised more efficiently.
- + To protect investors against misinformation, the AFM will take stricter action against **harmful advertising and violations** of the rules governing public offerings and prospectuses.

Score:

Notes

- + Progress was achieved in advancing the development of the AFM portal although it was not possible to fully complete this process in 2021. This is expected to take place in 2022.
- + Owing to the high workload caused by the high number of applications, in part from SPACS, in the prospectus team during 2021 and the prioritisation of activities this entailed, the focus on advertising was more reactive in 2021.



3

Asset management

A sustainable business model for asset managers and due care in the treatment of clients

3.1 A properly functioning chain of asset management parties

Activities

- + **Monitoring and improving the quality** of asset management parties. For this, we will assess the key risks in the business operation of asset managers, looking at reports from depositaries and data analysis. We will also review the extent of compliance with applicable regulation.

Score:



Notes

- + Further to the review carried out in 2018/2019, 'The Supply Chain in View' ('Keten in Beeld'), in the summer of 2021 the AFM provided feedback to the market on the follow-up review initiated at the end of 2020 into (i) current delegation risks, (ii) the controls put in place by enterprises and (iii) the follow-up given by enterprises to the points for attention in the letter to the sector following 'The Supply Chain in View'. Feedback was also provided in the summer to the sector (both depositaries and managers) on the insights from the depositary reports received.



4 Audit

Higher quality of audits and contribution to effective incentives for auditors and audit firms

4.1 Review of the efforts to increase quality at PIE audit firms

Activities

- + Review of the achievement of **progress in the effort to increase quality at the PIE audit firms** (quality of statutory audits, quality safeguards and aspects of a quality-oriented culture).
- + Development of **data-driven supervision** of audit firms. We are investigating ways in which we can use data to make our supervision of audit firms more risk-driven.

Score: 

Notes

- + The PIE 2020/2021 project was completed in December 2021. The development of a new supervision methodology in connection with the practical supervision of non-PIE-audit firms has advanced the development of data-driven supervision.

4.2 Supervision of non-PIE audit firms

Activities

- + By the end of 2021, we aim to have prepared a risk-driven approach for the practical supervision of non-PIE audit firms as from 2022, based on risk indicators and a risk analysis.
- + The AFM is developing a **data-driven approach to supervision** for the non-PIE audit firms.

Score: 

Notes

- + We have completed an initial Market View and risk overviews for non-PIE audit firms. This is based on data already available from the AFM Monitor and data requested in the data pilot projects. This is still somewhat limited because it will not be possible to launch data pilot 2 before Q1 2022.

4.3 Influence in national and international discussions

Activities

- + Call for attention at international level, including in ESMA and IOSCO, to the **quality of non-financial and financial reporting and regulation**.
- + Call for attention at international level, including in CEAOB and IFIAR, to the **quality of statutory audits**.

Score: 

Notes

- + At ESMA, IOSCO, IFIAR and CEAOB, in the various working groups and publications, we continually drew attention to financial reporting and the quality of statutory audits. The IFIAR report on International Relevant Developments in Audit Markets is an example of this.

4.4 Improving integrated reporting and developing data-driven supervision of reporting



4

Audit

Higher quality of audits and contribution to effective incentives for auditors and audit firms

Activities

- + Review of the application of aspects of **integrated reporting**.
- + Further development of the **data-driven supervisory approach** on the basis of new techniques such as text mining and quantitative risk analysis.

Score: 

Notes

- + In 2021 we carried out an exploratory review of the way in which various stakeholders approach NFI; this resulted in more attention for NFI and less for integrated reporting. A first step was taken to utilise text mining, but text mining is not yet operational.



5

General

AFM-wide supervisory priorities

5.1. Sustainability

Activities

- + Determine the extent to which **asset management parties comply with the frameworks** arising from the sustainability transition, such as the Sustainable Finance Disclosure Regulation and the integration of sustainability risks in business operations.
- + Review of the application of aspects of **integrated reporting**, including sustainability aspects.

Score: 

Notes

- + Review of how asset managers have applied the requirements of the Sustainable Finance Disclosure Regulation and provided feedback on this to the market, both in the form of a letter to the sector and in various contacts with market parties. The review was conducted among 100 managers of 1,250 Dutch funds. The outcomes show that investment funds can do better at informing investors about sustainability.
- + The AFM is represented in the Technical Experts Group (TEG) of the international supervisor IOSCO. In our role in the TEG, we successfully advocated for an increased focus on adequate notes relating to sustainability in financial statements and management reports. In February 2021, we reported on a survey of the use of non-financial information by institutional investors and analysts.

5.2 Combating money laundering and other financial-economic criminality

Activities

- + Risk-based supervision of compliance with the **Anti-Money Laundering and Counter-Terrorist Financing Act** and the Sanctions Act 1977. The AFM takes enforcement action if necessary.

Score: 

Notes

- + We imposed various formal and informal measures in 2021: 1 order for incremental penalty payments and 3 notices of intention to impose an order for incremental penalty payments; 4 notices of intention to issue an instruction and 3 instructions. We also sent 19 warning letters and 5 instructive letters on compliance with standards. Also, 3 proposals for fines were submitted to the fine officer. In total, 100 informative letters on compliance with standards were sent to investment firms and managers of investment funds and 6 supervisory colleges were established for funds with branches abroad. The AFM participates in 14 colleges of supervisors in other Member States.



6

General

Professional organisation

6.1. Promotion of quick and careful admission of market parties and persons

Activities

- + The aim is to deal with 100% of **licence applications and tests of persons** within the statutory allotted time period.

Score:

Notes

- + On average, 69% of all licence applications and tests of persons were processed within the statutory allotted time period. In 2021, the AFM failed to achieve this KPI, partly due to an increase in the number of applications for licences and tests of persons and capacity challenges in several teams, partly as a result of the coronavirus pandemic. Various process improvements were implemented in the second half of 2021, and consequently a slow increase in the KPI has become manifest. The AFM endeavoured to the best of its ability to complete all cases within the statutory allotted time period and where it was unable to achieve this, it maintained contact as much as possible with the applicants on progress on these cases.

6.2 A data-driven supervisor

Activities

- + The transformation of the AFM into a **data-driven supervisor** was further formulated, developed and embedded within the organisation in 2021.

Score:

Notes

- + Further embedding the transformation into a data-driven supervisor was key in 2021. Five business devops teams are now operational to achieve this. These teams are responsible for driving the development of data-driven processes and the use of data within supervision. Owing to a continual focus on recruiting employees with the required types of expertise, all teams work on a multi-disciplinary basis. Specific results delivered by the teams include systematic data access for transaction reporting supervision, a data-driven approach in the revised supervision of audit firms and the deployment of new technology enabling us to perform our duties as supervisor more effectively.

6.3 Continuous improvement of supervisory and other processes

Activities

- + The AFM regularly **evaluates its own work** and works with other supervisors in this respect. The findings form the basis for continuous improvement and are shared with employees.
- + The AFM ensures that **its methodology** focused on short-term adjustments needed to achieve its objectives and introduce improvements is **embedded and continually developed**.

Score:



6

General

Professional organisation

Notes

- + A large part of our ICT services has been outsourced to Cegeka. This transition was a major focus in 2021.
- + We also worked on improving our data management processes. A working group was launched in 2021 that checks the contact details of institutions for CRM. Those checks are also used in the levy process.
- + A start was made in 2021 on giving the AFM programme for data-driven supervision a more permanent basis within the organisation.
- + Under the title *Working@afm*, we outlined our vision of how we want to work in the future at the AFM and a number of principles were formulated for location-independent ways of working in 2021.

6.4 Generally positive opinion of the professional stakeholders regarding the effectiveness, knowledge and competences of the AFM supervisors

Activities

- + The AFM regularly evaluates its supervision, engaging with **stakeholders** for that purpose (for example via the advisory panel). The AFM implements improvements in its supervision on the basis of these talks and other feedback, as applicable.

Score: ■

Notes

- + The AFM maintains close contact with numerous industry organisations, such as the Pensions Federation, the Dutch Banking Association (NVB), the Dutch Association of Insurers, etc. This contact takes place in one-to-one discussions, as well as during round table consultations and (digital) dialogue sessions. Further, the cooperation with the Dutch Central Bank DNB and the other supervisors is seen as open and constructive. Consultation takes place on a regular basis between DNB and the AFM at various levels within those organisations on topics such as the cooperation in connection with the new pension contract. Two digital meetings with the Advisory Panel were also organised in 2021. The purpose of these meetings is to ask questions and give advice on the budget and the levies, the progress of the activities and the annual reporting of the AFM.
- + The AFM is a professional and diligent supervisor that contributes to the effective operation of the financial markets and a favourable business climate for businesses located in the Netherlands. This was the outcome of an independent evaluation of the AFM's performance as a non-departmental public body (NDPB). The report also puts forward recommendations for further improvement.

6.5 Continuous development of own staff

Activities

- + We devote much time and attention to the **training and development of our employees** with:
 - training in necessary competences;
 - promoting cooperation;
 - making use of resources, such as the AFM Methodology.

Score: ■



6

General

Professional organisation

Notes

The AFM devotes a great deal of time and attention to the development of our employees with:

- + Training in necessary competences: includes training in personal leadership (for employees) and training in coaching leadership (for managers).
- + Promoting cooperation: team-building sessions are used to home in on cooperation, both within and between departments. The external mindset training courses also play an important role in this context.
- + Using resources such as the AFM Methodology and standardised processes: the AFM Methodology is used within the organisation to achieve uniform work procedures. The AFM methodology consists of three components: conduct & culture, quick-response management and continual (process) improvement.

6.6 Effective cost control

Activities

- + The AFM ensures that its **costs** remain within the established cost framework / budget.

Score: ■

Notes

- + The AFM's costs remained within the framework and the budget in 2021.



Appendix 2

Abbreviations

ACM

Netherlands Authority for Consumers & Markets (*Autoriteit Consument & Markt*)

ADR

National Audit Service (*Auditdienst Rijk*)

AFM

Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*)

AIF

Alternative Investment Fund

AIFM

Alternative Investment Fund Managers

AIFMD

Alternative Investment Fund Managers Directive

AMF

Autorité des Marchés Financiers (FR)

AML

Anti Money Laundering

AOV

Occupational Disability insurance (*Arbeidsongeschiktheidsverzekering*)

AP

Dutch Data Protection Authority (*Autoriteit Persoonsgegevens*)

AQI

Audit Quality Indicators

Awb

General Administrative Law Act (*Algemene wet bestuursrecht*)

Bbft

Financial Supervision (Funding) Decree (*Besluit bekostiging financieel toezicht*)

BIB

Director of Operations (*Bestuurder intern bedrijf*)

Big-4

The 4 largest audit firms: KPMG, PWC, EY, Deloitte

CBDF

Cross-Border Distribution Framework

CBS

Statistics Netherlands (*Centraal Bureau voor de Statistiek*)

CCD

Consumer Credit Directive

CFT

Combating the Financing of Terrorism

CMU

Capital Markets Union

COO

Chief Operating Officer

CPB

Bureau for Economic Policy Analysis (*Centraal Planbureau*)

CSDR

Central Securities Depositories Regulation

DNB

The Dutch central bank (*De Nederlandsche Bank*)

DORA

Digital Operational Resilience Act

DUFAS

Dutch Fund and Asset Management Association

EBA

European Banking Authority

EIOPA

European Insurance and Occupational Pensions Authority

EMIR

European Market Infrastructure Regulation

ESA

European Supervisory Authorities

ESMA

European Securities and Markets Authority

ESRB

European Systemic Risk Board

EUA

European Union Allowance

FEC

Financial Expertise Centre

FITRS

Financial Instruments Transparency System

FIU

Financial Intelligence Unit

FSC

Financial Stability Committee (*Financieel Stabiliteitscomité*)

IAS

Internal Audit Service

IAIS I

International Association of Insurance Supervisors

ICBE

Undertakings for Collective Investment in Transferable Securities (*Instelling voor collectieve belegging in effecten*)

ICE

Intercontinental Exchange

IFD

Investment Firm Directive

IFIAR

International Forum of Independent Audit Regulators

IFR

Investment Firm Regulation

IMSC

Investment Management Standing Committee

**IOSCO**

International Organisation of Securities Commissions

IPISC

Investor Protection and Intermediaries Standing Committee

MiCAR

Markets in Crypto-Assets Regulation

MiFID II

Markets in Financial Instruments Directive II

NBA

Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*)

NBEG

Non-bank Expert Group

NDPB

Non-Departmental Public Body

NGO

Non-governmental organisation

NVB

The Dutch Banking Association (*Nederlandse Vereniging van Banken*)

OM

Public Prosecution Service (*Openbaar Ministerie*)

PIE

Public-Interest Entity

OWG

Operational Working Group

PRIIPS

Packaged Retail and Insurance based Investment Products

PT

Proprietary trader

RTS

Regulatory Technical Standards

SFDR

Sustainable Finance Disclosure Regulation

SFTR

Securities Financing Transactions Regulation

SRA

Dutch Association of Chartered Accountants (*Samenwerkende Registeraccountants en AccountantsAdministratieconsulenten*)

STOR

Suspicious Transaction and Order Report

TEG

Technical Expert Group

TIBER

Threat Intelligence Based Ethical Red-teaming

TRS

Transaction Reporting System

UCITS

Undertakings for Collective Investment in Transferable Securities

Wbft

Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*)

Wft

Dutch Financial Supervision Act (*Wet op het financieel toezicht*)

WNT

Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet Normering Topinkomens*)

Wta

Dutch Audit Firms (Supervision) Act (*Wet toezicht accountantsorganisaties*)

Wwft

Money Laundering and Terrorist Financing (Prevention) Act (*Wet ter voorkoming van witwassen en financieren van terrorisme*)



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