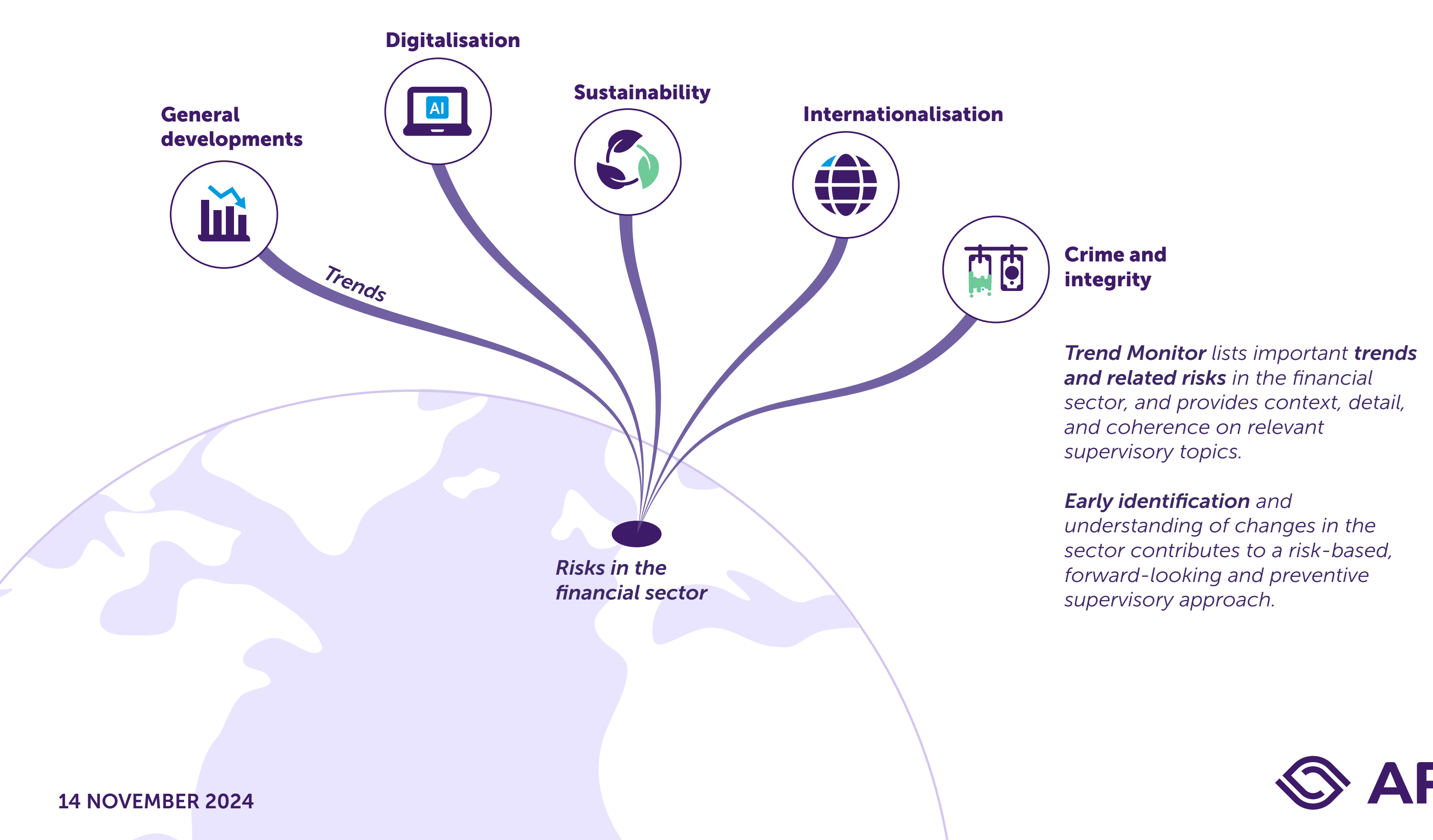
Trend Monitor 2025

In short Despite favourable economic prospects, calm in the financial markets can quickly change. The financial position of vulnerable groups remains a concern, especially in the event of new shocks. Digitalisation within the financial sector is changing business processes and business models of financial institutions, creating new dependencies, which increases the sector's vulnerability to concentration risks and cybercrime. Risks also arise around the sustainability transition. Social polarisation can put pressure on the popularity of ESG investing, and regulation does not always achieve the desired outcomes. The internationalisation of financial services entails risks that require an international approach, including an increase in fraudulent financial providers.



***Trend Monitor** lists important **trends and related risks** in the financial sector, and provides context, detail, and coherence on relevant supervisory topics.*

***Early identification** and understanding of changes in the sector contributes to a risk-based, forward-looking and preventive supervisory approach.*

REPORTING TREND MONITOR

14 NOVEMBER 2024

AFM

Contents

Introduction	3
1. Financial services	10
2. Capital markets	20
3. Asset management	30
4. Accountancy and reporting	41
Appendix	50

Introduction

Trend Monitor lists important trends and related risks in the financial sector. Trend Monitor provides context, detail, and coherence on relevant supervisory topics. Early identification and understanding of changes in the sector contributes to a risk-based, forward-looking and preventive supervisory approach. In this way, we fulfil our mission to promote fair and transparent financial markets and to contribute to sustainable financial well-being. Chapters 1 to 4 set out the key trends and risks for our four areas of supervision – Financial Services, Capital Markets, Asset Management and Accountancy and Reporting. The publication of Trend Monitor 2025 includes in-depth analyses on (i) Consumer credit and financial vulnerability and (ii) Attractive European capital markets. These two in-depth analyses are published separately.

Trends

General developments

Although inflation is moving towards lower levels, economic growth is expected to remain subdued. Particularly the rise in food and energy prices and the associated tightening policy of the European Central Bank (ECB) cooled the economy in 2023. Although the Dutch economy barely grew in 2023, a severe recession was avoided. There was also continued tightness in the labour market. Now that the biggest price and interest rate hikes seem to be behind us and wages rose rapidly last year, the financial position of households has improved. Moderate economic growth is therefore expected in the coming years.[1] There is also confidence in financial markets that inflation will return to central bank targets without a sharp economic downturn. In capital markets, this expectation has contributed, among other things, to historically high share prices.

The better-than-expected economic developments and prospects do not alter the fact that calm on the financial markets can quickly turn. For example, further rate cuts are expected to be postponed if inflation remains persistently above the ECB's target. This could lead to asset write-downs as investors appear to have already anticipated rate cuts later this year and markets appear highly valued. In addition, geopolitical tensions could lead to further geoeconomic fragmentation, while rising cyber threats and disappointing results from the perceived added value of AI could trigger an equity correction. Due to the global interconnectedness of financial markets, unexpectedly strong negative economic news can pose a risk to financial stability. As the crypto market continues to grow and its interconnectedness with the traditional financial system increases, this may also lead to financial stability risks.[2]

The financial position of households is relatively stable but remains vulnerable to (unexpected) economic setbacks. Dutch households have proved resilient to rising inflation and interest rates. This is partly due to the government support provided immediately after the outbreak of the coronavirus pandemic and the energy crisis, (collective) wage growth, the tight labour market and the fact that many Dutch households have mortgage loans with a longer fixed-rate maturity. At the same time, attention must continue to be paid to the financial position of vulnerable households, particularly due to the long-term effects of higher interest rates on household debt and the cost of living. Specific groups of households, such as households that invest in risky assets or hold large consumer loans, are particularly vulnerable.

1 See 'Macro Economic Outlook 2025', CPB, September 2024 and 'Spring Projections' 2024, DNB, June 2024.

2 'Financial Stability Report 2024', AFM, June 2024.

In the long term, demographic developments may lead to a shift in financially vulnerable groups. Demographic developments refer to changes in the size and composition of groups in society. The associated risks are often slow-moving in nature but can have major consequences. For example, the Dutch labour force has already started to shrink, due to 'ageing', and the diversity of society is increasing due to migration.[3] This creates shifts in financially vulnerable groups. Dutch people with a migration background have a greater risk of income loss after retirement, exclusion by traditional financial parties, underinsurance and fraud due to the use of unregulated parties for transactions abroad.[4] Due to the ageing of the population, extra attention will be paid to financially vulnerable older people. This is mainly the group of older people with only a state pension, hardly any second pillar pension and without their own home or accrued capital. They are also particularly susceptible to (digital) fraud. Finally, young people are becoming more vulnerable because debt habituation occurs when using services such as payment in instalments, and they take more risks by trading excessively in, for example, cryptos – including via finfluencers.

Digitalisation

Digitalisation within the financial sector is steadily advancing and is changing business processes and business models of financial institutions. Technology is playing an increasingly indispensable role in the business operations and business models of financial institutions. For example, AI models are used by banks and insurers for credit assessments, fraud prevention and the fight against cybercrime, among other things. Asset managers and capital market participants are applying AI models in investment strategies, risk management and compliance.[5] The increasing use of these new technologies and the entry of new innovative (non-financial) players are putting pressure on the business model of traditional financial institutions. Financial institutions that depend on old business models run the risk of pricing themselves out of the market. We increasingly see financial products or services offered via apps or websites by non-financial companies, sometimes embedded in the purchase of a non-financial product. Embedded finance can help increase the accessibility and ease of use of financial services, but it also leads to consumer protection risks.

The use of technologies creates new dependencies and makes the financial sector vulnerable to concentration risks. With the digitalisation of the financial sector, the dependency on IT systems is increasing. These IT systems are predominantly supplied by a limited group of large (mostly American) tech companies, such as Amazon Web Services, Microsoft Azure, Google Cloud and Alibaba Cloud. These parties dominate the market for cloud service providers. The failure of one crucial party in the chain can bring services to a standstill for a large part of the sector.[6] In addition, we see that high IT costs, for example for IT infrastructure and cyber resilience, are driving consolidation. We see this reflected in capital market parties and parties in the asset management sector, for instance. Concentration risks at a few large market players and chain dependency lead to risks to financial stability, among other things.

Increasing digitalisation increases the risk of cybercrime. The reliance on IT increases the vulnerability of the financial sector to cyberattacks, which often target the weakest link in the chain. Cyberattacks can shut down services, cause financial damage and even threaten financial stability. This can have major financial and economic consequences and affect both consumers and financial institutions. In addition, geopolitical tensions and geoeconomic fragmentation increase the risk of cyberattacks, especially because the financial sector is an attractive target for cybercriminals (sometimes affiliated with state actors) who are looking to disrupt the (financial) infrastructure.

3 'Population in the future', CBS.

4 'Dutch nationals with a migration background: An exploratory study on the degree of financial vulnerability and the relationship with financial services', AFM, December 2021.

5 See also 'The impact of AI on the financial sector and supervision', AFM and DNB, April 2024.

6 On 19 July, a software bug in a version update by the cybersecurity firm CrowdStrike led to large-scale disruptions in Microsoft-driven systems around the world in various industries, including aviation.

Sustainability

The market for sustainable finance has grown strongly. Damage from climate change highlights the need to accelerate the sustainability transition and requires significant investments. The financial sector plays an important role in this transition. We see that the market for sustainable finance has grown strongly in recent years.[7] Despite this, the market share of sustainable finance is still a limited part of the total. Regulations are giving investors more and more tools to include Environmental, Social and Governance (ESG) factors in their investment strategies. In recent years, many new (European) regulations have been developed to promote sustainability in the financial sector. For example, the Corporate Sustainability Reporting Directive (CSRD) is intended to increase companies' transparency about their sustainability efforts. In addition, the Sustainable Finance Disclosures Regulation (SFDR) stipulates that fund managers are expected to communicate clearly about how they take sustainability risks into account in their investment policies. Their sustainability claims must also be fair, clear and not misleading.[8]

Societal polarisation can put pressure on the popularity of ESG investing. The popularity of ESG investing, after years of growth, seems to be under pressure. In the United States (US), investments in sustainable funds declined for the first time last year, while in Europe the growth of assets in sustainable funds is levelling off.[9] The disappointing financial performance of sustainable investment strategies in recent years probably plays a role in this. In addition, societal polarisation contributes to the declining popularity. This is most visible in the US, where some states seek to discourage ESG investing while others seek to encourage it.[10] In Europe, too, the societal polarisation surrounding the sustainability transition could spill over to the financial sector.

The volume and complexity of sustainability regulations can have unintended side effects. The various packages of regulations that are intended to increase transparency around sustainability are essential, but in addition they require a lot of time and attention from the institutions that deal with them. There is a risk that the attention paid by institutions to comply with transparency requirements will be detrimental to efforts to make their business model truly sustainable. In addition, there is a risk that institutions will become more reluctant to disclose their sustainability targets or will adjust them downwards, to prevent them from being accused of false sustainability claims in the future.[11]

Internationalisation

Political shifts and geopolitical tensions are straining international relations and may lead to increasing regulatory divergence and supervisory arbitrage. For example, geopolitical tensions have increased geoeconomic fragmentation between trading blocs, exacerbated by reciprocal import tariffs and financial and economic sanctions between the EU, the US and China. In response, many countries are striving for strategic autonomy in sectors such as defence, technology and (fossil) energy. This also applies to European capital markets. There, strategic autonomy translates into increasing resilience and reducing undesirable strategic dependencies on non-European countries. Meanwhile, political developments in the US and Europe, among others, are causing additional uncertainty worldwide. For example, future policy changes in the US and the EU could increase regulatory divergence between the US and the EU, for example around sustainability or crypto-assets. This could lead to regulatory and supervisory arbitrage and undermine the integrity of financial markets. A strong and integrated European Capital Markets Union (CMU), which can operate independently of major financial centres outside the EU, strengthens European strategic autonomy and protects against these risks.[12,13]

7 'Green finance: A quantitative assessment of market trends', TheCityUK, March 2022.
8 'Guidelines on Sustainability Claims', AFM, October 2023.
9 'Global ESG Funds Hit With Outflows for First Time in Q4', Morningstar, February 2024.
10 'The ESG battle: 4 key states shaping regulatory discourse in the US', ESGDive, November 2023.
11 'How companies are starting to back away from green targets', FT, June 2024.
12 'AFM and DNB: recommendations for a strong European capital markets union', AFM, February 2024.
13 'The future of European competitiveness', EC, September 2024.

Financial services are increasingly taking on an international character, which entails risks that require an international approach. The Dutch financial markets are attractive to foreign parties. We are seeing an increase in cross-border financial services driven by digitalisation. In addition to the positive effects of an increase in supply and a greater diversity of providers, the cross-border nature of financial services also entails (cross-border) risks. These include an increase in fraudulent foreign providers of risky investment products, an increase in cross-border market abuse on capital markets and the emergence of an uneven playing field between domestic and foreign providers of financial products and services. These risks may be less adequately addressed at national level and require an international approach.

Integrity and criminal behaviour

Digitalisation makes fraudulent financial service providers more effective. Unfortunately, digitalisation also encourages criminal behaviour in the investment market. New players that fall outside the scope of regular licensing can enter the investor market. Many of these new players present (independent) investing as a risk-free and easy way to make money. These parties typically target younger, less experienced investors. Trends such as gamification and the use of low-threshold investment apps increase the risks of criminal behaviour. An example that comes to mind are finfluencers with a sizeable audience of young followers on social media, who falsely pretend to be experts and are not transparent about their own revenue model. Fraudulent providers and fraudsters are increasingly facilitated by providers of (malicious) trading software and ready-to-use misleading websites that appear professional but are intended to mislead investors and extort money. Such malicious activities have a major impact on (groups of) victims who are harmed by this.

Preventing and combating money laundering and terrorist financing and complying with sanctions regulations requires sustained attention. This is especially true for crypto and real estate markets. The complex and international nature of crypto markets can contribute to the emergence of unethical (trading) behaviour, such as money laundering, financing terrorist activities or evading sanctions regulations. The real estate sector in particular is susceptible to abuse by criminals because of its size, the generally high returns and the lack of transparency regarding valuation, pricing and transfer. Preventing and combating these forms of criminal behaviour requires effective national and international cooperation with stakeholders.

Risks

For the various areas of supervision, we summarise below risks that may arise or accelerate as a result of the above trends and developments.

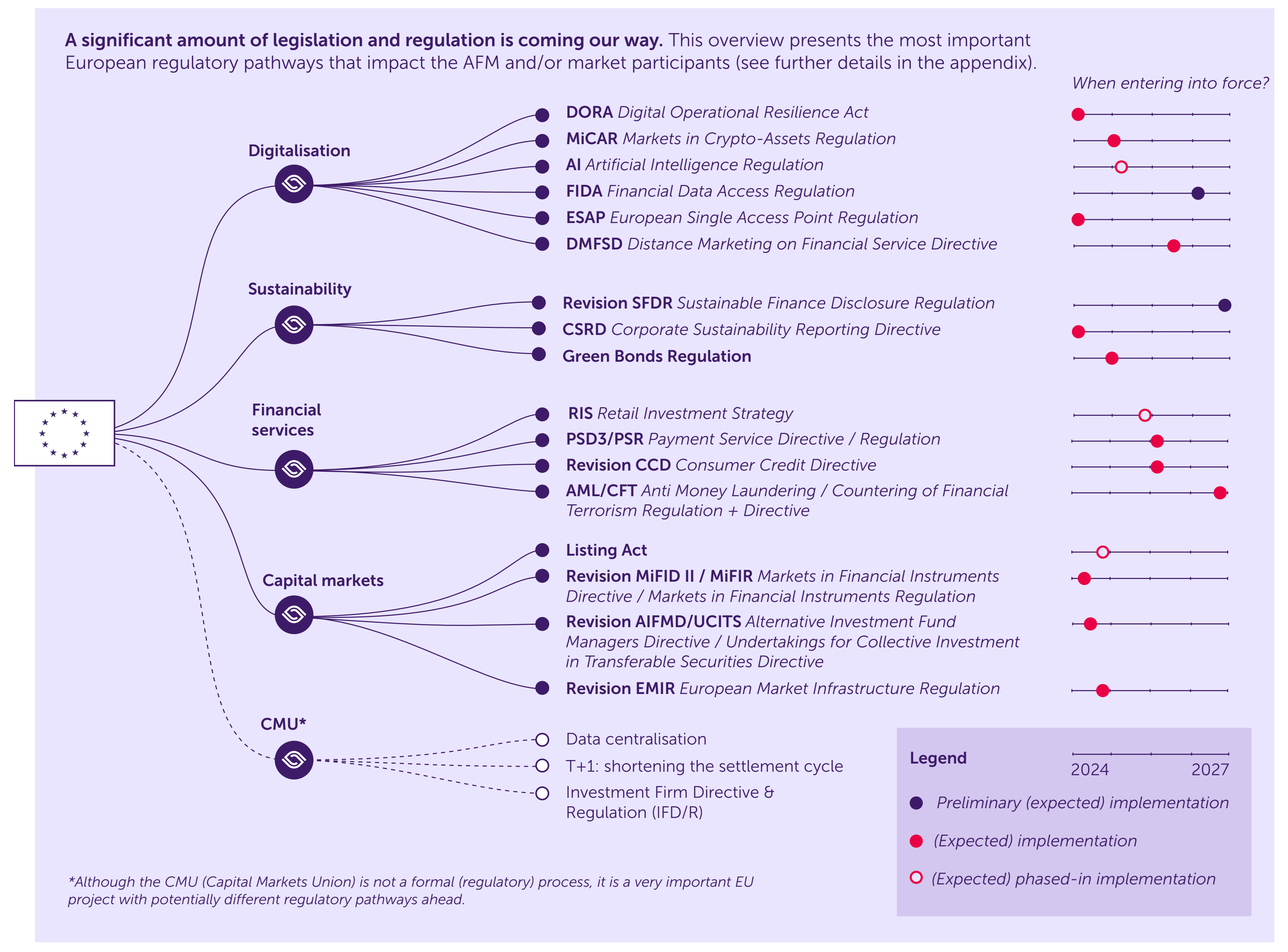
Financial services. The pension transition is the most obvious notable development in financial services. An important risk of this transition is that if information is not correct, clear, timely and balanced, the pension scheme will not be in line with the risks that pension participants can bear and/or are willing to take. In addition, we see that digitalisation is lowering the threshold for purchasing financial products and services via apps, embedded finance and digital marketing. The lower threshold may lead to an underestimation of the risks associated with investment products, such as cryptocurrencies, making the product unsuitable for consumers. Overlending remains a risk in the consumer market, in particular due to an accumulation of credit products and a waterbed effect towards alternative and less regulated and riskier products. A decrease in the value of a house due to climate risks can also lead to excessive lending. Finally, we are seeing an increase in fraudulent financial service providers involved in large-scale mortgage fraud, which damages confidence in the financial markets.

Capital markets. In capital markets, the market structure is changing due to internationalisation, digitalisation and market fragmentation. This leads to new risks. Examples include insider information through cross-product and cross-platform trading, and price manipulation in correlated cross-border products. In addition, forms of insider trading and market manipulation may arise using (self-learning) trading algorithms and the interference between trading algorithms. Market fragmentation combined with barriers to entry can lead to winner-takes-all outcomes, leaving a limited number of players with significant market power in parts of the market and supply chain. As a result, capital markets are more vulnerable to the failure of a single player, which is exacerbated by increasing cyber risks. Increasing concentration of market participants and market fragmentation can also disrupt efficient price discovery in capital markets. This can lead to liquidity shifting to unregulated trading platforms and reduced liquidity during regular trading hours. Capital markets also play an important role in the sustainability transition and the quality and (central) availability of sustainability, market and price information is essential.

Asset management. Within the asset management supervisory area, attention is paid to the strategic repositioning of parties in the form of (cross-border) mergers and acquisitions, which leads to consolidation and market power. Another point of attention is the growth of the number of AIFMD 'light' managers in the Netherlands, as well as their assets under management. The supervision of these administrators is limited, which poses risks of criminal behaviour. In addition, we see that technological developments are changing the business operations of asset managers and the asset management chain. The increasing outsourcing of business processes to (a few large) service providers – including cloud platforms – makes the asset management industry more vulnerable to cyber incidents. The important role that asset management parties play in the sustainability transition is also discussed. For example, it is important that asset managers integrate sustainability into their business operations, manage the risks of the sustainability transition and be transparent to investors about how sustainability is implemented. Accurate, timely and complete ESG data are crucial in this regard.

Accountancy and reporting. The first CSRD annual reports will be published in the coming year. Companies must report adequately on sustainability and audit firms must provide (limited) assurance on this information. It is a challenge to report transparently and reliably on this information. This challenge is against the backdrop of pressure on the accessibility of audits due to increasing demand for audits (increasing scope, increasing focus on fraud and discontinuity and more audited companies), while the supply is stagnating (staff shortages, reduced popularity of education programme). Developments that occur in response, such as the inflow of private equity and outsourcing of work, can have a negative impact on the quality of the statutory audit. Audit firms are also catching up with the use of data, including AI applications. It is important that the accompanying risks, and the broader digital operational resilience, are managed. Finally, exam fraud in the accountancy sector affects the integrity of auditors.

Regulations



Trend Monitor 2025: What trends do we observe?

Trends can form the basis for the emergence of risks and thus largely determine the direction of our supervision. Early identification and understanding of changes in the sector contribute to a risk-driven, forward-looking and preventive approach to supervision.

General developments

- Although inflation is moving towards lower levels, economic growth is expected to remain subdued.
- The better-than-expected economic developments and prospects do not alter the fact that calm on the financial markets can quickly turn.
- The financial position of households is relatively stable but remains vulnerable to (unexpected) economic setbacks.

Digitalisation

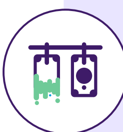
- Digitalisation within the financial sector is steadily advancing and is changing business processes and business models of financial institutions.
- The use of technologies creates new dependencies and makes the financial sector vulnerable to concentration risks.
- Increasing digitalisation increases the risk of cybercrime.

Sustainability

- Regulations are giving investors more and more tools to include Environmental, Social and Governance (ESG) factors in their investment strategies.
- Societal polarisation can put pressure on the popularity of ESG investing.
- The volume and complexity of sustainability regulations can have unintended side effects.

Internationalisation

- International (geopolitical) relations are highly strained, which may lead to increasing regulatory divergence and supervisory arbitrage.
- It is important to accelerate progress on the European Capital Markets Union.
- Financial services are increasingly taking on an international character, which entails risks that require an international approach.



Crime and integrity

- Digitalisation makes fraudulent financial service providers more effective.
- Preventing and combating money laundering and terrorist financing and complying with sanctions regulations requires sustained attention.
- Preventing and combating financial crime requires effective national and international cooperation with stakeholders.

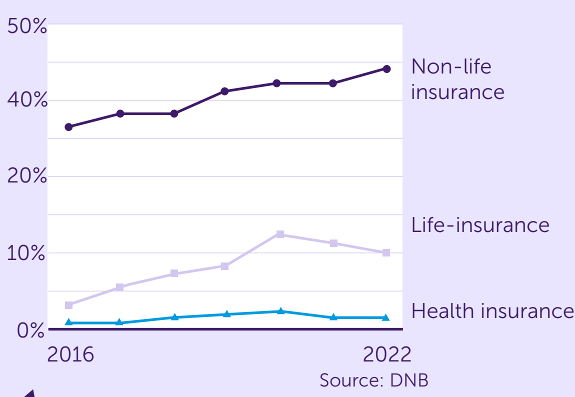
1. Financial services

THIS CHAPTER IN 1 MINUTE

- When transitioning to new pension schemes, it is important that participants receive **clear, balanced, correct and timely information** about the consequences of the transition, including through transition overviews.
- Digitalisation is fundamentally changing the financial sector through the use of **more data, advanced AI models and digital distribution channels**. It is important that financial service providers safeguard the interests of the customer, prevent errors in the use of data and models and are alert to the increased possibilities of fraud.
- Financial institutions should make an effort to **integrate sustainability** into the development and distribution of financial products, using understandable language and setting realistic expectations.
- **Cross-border financial services** are increasing in a number of markets, in particular in the non-life insurance and investment markets. Our main concern is that consumers may enjoy **less consumer protection** due to differences in interpretation of regulations.

Cross-border financial services

For various insurance products, the share of foreign insurers is increasing.



Source: DNB

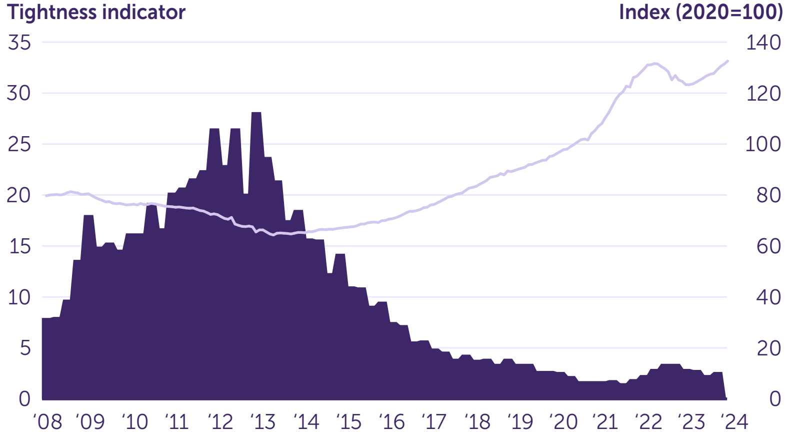
General developments

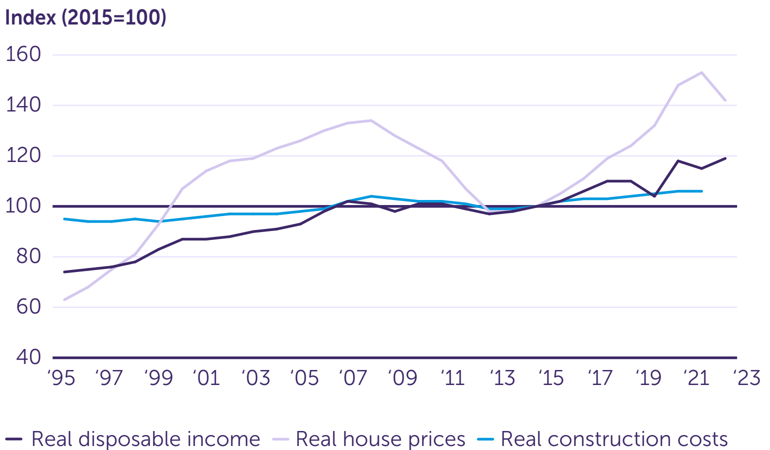
The relatively high prices and interest rates continue to put pressure on the financial position of households. During the previous inflation peaks, the ECB raised the policy rate to 4% until September last year in order to curb inflation. Meanwhile, inflation in the eurozone is falling, even though the level is still above the ECB's target. The increased prices and interest rates of the past two calendar years are reflected in the prices of various financial products and services. For example, mortgage rates have also risen sharply in the corresponding period and, despite a slight decrease this calendar year, are still well above the low rates of the end of 2021. In addition, (life) insurance premiums are indexed at a relatively high inflation rate. Conversely, savings rates are gradually rising, but the extra savings offer little relief. On the other hand, some relief is provided by the (strong and lagging) collective labour agreement wage growth. Nevertheless, the financial position of vulnerable groups remains a point of attention, especially in the event of new (financial) shocks. Such groups include households with low incomes, little financial capital and high energy costs.

After a short-lived decline, house prices are rising sharply again and this increase is expected to continue in the coming years. In particular, rising mortgage rates as a result of tightening monetary policy caused house prices to fall for a short period from the end of 2022. However, since mid-2023, house prices have been rising again and are at a record high (Figure 1, top panel). The delayed impact of high inflation on wage developments currently appears to be a driving force behind higher house prices. For example, house prices have risen relatively faster than households' real disposable income and real construction costs for new homes (Figure 1, bottom panel). The relatively substantial increase can partly be attributed to structural characteristics of the Dutch housing market, including limited adaptability of the housing stock. An additional explanation may be that the demand for housing continues to increase due to a rising population, including an increasing number of single-person households. With a relatively constant housing stock, rising demand for housing translates relatively quickly into higher prices. House prices are therefore expected to continue to rise in the near future.[14]

14 'Risicorapportage Financiële Markten 2024', CPB, June 2024.

Figure 1 Top panel: Nominal house prices are rising again and the tightness in the market is increasing (in the case of the tightness indicator, the lower the indicator, the tighter the market). Bottom panel: House prices have also risen relatively sharply in real terms in recent years.





Source: Statistics Netherlands (CBS), own calculations by AFM

The combination of demographic developments and a digitalising, internationalising retail financial market is putting pressure on the accessibility of the financial sector. Nowadays, financial products and services are increasingly offered online and choice guidance by pension administrators is often provided digitally. We are also seeing more and more international financial providers on Dutch markets. At the same time, Dutch society is ageing rapidly and the Dutch population is growing fast, in terms of both numbers and diversity. For the financial sector, this means, among other things, that institutions must take into account the accessibility of financial services for consumers with lower digital skills, a different cultural background or a more limited command of the Dutch language.[15] The AFM's concern is that for some customer groups the accessibility of financial services and products is declining and that these groups are therefore making too little use of financial services, resulting in possible exclusion, underconsumption and general vulnerability. More specifically, there is a growing risk that exclusion from basic services such as payment services will occur among various customer groups. That is why the AFM supports initiatives that focus on prevention or on promoting the financial health and resilience of consumers.[16]

The transition to the new pension system emphasises the importance of the duty of care, including timely, correct, balanced and clear communication to pension participants. More than a year after the entry into force of the Future Pensions Act (Wet toekomst pensioenen; Wtp), the AFM has seen that pension administrators are making efforts to ensure a timely transition to the new pension system. The AFM's and DNB's Wtp monitoring survey shows that the first pension funds will transfer to the new pension system in 2025, followed by a large group of pension funds in 2026. Communication to participants is a crucial part of the transition process. Pension funds should think at an early stage about communication to participants, including the transition overview, information about possible compensation and the consequences of maintaining rising contributions for existing staff. All information must be clear, balanced, correct and provided in a timely manner. This means that the information has been shared with participants at least one month prior to the transition. The information should allow them to understand what the transition means for them personally and should be tailored to the recipient. For example, younger participants will need a different insight than older ones. In addition, it must be clear how the information relates to the 'regular' communication obligations, such as the Pension Benefit Statement (UPO). Finally, data quality checks can lead to corrected pension amounts. Participants must also be informed about this in a timely manner.

In addition to the transition, pension administrators have to deal with additional duty of care standards towards participants,[17] which are particularly important in the context of the transition. Pension administrators must have a well-functioning complaints procedure in place to deal with all expressions of dissatisfaction from participants. The AFM expects an increase in the number of complaints during the transition. Especially around the transition to the new pension schemes, it is important that participants are heard and that any concerns or dissatisfaction are appropriately addressed. Pension administrators must also provide adequate guidance so that their participants are enabled to make appropriate pension choices. After all, in the new system, more participants will have to deal with supplementary pension choices. In addition, when transitioning to a flexible contribution scheme, retired participants have the choice between a fixed or variable benefit, for which adequate guidance should also be provided.

15 See also 'Implementatiewet toegankelijkheidsvoorschriften producten en diensten', which enshrines the European Directive on the accessibility requirements for products and services in Dutch law. The implementing legislation will enter into force on 18 June 2025.

16 The AFM has long advocated a Periodic Financial Maintenance (PFO) in which consumers gain insight into, among other things, their current and future financial situation and, if necessary, are encouraged to take action and improve their financial situation.

17 By this we mean participants, former participants, former partners and other claimants and pensioners.

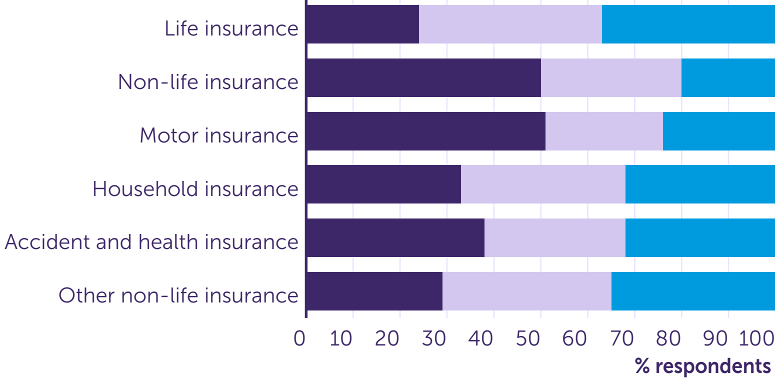
Structural changes among financial service providers, advisers and intermediaries are putting pressure on controlled and ethical business operations. Consolidation, changed revenue models and more specialised organisations focusing on target groups or products are some of the changes that are visible among financial service providers. Private equity plays an important role in the ongoing consolidation. This leads to concerns about an excessive focus on financial gain and reduced focus on both customer interest and compliance. At the same time, we see that the pressure is increasing among smaller financial service providers due to laws and regulations, requirements for business operations and IT set-up, as well as obligations regarding professional competence. As a result of these developments, controlled and ethical business operations are being jeopardised in part of the population. The AFM encourages structural changes that promote the quality of financial services but points out to financial service providers that controlled and ethical business operations must continue to be guaranteed.

Digitalisation

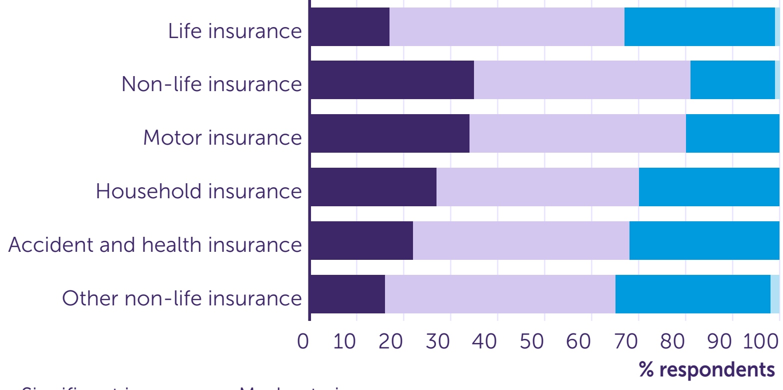
The use of data, advanced AI models and digital distribution channels fundamentally changes the financial services industry. Data is increasingly at the core of business processes, both for traditional parties and for new entrants. Customer data is used to assess individual risks, determine prices and conditions and guide customer acceptance. The emergence of AI models and algorithms plays an important role in this (Figure 2). For example, we see that AI applications and algorithms are increasingly being used in claim handling, credit acceptance, fraud detection and customer contact. Due to the wider availability and increased use of digital distribution channels, financial services and products are increasingly offered and managed only digitally. This now applies not only to complex financial products, but also to basic products such as a current account. Financial service providers are expected to ensure that these innovations and the associated processes are in the best interest of the customer. Errors in automated processes, incorrect use of source data and poor data quality can have adverse consequences for customers, such as exclusion, excessive lending or taking out inappropriate financial products. In addition, digitalisation increases the risk of fraud, which requires vigilance from both financial service providers and consumers.

Figure 2 Many insurers indicate that they are currently using or planning to use AI across different lines of business.

Usage to date



Expected evolution in the next 3 years



Source: EIOPA market survey (Q3 2023)

Financial products and services are increasingly integrated into the digital environment. Offering financial products or services through non-financial companies is also known as embedded finance. Examples include non-financial institutions that issue their own credit cards or make it possible to manage bank accounts or take out insurance while purchasing certain products (car, bicycle, travel etc.). While embedded finance can increase the accessibility and ease of use of financial services, it also poses risks in terms of consumer protection. The distribution of financial products and services is becoming more complex. In addition, clear information on these products, such as price, conditions and coverage, may be neglected. This increases the risk of mis-selling, under- or overinsurance, overlending or incorrect financial advice.

Investment apps influence consumers to take more risk in their investment decisions. Investment apps are digital platforms that allow users to buy and sell investment products primarily through applications on their phones. These apps give consumers access to a variety of investment products in an accessible way, from ETFs to riskier assets such as cryptos and contracts for difference (CFDs). Financial service providers are increasingly using behavioural insights in these investment apps to increase user engagement on such platforms. Examples include social networking tools, gamification elements, loyalty programmes and real-time engagement such as chatbots. These techniques are not always used in the interest of the client, for example when they are used to persuade clients to trade, possible excessively, including in risky assets. The AFM will continue to monitor the online choice environment of investment apps, paying specific attention to negative management.[18]

Tech companies are increasingly playing a role in the financial sector, creating new dependencies. The chain of service providers within the financial sector is becoming increasingly complex. Among other things, the use of APIs (application programming interfaces) allows third parties (such as fintech companies) to offer their services through financial service providers. In this way, a financial service provider can also easily pass on products from other parties to its own customers. This creates new dependencies on parties that are not always (financially) supervised. There is a risk that customers will be offered inappropriate products and services in such an environment. In addition, due to the increased costs of developing new applications (such as GenAI applications), financial service providers are becoming even more dependent on third parties, such as big tech parties or small niche players, from whom they purchase their applications.

The increase in data collection and the growing frequency of cyberattacks and ransomware incidents lead to a higher risk of cybercrime. Companies are collecting more and more (confidential) data, while the ease with which attacks can be carried out (the Crime-as-a-Service ecosystem and the use of GenAI) is growing. Financial service companies are an attractive target for cybercriminals, as they hold large amounts of personal and financial information on their customers. Cyberattacks can result in a temporary interruption of service. The management of cyber risks is crucial and focuses not only on financial service providers but also on the (external) chain parties and intermediaries. Market participants will have to manage cyber risks in a complex ecosystem of external applications and collaborations. DORA will apply to large financial service providers, which will create legal obligations regarding ICT risk management. DORA does not apply to smaller financial service providers, but it is also very important for these parties to manage cyber risks and to be vigilant.

Sustainability

Sustainability remains important, including in the field of financial services. This is a major responsibility for financial companies, including investment firms, pension administrators, insurers and advisers. Examples include integrating sustainability into the development and distribution of financial products and creating realistic expectations about the degree of sustainability of their products. Financial service providers are increasingly working on this. When efforts fall short, this poses risks to the customer's interest and the sustainability transition.

18 'Risks in the choice environment of crypto apps', AFM, April 2024.

Financial firms should make efforts to integrate sustainability into the development and distribution of financial products. Investors must be informed about the risks associated with a financial product or service. In addition, financial institutions have a duty to try to offer appropriate products and services. Financial institutions should make further efforts to (i) integrate sustainability provisions in the development and distribution of financial products and (ii) make the suitability test more understandable and careful. The associated risk, that investors will not get the products that match their sustainability goals, is currently high. However, we also see the risk that consumers will be excluded from certain sustainable products and services, for example in the case of insurers where consumers who do not act sustainably are no longer insurable. At the same time, the AFM also sees the opposite risk, namely that insurers will actually delay the sustainability transition by being reluctant to insure new, sustainable technologies due to more uncertainties and possibly higher risks.

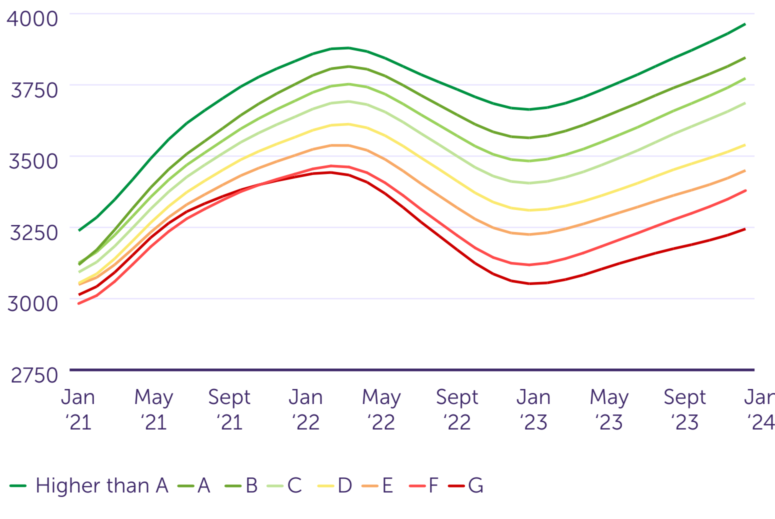
Providers of sustainable financial products and services need to use understandable language and set realistic expectations. There is a risk that financial institutions will create false expectations regarding the sustainability of their products and services. It is therefore important that the provision of information about the sustainability of products and services is presented in a clear and understandable manner. The risk is that investors – including pension participants – and advisers will not be able to properly understand, assess, compare or provide appropriate advice on the sustainability of investment products. This concerns, for example, the unambiguity and comparability of SFDR information. In addition, there is a risk that financial service providers may make false sustainability claims about their products or practices, misleading consumers about their true impact (greenwashing).

Over the past two years, the price differences between energy-efficient homes and homes with a poorer energy label have increased (Figure 3). This is a logical consequence of rising energy prices and further awareness among households with regard to sustainability. As of 1 January 2024, the amount of the maximum mortgage depends on the energy label of the home. Buyers of energy-efficient homes have lower energy costs and can therefore get a higher mortgage. At the same time, this means that the borrowing capacity is lower for homes with an E, F or G label.[19] In addition, there is extra mortgage space for making the owner-occupied home more sustainable, but this is hardly used. Most homeowners can finance their own home sustainability with savings.[20] This widens the gap between homeowners who have money to invest in sustainability, and thus want to save money on energy costs, and homeowners who cannot invest from their own resources. As a result, they experience higher energy costs and a slower increase in the value of their homes.

19 'Advies hypotheeknormen 2024', Nibud, September 2023.

20 'Almost all Dutch homeowners able to finance climate measures', DNB, April 2024.

Figure 3 The price difference between energy-efficient homes and homes with a poorer energy label is increasing.

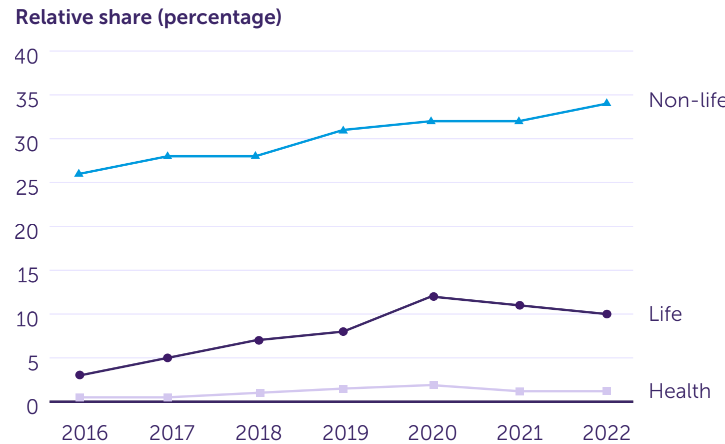


Source: NVM/Brainbay

Internationalisation

Cross-border financial services are on the rise in a number of markets. This increase is particularly evident among non-life insurers and investment service providers (Figure 4). The development of cross-border financial services has advantages and disadvantages. The benefits for consumers lie in the lower costs resulting from increased competition and access to a wider range of products. But there are also disadvantages of cross-border services. For example, service providers from abroad might put less focus on the interests of the customer, such as providers of speculative investment products. In addition, PARP standards are viewed differently abroad[21] and the scope for the AFM to intervene in the event of poor service is more limited. This is because in the case of cross-border financial services the 'home supervisor' from the country of licensing is primarily responsible for supervision, which means that the 'host supervisor' has limited powers. The AFM is focusing on various activities to achieve a more level European playing field and more effective supervision, including by working at the policy level to increase the powers of host supervisors of investment services.[22] In addition, the AFM focuses on strengthening cooperation with national, European (ESMA, EBA, EIOPA) and international regulators (IAIS and IOSCO).

Figure 4 For various insurance products, the share of foreign insurers is increasing.



Source: DNB

21 Standards that relate to the Product Approval and Review Process.

22 In 2021 the AFM, together with the French regulator AMF, published concrete proposals for improving the powers of the home supervisor in a position paper.

Integrity and criminal behaviour

Consumers must be vigilant against illegal crypto providers, even after MiCAR enters into force. With effect from 30 December 2024, companies active in crypto services must hold a MiCAR licence or notification. As a result, these parties are also subject to AFM supervision. Despite the introduction of this licensing requirement, there is a risk that active crypto providers may not have the necessary licence and will therefore be offering cryptos illegally. In doing so, they may wrongly give the impression that cryptos are less risky due to MiCAR. Another area to consider is the risk of market manipulation, such as orchestrated price increases with the aim of dumping cryptos at a higher price (pump and dump).[23] The AFM is committed to identifying and tackling illegal crypto activities and will encourage consumers to check whether their crypto service provider has the correct licence.

Fraudulent financial service providers involved in large-scale mortgage fraud disadvantage consumers and mortgage providers and damage trust in and integrity of the financial sector. Financial service providers can be involved in mortgage fraud in a variety of ways: committing fraud themselves, turning a blind eye to fraud or inciting fraud (Text box 1). When it comes to mortgage fraud, payslips, annual statements or employer's statements are usually forged and used when applying for a mortgage. As financial service providers have access to credit providers, they can also give criminals access to the real estate sector. Although mortgage fraud is not a new phenomenon, there is a worrying development whereby financial service providers collaborate with organised crime groups.[24] Mortgage fraud turns out to be a relatively easy business model. The AFM is therefore particularly vigilant about this form of fraud, as it ultimately damages trust in and the integrity of the financial sector.

23 'AFM warns against crypto pump-and-dump schemes', AFM, September 2024.
24 'Tien aanhoudingen voor grootschalige hypotheekfraude', Dutch National Police, May 2024.

Text box 1 Mortgage fraud
Financial service providers can be involved in mortgage fraud in a variety of ways.

First, financial service providers can take an active role in mortgage fraud. Financial service providers can, with or without collaboration with the client, amend employer's statements or payslips with the aim of obtaining (a higher) mortgage loan for the client. The motive of the financial service provider may be that the financial service provider receives remuneration when the mortgage is approved, so there is an interest in declaring a (fictitious) higher income to the mortgage provider.

Second, a financial service provider can actively cooperate with third parties in committing fraud. This is often done by administrative offices or self-employed persons who act as sub-intermediaries. By falsifying mandatory documents, such as income data or employer's statements, mortgage providers are misled. This collaboration with third parties makes it difficult for mortgage providers to detect fraud. Additionally, administrative offices, for example, do not fall under the supervision of the AFM, which makes this form of fraud more difficult to tackle. Cooperation between the AFM and chain partners should strengthen this supervision.

Lastly, a financial service company may take a more passive role in committing mortgage fraud. A financial service provider can deliberately look away or set up its business operations with insufficient safeguards, resulting in mortgage applications with false documents being forwarded to the mortgage provider(s) via the financial service provider(s). For example, the financial service provider may conduct little or no research into the applicant, the origin of the funds, the original statements from independent data sources such as annual statements or income tax returns, or the client's financial knowledge, position, objectives and risk appetite. This encourages the use of front-man arrangements for example.

In this scenario, the financial service provider minimises its own role and does not comply with the duty to investigate that can reasonably be expected of a financial service provider.

When a financial service provider is knowingly or unknowingly involved in fraud, it damages trust in and the integrity of the financial sector. If fraud has been committed in the mortgage application, it is very likely that the mortgagee will not be able to bear the cost of the mortgage. This is because the mortgage was obtained based on incorrect data. As a result, the mortgage provider runs an increased credit risk and the mortgagee runs a greater risk of financial problems. In the event of payment arrears, a mortgage provider can foreclose the collateral, leaving both the mortgage provider and the borrower with a residual debt. In addition, mortgage fraud creates an unfair playing field for other (bona fide) buyers. This damages confidence in the financial sector. Mortgage fraud can also facilitate money laundering, which undermines the financial system.

Risk Map **for Financial Services**

Assessent risks
- High
- Increased
- Very high

- Increase
- Constant
- Decrease

The risk maps describe risks that may arise or accelerate as a result of the above trends and developments.

Keywords	Specific risk	Drivers	Importance
Pension transition	The pension transition creates unrealistic expectations about the pension when the information is not correct, clear, timely and balanced. The pension scheme is not in line with the risks that pension participants can and/or are willing to take. In addition, pension participants do not understand the importance and impact of decisions they make. Due to increased workload and new business operations at pension administrators, pension participants' questions and complaints are insufficiently addressed.	• Laws and regulations	Very high / Increase
Risky investment products	Consumers buy risky investment products without being aware of the risks or checking whether these products fit their situation. High-risk investment products include cryptos, CFDs or other investment products that use leverage. Targeted and aggressive marketing, for example via social media (finfluencers) or in investment apps, is used to increase the trading frequency and risk appetite of consumers.	• Digitalisation • Internationalisation • Laws and regulations	Increased / Constant
Embedded financial products and services	Easy access to embedded financial products and services leads to mis-selling, under- or overinsurance, overlending or undesirable or incorrect financial advice, because information on the financial product (e.g. price, conditions, coverage) becomes low-profile. In addition, the distribution of embedded financial products and services is more complex and less transparent, which means that consumer protection comes with less guarantee.	• Digitalisation • Internationalisation	High / Increase
AI in financial advice and products	The use of AI in financial advice, insurance products and credit underwriting leads to risks to the customer's interests, from risk selection and premium differentiation to exclusion. If AI is used uncontrollably, there is a risk of a 'black box', which leads to non-transparent and less appropriate financial advice. Increasing automation, outsourcing and digital (external) source access cause errors in decision rules or algorithms, with adverse consequences for consumers regarding advice and distribution.	• Digitalisation	Increased / Increase
Exclusion from payment services	Digitalisation restricts access to and use of basic payment services for certain customer groups, such as consumers with limited digital skills, even though having a (basic) payment account is a precondition for participation in society.	• Digitalisation	High / Increase
Overlending	Consumers with high loans are moving towards alternative, riskier ways of financing purchases, such as payday loans, buy-now-pay-later, forms of (private) leasing or financing based on a single-premium valuation. Excessive loans or the stacking of loans make consumers vulnerable in the event of a decline in purchasing power, a change in personal circumstances or a rise in interest rates. Mortgage overlending can also arise in the event of a (substantial) drop in the value of a home due to climate risks.	• Macroeconomic developments	Increased / Constant
Mortgage fraud	Fraudulent financial service providers actively or passively facilitate mortgage fraud, which damages trust in and the integrity of the financial sector. In addition, mortgage fraud increases the mortgage provider's credit risk and increases the 'borrower's risk of financial problems. Particularly when financial service providers cooperate with third parties, it is difficult for mortgage providers to detect fraud.	• Macroeconomic developments • Laws and regulations	Increased / Increase

2. Capital markets

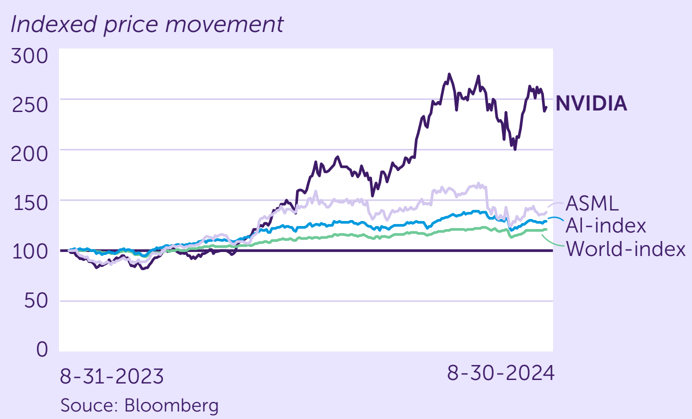
THIS CHAPTER IN 1 MINUTE

- There are **high expectations for AI in capital markets**.
- Market players are increasingly incorporating **digitalisation into their business operations**. Among other things, this means that the market is becoming increasingly interconnected.
- Limited availability of **sustainability data** weakens the information position of investors and reduces the efficiency of investment decisions.
- It is important to accelerate the realisation of a **European Capital Markets Union**.

The returns of AI are mainly driven by specific companies, such as NVIDIA.

Stock prices are being driven particularly by the sky-high expectations surrounding AI. Global records in equity markets have been broken again this year.

Indexed price movement

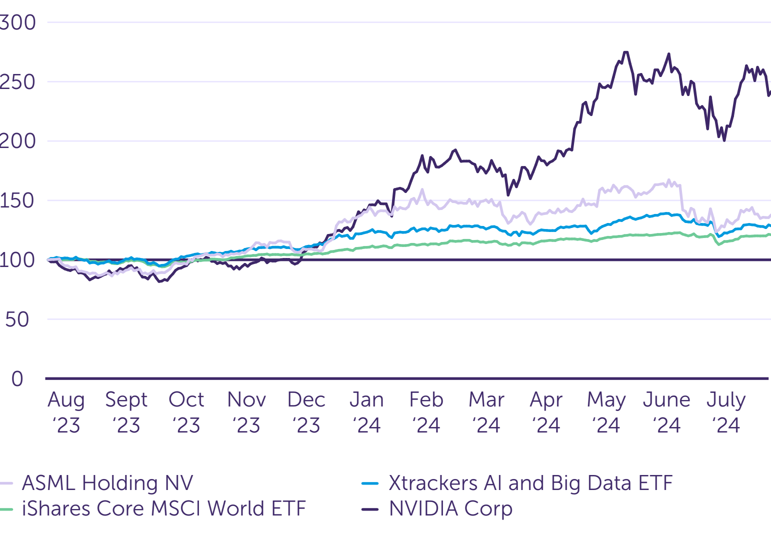


Souce: Bloomberg

General developments

There are high expectations for AI in capital markets. Whereas in recent years monetary policy aimed at curbing inflation was a key driver in capital markets, this year stock prices are being driven particularly by the sky-high expectations surrounding AI (Figure 5). Largely due to these expectations, global records in equity markets have been broken again this year. The valuations of AI-related companies are largely based on unrealised potential. If developments deviate from the high expectations, this could impact stock prices. While historical parallels with previous bubbles such as the dot-com bubble are not readily valid, there is still the risk that investors may have unrealistic expectations for the future, which is characteristic of a bubble.

Figure 5 The returns of AI are mainly driven by specific companies, such as NVIDIA.

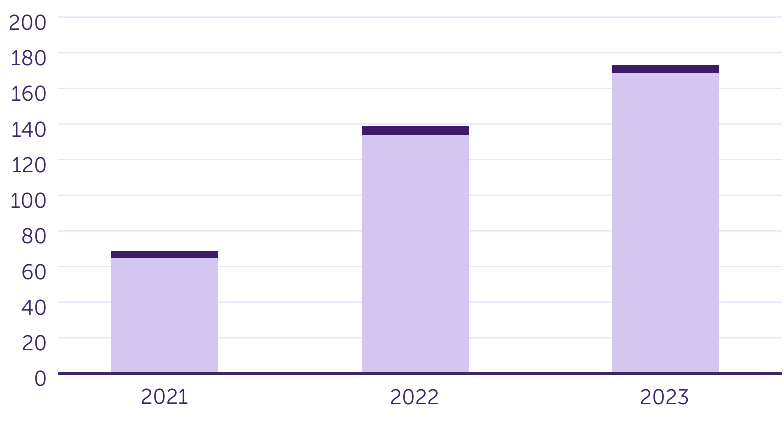


Source: Bloomberg

Capital markets in the EU are vulnerable due to dependencies on countries outside the EU. Despite the relocation of a significant number of operators from the United Kingdom (UK) to the European Union (EU) after Brexit, European capital markets are heavily dependent on the UK. In particular, the UK is dominant in trading and clearing services for currency and euro-denominated derivatives. As an illustration, more than 90% of euro-denominated interest rate derivatives are cleared in the UK (Figure 6).[25] One explanation for this is network effects and cost efficiency. For example, clearing becomes cheaper and more efficient when as many products as possible are cleared by as many parties as possible at a single CCP. However, this concentration can lead to market power and be to the detriment of competition and innovation. In addition, the (digital) infrastructure of capital markets is also highly dependent on, especially American, big-tech companies. Consider the global reliance on four major cloud computing companies: Amazon Web Services, Microsoft Azure, Google Cloud and Alibaba Cloud. Together, they account for 70% of the market (Figure 7). Around 80% of European financial institutions use the cloud in some way for their services. This concentration of non-EU players creates strategic dependencies that make the European Union and European capital markets vulnerable to geopolitical and economic shocks.

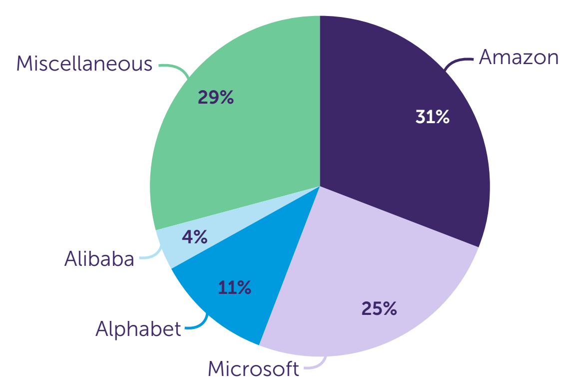
25 'EU scales back ambitions for post-Brexit clearing land grab', FT, February 2024.

Figure 6 The majority of euro-denominated interest rate derivatives are cleared in the UK.



Source: Clarus[26]

Figure 7 The market for providing cloud services is highly concentrated.



Source: Synergy Research Group[27]

International political developments create uncertainty in capital markets regarding potential policy changes and their economic impact. The current geopolitical environment has become challenging, partly due to elections that are being held in numerous countries this year. Financial markets traditionally exhibit volatility during elections due to uncertainty about potential policy changes and their economic impact. For example, the elections in the US carry the risk of (increased) import tariffs on goods from China and Europe, as well as potential tax cuts in the US. In addition, there is uncertainty about the future of crypto-assets and how policy changes could lead to regulatory divergence between the US and the EU. This uncertainty usually results in short-term fluctuations, but the impact of policy changes has a major impact on capital markets in the long term.

26 'CCP Volumes and Share in IRD', Clarus, January 2024.
27 'Huge Cloud Market Sees a Strong Bounce in Growth Rate for the Second Consecutive Quarter', Synergy Research Group, April 2024.

Digitalisation

Market players are increasingly incorporating digitalisation in their business operations, which means that the market is becoming increasingly interconnected. In addition to the market infrastructure (e.g. through the use of algorithms), the use of new technologies also changes business operations. For example, a large part of the IT in the financial sector is outsourced to third parties, mainly large or specialist (tech) companies from abroad. Although all kinds of European laws and regulations impose requirements on outsourcing, in practice there is less possibility of direct control on foreign IT companies. On the one hand, there is a risk that market participants will not have sufficient understanding of and control over their changed business operations and that the safeguards envisaged by regulations will no longer be realised. On the other hand, there are concentration risks around important chain parties. Because of the interconnectedness around these parties, one crucial party can disrupt the entire market if it collapses.

Text box 2 Digitalisation leads to RegTech and SupTech

Technological innovations in the financial sector are increasingly used to improve regulatory compliance and strengthen oversight through automation and data analytics. Through digitalisation, market participants are exploring how they can meet regulatory requirements more efficiently (RegTech). At the same time, regulators in general and the AFM specifically see opportunities for more effective digital supervision (SupTech). The fact that there are two terms suggests (possibly rightly) that current applications are largely created in isolation, while there are plenty of opportunities to achieve a common goal through collaboration.

Regulatory technology, also known as RegTech, refers to technology that supports financial compliance with laws and regulations. It covers any type of application of technology-enabled innovation for regulatory, compliance and reporting requirements implemented by a regulatory financial institution with or without the assistance of a RegTech provider.[28] The momentum for RegTech has arisen due to (i) the increased regulatory pressure on the financial sector (especially in the aftermath of the financial crisis of 2007-2011) and (ii) digitalisation of the financial sector, which has led to technological solutions becoming available to set up compliance processes more effectively and efficiently.

Supervisory technology, also known as SupTech, is technology that supports regulators in monitoring and enforcing (financial) laws and regulations. The momentum for SupTech, as it was for RegTech, has been created by improved technology. The digitalisation of the financial sector has led to technological solutions becoming available to make compliance processes more effective and efficient. If RegTech works well, then SupTech could only be a verification of what RegTech delivers. As a supervisor, we can be proactive, support supervised companies and help develop shared technology solutions that can simplify and improve the work of both companies and supervisors.

The areas of application of Sup/RegTech primarily focus on compliance, risk management, anti-money laundering controls, fraud detection, customer due diligence (KYC) and transaction monitoring. This leads to lower costs, a more stable system and reduced risks because advanced monitoring and data-driven analytics can identify and mitigate risks faster.

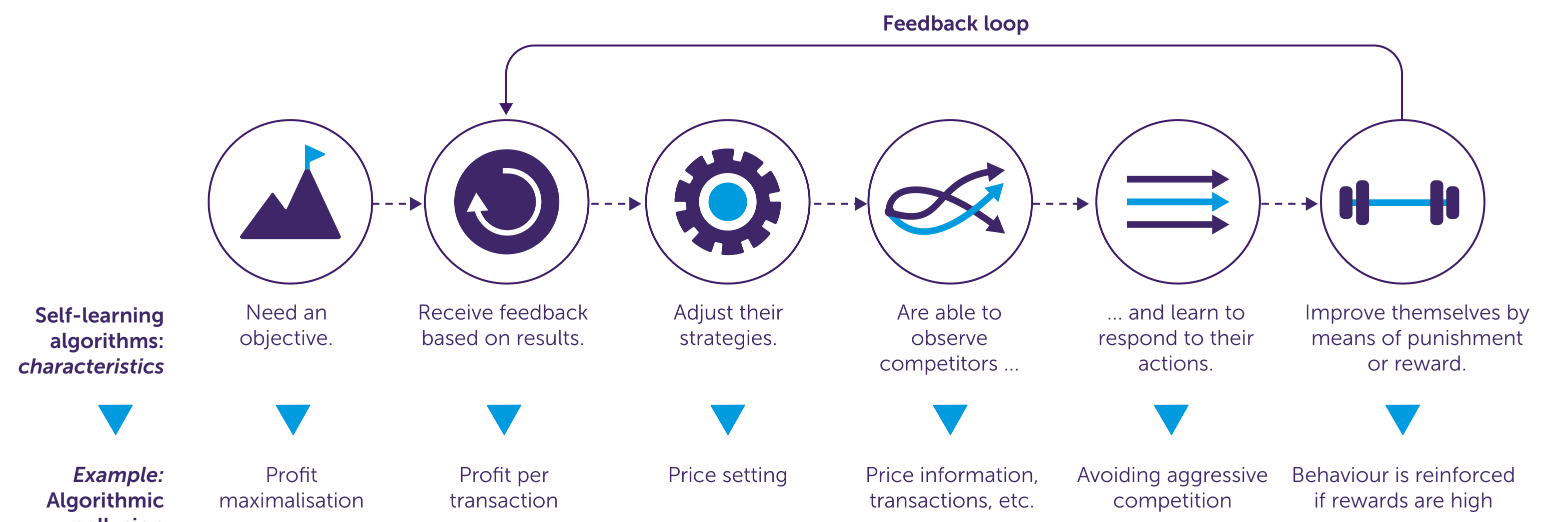
Although the benefits of collaborating seem obvious, the reality is more complex. A key factor in this context is the relationship between the supervisor and the supervised entities. Under specific conditions, such as a shared ambition or legal framework, and for certain cases (such as exploration or standardisation), collaboration can be explored.

28 'EBA Analysis of RegTech in the EU Financial Sector', EBA, June 2021.

Capital markets are affected in various ways by AI developments, leading to different new and existing risks. The use of AI requires a lot of investment in both people and capital. This means that wealthy companies have an advantage over small(er), less wealthy parties. Moreover, the collection of (big) data and expertise in AI technologies/models can create a high barrier to entry for new players. This limits competition and strengthens the market power of established big-tech players. Also, the popularity of AI means that financial stability risks can arise when the hype around AI cannot be lived up to. Company valuations, and therefore stock prices, may then fall. In addition, new risks such as AI washing are also emerging. In a similar way to greenwashing, investors are misled about the use and positive impact of AI in companies' revenue models.

The use of machine learning techniques (such as Reinforcement Learning)[29] can lead to a new class of algorithms that work together consciously or tacitly.[30] This is called algorithmic collusion and ensures that end-users of capital markets do not get the best outcome or, in some cases, may even be misled (Figure 8). To counter these forms of market abuse, we primarily expect market participants who use advanced trading algorithms to be aware of the risk of algorithmic collusion and act accordingly to eliminate this risk. In addition, further cooperation between national and international competition regulators, capital market regulators and AI use regulators should lead to better understanding and more effective detection. It may also be that, depending on developments and behaviour in the market, laws and regulations in this area also need to be tightened.

Figure 8 Algorithmic collusion: how algorithms learn to work together.



29 Algorithms based on reinforcement learning can learn from their own behaviours through trial and error and determine the best course of action in each situation.
30 'Trend Monitor 2024: Algorithmic collusion in capital markets', AFM, November 2024.

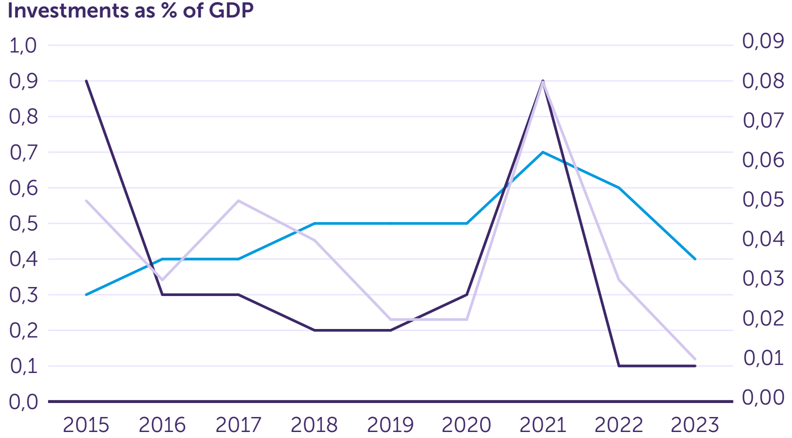
Cyber risks will continue to be relevant, even with the implementation of DORA. Capital markets are highly digitalised and market participants operating in capital markets tend to be too. Capital market participants are an attractive target for cyberattacks because of the crucial role they play in the proper functioning of capital markets. Examples include trading platforms and CCPs. In addition to financial damage, cybercrime can lead to risks to financial stability. These risks are exacerbated by geopolitical unrest, cooperation between cybercriminals and hostile state actors and far-reaching specialisation within the cybercrime chain. Attention to cybersecurity as part of controlled and ethical business operations is therefore still relevant. Some market participants will still have to take a few steps to be sufficiently resilient to cyber risks, including meeting the requirements of DORA.

Sustainability

Limited availability of sustainability data weakens the information position of investors and reduces the efficiency of investment decisions. Publicly listed companies are implementing various sustainability requirements, such as reporting obligations under the CSRD. Nevertheless, we see that they often regard sustainability as a separate theme. As a result, they are not yet sufficiently able to make the translation between sustainability and the impact of sustainability risks on their business operations. Additionally, their obligation to disclose insider information does not sufficiently take into account sustainability and sustainability risks. Ultimately, there is a risk that investors will not have the right information. This harms price discovery and ultimately undermines confidence in capital markets.

In addition, regulatory pressure makes private markets more attractive than public markets, to the detriment of investors' information position. The cost of sustainability reporting is generally high. To avoid these high costs, small- and mid-cap companies are more likely to turn to private markets for financing (Figure 9). Certain laws and regulations are less strict there. In addition, the social pressure and the short-term focus of investors is greater in public markets compared to private markets.[31] The risk of this increasing attractiveness of private markets is that investors will be forced to settle for less transparency, which will not benefit efficiency. On the other hand, investors often have more say in private investments, which may lead to higher (more sustainable) returns.

Figure 9 Investments in IPOs and SME IPOs are decreasing, while investment in private equity (PE) is increasing.



Source: European Commission

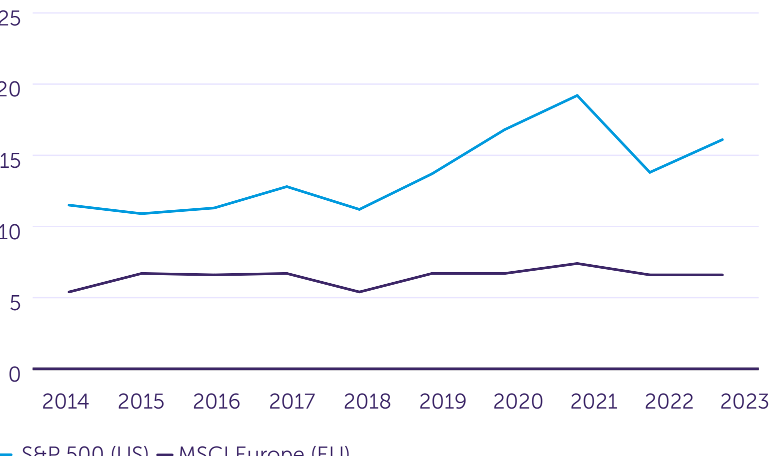
31 See, for example: 'Shaping the future of the Dutch capital market', Capital Amsterdam, May 2024.

Internationalisation

European capital markets are losing ground compared to American capital markets. For example, the relatively low liquidity in European capital markets makes it easier for companies in the US to obtain financing through public markets than in the EU. As an illustration, the total market value of all listed companies in the EU at the end of 2022 was just over a quarter of the total market value of all listed companies in the US (for illustration see Figure 10). In addition, trading volumes of European equities have fallen relative to trading volumes in the US.[32] Only 30 percent of non-financial corporations' financing consists of listed instruments in the euro area, compared to about two-thirds in the US. The number of IPOs in the EU also lags behind the US, with an increasing number of European companies moving to the US to raise capital.[33] In addition, stricter and fragmented regulation also makes European capital markets less attractive. This is reflected, among other things, in more extensive capital requirements (e.g. for proprietary traders), nationally organised third-country policies and other national exceptions (gold-plating). At the same time, network effects could play a major role, which may make some technical initiatives to strengthen European capital markets less effective and promising.

Due to fragmentation, European capital markets are insufficiently able to support the real economy, hindering any desire for greater strategic autonomy within the EU. Strong European capital markets are key to innovative growth, financing the sustainability transition and a competitive European economy. They are also important from the point of view of open strategic autonomy. However, European capital markets are fragmented, putting pressure on efficient capital allocation in the EU. In addition, the EU consists of 27 jurisdictions, each with its own legislative framework. This includes, among other things, the implementation of European financial legislation, but also, for example, other relevant legislation for the financial sector such as corporate law and tax legislation. In addition, the supervisory landscape is also fragmented, with differences in the implementation and interpretation of policy. Legislation that makes it easy for individual Member States to operate in the European single market (passporting) leads to undesirable side effects, such as the possibility of regulatory and supervisory arbitrage.

Figure 10 Capital markets in Europe and the US are increasingly diverging.



Source: Bloomberg, IMF

Laws and regulations in the United Kingdom and the European Union are likely to diverge further in the coming years. Although regulatory divergence between the UK and the EU around capital markets has so far been limited, the likelihood that the two markets will grow further apart in the coming years is increasing. This is mainly due to new laws and regulations that are being explored and implemented in both the UK and the EU. For example, the British regulator FCA has conducted several consultations aimed at strengthening the issuance climate.[34] A political agreement on the Listing Act has also been reached in the EU. It contains directives and regulations aimed at simplifying and

32 'Equity-Market Liquidity Is Leaving Europe', AFME, June 2023.

33 See, for example: 'Overcoming the European Tech IPO Challenge', McKinsey & Company, July 2024.

34 'Proposed new rules to encourage companies to list in the UK and other market improvements set out by financial watchdog', FCA, December 2023.

making the rules more flexible for stock market listings, especially for small and medium-sized enterprises (SMEs). The risks of increasing divergence include, for example, market distortions due to regulatory and supervisory arbitrage and higher costs for participants involved.

It is important to accelerate the realisation of a European Capital Markets Union. A sizeable and attractive European Capital Markets Union (CMU) would promote economic growth and strengthen financial stability. In addition to the European Commission's earlier plans, a committee led by former ECB President Mario Draghi recently called for an acceleration of the plans.[35] The AFM, together with DNB, is also calling on policymakers to complete current initiatives and to show ambition to realise a true European capital market. A concrete step in the short term could be the centralisation of supervisory data from capital markets. In addition, encouraging participation of retail investors and (European) pension products offers good opportunities. Finally, European policies to increase competition and access to capital markets are promising.[36]

Integrity and criminal behaviour

Social media and the spread of fake news are increasingly affecting capital markets. The number of people who consume news through traditional media is decreasing. On the other hand, the number of people who obtain information via social media is increasing sharply. The number of people who rely on social media for investment decisions is also increasing. The resulting risk is that parties will spread fake news in order to enrich themselves or influence politics and the financial sector. For example, *Deepfake* videos that try to mislead investors, or finfluencers who give financial advice and promote individual stocks to their followers without the relevant expertise, let alone a licence.[37] Hypes are also more easily (purposely) fuelled via social media, such as around the GameStop share, which was in the news again last year due to enormous price fluctuations (Figure 11). The growing availability and deployment of AI models amplifies these risks.

Figure 11 GameStop stock once again faced rumours on social media.[38]

Source: Bloomberg

Internationalisation and fragmentation of capital markets increase the risks of insider trading and market manipulation. Examples include cross-product and cross-platform insider trading and price manipulation in correlated cross-border products. These forms of market abuse are difficult to detect and tackle. Money is being made unfairly at the expense of other investors and confidence in the market is being damaged. In addition, the limited availability of data and the changing data position of national and international supervisors hinder

35 'The future of European competitiveness', EC, September 2024.

36 'Next steps for the European Capital Markets Union', AFM, DNB, February 2024.

37 'Beware of deepfake of CEO recommending stocks, says India's National Stock Exchange', Reuters, April 2024.

38 'GameStop shares soar again as 'Roaring Kitty' brings back meme stock mania', Reuters, May 2024.

effective supervision. The risks of these forms of market abuse are heightened by limited visibility of parties outside local supervision. Here too, in the European context, a strong Capital Markets Union with central European supervision is necessary to counter these risks in a more targeted manner.

With MiCAR, a first step has been taken in the regulation of cryptos, but it may lead to unrealistic expectations among investors. Investors should be aware that while MiCAR contributes to investor protection, risks remain in the crypto sector, even under MiCAR. There is a wide variety of crypto-assets and crypto-services. It is important that investors make well-considered choices, are well informed and are given the opportunity to do so by crypto service providers. Additionally, it is important for investors to realise that part of the crypto sector, despite MICAR, is not under supervision. Examples are decentralised trading platforms (DeFi) or 'non-fungible tokens' (NFTs). There will also be supervision of market manipulation in cryptos under MiCAR. However, due to the decentralised nature of cryptos, tackling market abuse in crypto markets is difficult.

Assessent risks

Increase
Constant
Decrease

The risk maps describe risks that may arise or accelerate as a result of the above trends and developments.

Keywords	Specific risk	Drivers	Importance
Market and cross-border market abuse	Internationalisation and fragmentation of capital markets may lead to new forms of market abuse that are difficult to tackle. Examples include cross-product and cross-platform insider trading and price manipulation in correlated cross-border products. Money is being made unfairly at the expense of other investors and confidence in the market is being damaged. Limited availability of data and insight into parties outside national supervision heightens these risks.	• Digitalisation • Internationalisation	Very high, constant
Control of algorithms	Uncontrolled use of trading algorithms (possibly including AI) puts pressure on the orderly functioning of capital markets. Poor control leads to errors in individual algorithms, such as coding errors or data errors. In addition, the use of machine learning algorithms and the interference between different trading algorithms lead to new forms of market manipulation that are very difficult to detect or tackle. These are caused, among other things, by inadequate laws and regulations.	• Digitalisation • Laws and regulations	Very high, increase
Digital operational resilience	The controlled business operations of market participants in the field of cybersecurity are lagging behind the requirements associated with far-reaching digitalisation on the one hand and an increase in cyberattacks on the other. This leads to financial damage, loss of (sensitive) data and risks to financial stability.	• Digitalisation • Geopolitical developments	Increased, increase
Infrastructure chain dependency	Capital markets are vulnerable to the failure of a single player in the infrastructure, severely disrupting the supply chain. Digitalisation and increasing laws and regulations, among other things, are raising barriers to entry, leaving just a few players in the supply chain. This puts pressure on the robustness of markets and financial instability.	• Digitalisering • Internationalisering • Wet- en regelgeving	Increased, increase
Declining efficiency of the price formation process	Market fragmentation and increasing concentration of a few market participants in capital markets are distorting the efficient pricing of capital markets. Declining confidence in price discovery in capital markets leads to reduced liquidity during normal trading hours and a concentration of trading around the closing auction. When liquidity moves to unregulated trading platforms, it harms confidence in capital markets.	• Digitalisation • Internationalisation • Laws and regulations	Increased, increase
Consolidation and market power	In parts of the market, a limited number of players with significant market power remain, which means that customers and end-users do not always get the best outcome. Market structure, such as market fragmentation and high barriers to entry, can lead to winner-takes-all outcomes. This applies, for example, to proprietary traders, trading venues or other parties that are crucial to the capital markets infrastructure. Ultimately, this leads to a loss of efficiency in capital markets.	• Digitalisation • Internationalisation	Increased, constant
Limited availability of data for investor decisions	Limited (central) sustainability, market and price information weakens the information position of investors and reduces the efficiency of investment decisions. Specific drivers such as greenwashing, but also (sharply) increased interest rates and refinancing of complex structured products, are reducing transparency and reliability for investors.	• Digitalisation • Sustainability	High, constant

3. Asset management

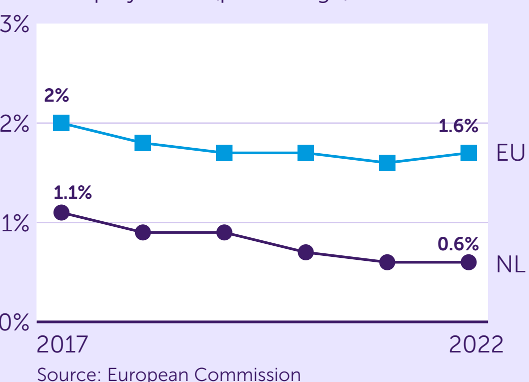
THIS CHAPTER IN 1 MINUTE

- **Outsourcing and consolidation** in the asset management sector continues, further intensified by the pension transition.
- While the **use of AI** can improve investment strategies and client services, it also comes with **inherent risks**, including biases in algorithms, poor data quality and a potential lack of transparency and explainability.
- **Managing sustainability risks requires** continued attention, especially when the quality of ESG data is limited.
- In the upcoming period, new European laws and regulations and the further establishment of the European Capital Markets Union will have an impact on the **playing field and competitiveness** of the European asset management sector.

Increasing margin pressure, partly due to the growth of passive investment instruments, has forced fund managers to strategically reposition themselves.

This has forced fund managers to reduce their costs in order to remain competitive. Equity funds (UCITS) are being offered to investors at an increasingly lower cost:

Costs equity funds (percentage)

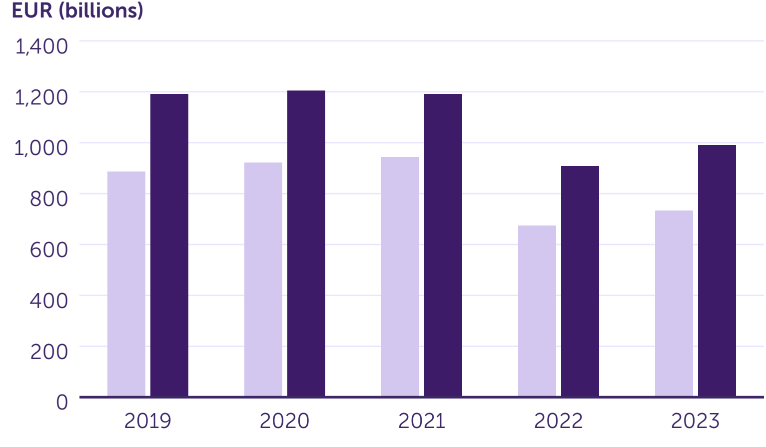


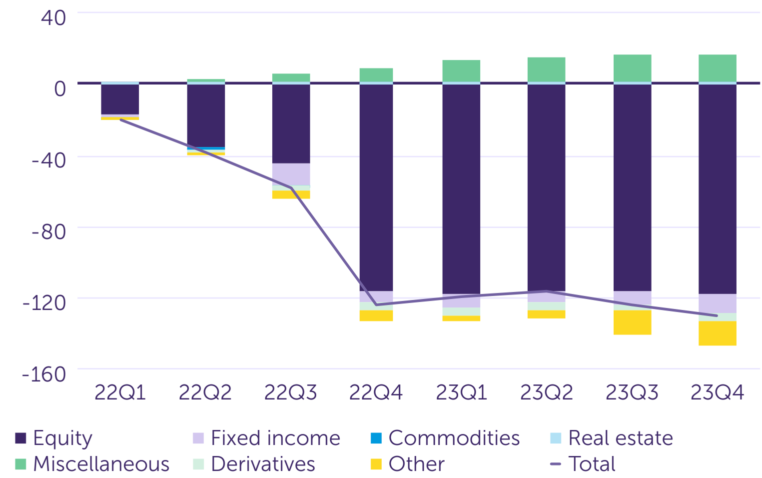
Source: European Commission

General developments

Even though assets in Dutch investment funds rose to approximately €990 billion, they have not yet returned to pre-2022 levels. Over the past year, stock prices have risen sharply, largely driven by high expectations around AI. The high expectations for AI are most evident in the valuations of technology companies, with investors willing to pay substantial premiums for firms well positioned to benefit from AI advances. The *Magnificent Seven* – comprising Google, Meta, Amazon, Apple, NVIDIA, Microsoft and Tesla – are trading at significantly higher valuations compared to the broader US equity market. Dutch, mostly technology-driven companies are also popular with investors. The increase in assets in Dutch investment funds was therefore largely driven by the positive returns on investments (Figure 12, top panel). In 2023, net outflows from Dutch investment funds amounted to approximately €6 billion (Figure 12, bottom panel). The vast majority of assets in investment funds come from pension funds, which achieved an average return of 8.7% last year.[39]

Figure 12 Top panel: Assets in Dutch investment funds increased in 2023 due to positive returns. Bottom panel: Cumulative net deposits in Dutch investment funds were stable in 2023 after a sharp decline in 2022.





Source: AFM calculations based on AIFMD data

39 '8,7% rendement voor pensioenfondsen in 2023', PensioenPro, April 2024.

Investment funds that invest in illiquid assets are particularly exposed to heightened liquidity and valuation risks. This is evident in (open-end) real estate funds and funds that invest in corporate bonds. When investment funds are forced to sell assets on a large scale, this can cause adverse price effects and thus potentially impact financial stability. Dutch real estate funds manage approximately €119 billion (at the end of 2023), of which €75 billion is invested in open-end funds. However, the liquidity risk of Dutch real estate funds is partly limited by the structure and character of this market segment. For example, investments are primarily made indirectly in real estate, which reduces liquidity risks. In addition, approximately 80% of the assets in Dutch real estate funds originate from pension funds, which are less likely to withdraw their investments all at once during periods of immediate liquidity need. Furthermore, most real estate funds have multiple Liquidity Management Tools (LMTs)[40] available to manage large outflows. Despite the limited liquidity risk of real estate funds, ongoing pressure in the commercial real estate market poses risks to certain individual investment funds. It is important that investment funds are always able to meet investor exit requests in an appropriate and fair manner.

The market for private credit has grown significantly in recent years and is becoming an increasingly interconnected part of the financial system. Private credit consists of loans to relatively risky companies provided by non-bank financial institutions. Private credit is attractive to investors because of its potentially higher returns. This higher return is because the companies that use this financing are often considered risky and usually have a relatively high level of debt. The private credit market has increased worldwide to a size of approximately US$2,100 billion. It is particularly large in the US and, to a lesser extent, in Europe. Pension funds and insurers are major investors in private credit. This leads to an intertwining of private credit and institutional money.[41]

Investments in private credit offer advantages, but also carry risks, primarily for investors but potentially also for the stability of the financial system. An increase in private credit investments can reduce the market's reliance on bank financing and contribute to a more diverse and competitive credit market. At the same time, credit risks in private credit are relatively high, partly due to the variable interest rate and the use of customisation in repayment schedules and collateral requirements. In addition, the illiquid nature of private credit, together with the absence of a public or secondary market, entails additional liquidity risks. The risk of correlated price declines increases because investors rely on third parties for the valuation of the underlying companies. Finally, the growing interconnectedness with the financial system poses a threat to financial stability. Given the limited size of Dutch private credit investment funds,[42] financial stability risks in the Netherlands appear to be manageable for the time being. However, the private credit market is not transparent due to a lack of (reliable) data. This could potentially be improved in the elaboration of the AIFMD reporting obligations.

Stability risks may arise from the interconnectedness of crypto-assets with the financial system, but this interconnectedness remains limited at present. For example, as of March 2024, ESMA has identified a total of 77 European investment funds exposed to crypto-assets. Together, these funds had estimated net assets (NAV) of two to four billion euros, which is only a small part (0.02%) of the total range of European investment funds.[43] In addition, we see that cryptos are mainly interconnected with each other and to a lesser extent with the traditional financial sector. This interconnectedness arises, for example, when financial institutions are exposed to crypto-assets, or through stablecoins that are pegged to fiat currency, such as Tether, and backed by a basket of financial instruments. Due to the limited interconnectedness, cryptos pose a limited risk to financial stability,

---

40 Liquidity Management Tools (LMTs) are tools that fund managers can deploy to manage their liquidity, particularly in times of stress. These are tools that offer managers flexibility in meeting redemption requests, such as temporarily locking up investment funds for withdrawals (suspensions). They may also prevent withdrawal fees being borne by investors who do not withdraw, for example by passing on an additional fee, i.e. redemption fees.

41 'The Rise and Risks of Private Credit', IMF, April 2024.

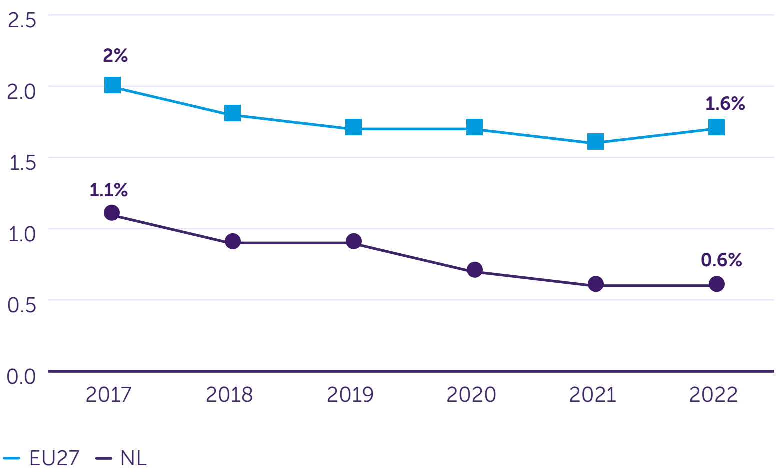
42 The size of Dutch private credit investment funds is estimated at €7 billion, see 'Financial Stability Report', DNB, June 2024.

43 'TRV Risk Monitor', ESMA, August 2024.

but due to their high volatility and vulnerability to fraud, they do pose a risk to investors. Further growth of the crypto market could lead to greater interconnectedness and thus stability risks.[44]

Outsourcing and consolidation in the asset management sector are continuing and are being strengthened by the pension transition. Pressure on margins, increasing laws and regulations and digitalisation are forcing asset managers to strategically reposition themselves. In particular, margin pressure has increased sharply in recent years, partly due to the growth of passive investment instruments. This has forced active fund managers to reduce their costs in order to remain competitive (Figure 13). Economies of scale are seen as a solution to these challenges, for example in the form of consolidation (acquisitions) and outsourcing to third parties. Asset managers outsource not only (investment) administration and IT but also regulated activities, such as portfolio and asset management.[45] The pension transition is driving this further, because it is an administrative challenge, especially for the smaller pension funds. If outsourcing and consolidation continue to grow, this could lead to concentration risks if many asset managers become dependent on a limited number of third parties or if only a few large asset managers with a dominant market position remain.

Figure 13 Equity funds (UCITS) are being offered to investors at an increasingly lower cost.[46]



Source: European Commission

44 'Financial Stability Report 2024', AFM, June 2024.

45 The AFM has conducted research on outsourcing in the asset management sector and observes that monitoring of outsourcing can be improved in several areas. The AFM provides recommendations regarding the qualification, structure and monitoring activities themselves, as well as monitoring in the case of outsourcing within a group and outsourcing of IT services. See 'The monitoring of outsource arrangements', AFM, October 2024.

46 Total ongoing expense ratio plus entry and exit fees, averaged over investment horizons of 1, 3 and 7 years (1 year and 5 years as of 2022).

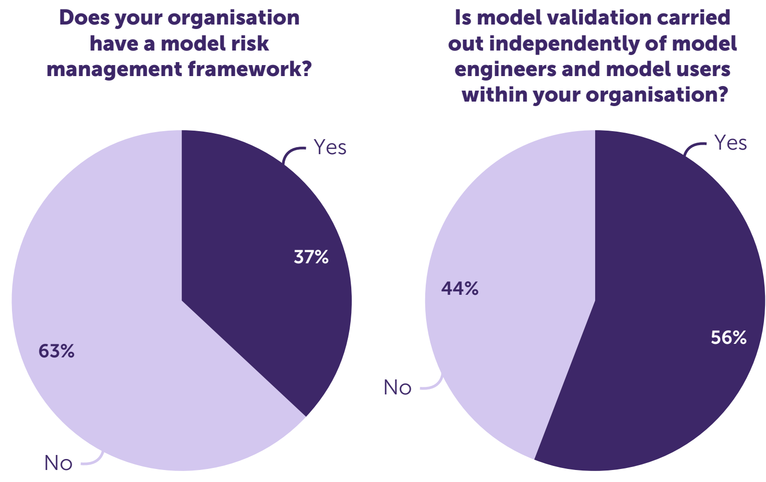
Digitalisation

Asset managers are increasingly employing AI-based applications in portfolio management, operational processes and investment strategies. At present, it appears that asset managers are primarily using AI to collect and analyse information and data. In this context, AI can lead to more efficient processes and reduced costs for institutions. In addition, AI can help asset managers to assess risks better and more consistently, provided they have high-quality and complete data and models that can be explained and controlled. The use of (generative) AI applications by asset managers is expected to increase further in the future. In particular, AI will improve portfolio allocations and market analysis and will be used to a lesser extent to make final investment decisions. It is important that asset managers are transparent with their clients about the role of AI in their investment policy or portfolio.

While the use of AI can enhance investment strategies and client services, it also carries inherent risks. These risks include biases in algorithms, poor data quality and a potential lack of transparency and explainability. After all, advanced AI models can make complex decisions that cannot be clearly explained, which can undermine the explainability and transparency of financial outcomes. Furthermore, the use of AI by asset managers can lead to dependency risks, partly because there is currently only a limited number of (mainly non-European) technology operators that can provide AI technology. In addition, valuation issues may play a role, especially for smaller AI-related companies and startups.

Risk management concerning the development, implementation and use of models within the asset management sector is becoming increasingly important due to the growing complexity of these models. Due to the growing availability of data and the added value of data analytics, asset managers are increasingly using (AI) models to support portfolio management and risk management decisions. Thanks to new techniques such as Machine Learning (ML), these models are becoming increasingly sophisticated. The increasing use and complexity of these models heightens the risk that asset managers may use incorrect models or misuse models, i.e. model risk increases. To reduce this risk, it is essential for asset managers to implement appropriate control measures. A survey of investment firms shows that 37% of institutions have implemented a model risk management framework to address model risk. Of these institutions, 56% subsequently indicated that they have their models independently validated (Figure 14). Although no comprehensive conclusions can be drawn for the entire asset management population based on these figures, it can be inferred that there is still work to be done by asset managers in the area of risk management, especially as they are likely to use (complex) models increasingly in the future.

Figure 14 Model risk management will require more attention from asset managers.



Source: AFM SREP survey among investment firms (Q3 2023)

Asset management parties are more often the target of cyberattacks, and the severity of the attacks is increasing. The increasing use of and reliance on IT systems makes asset managers increasingly vulnerable to cyberattacks and other IT-related incidents. This risk is increasing as asset managers increasingly outsource business processes to large service providers such as cloud platforms. Asset managers need to take robust measures to strengthen their digital operational resilience, even when outsourcing IT tasks. This includes implementing advanced security protocols, conducting regular risk assessments and ensuring their service providers' strict adherence to security standards. By taking such precautions, asset managers can effectively manage the risks of cyber threats and ensure the continuity of their services. Now that DORA has entered into force, initial thematic studies are also being conducted to gain insight into the extent to which institutions comply with the DORA requirements.

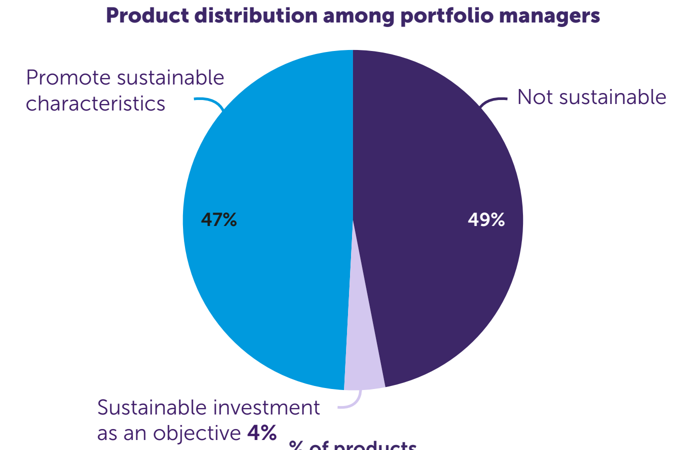
Sustainability

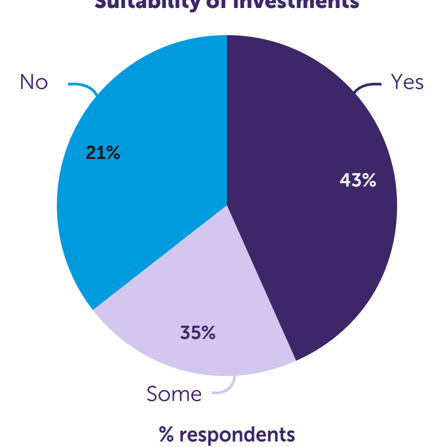
The asset management industry plays an important role in meeting client demand for sustainable investments. Asset managers have an impact on the climate transition through their investments. As a result, we see that asset managers are increasingly offering sustainable products. An AFM study of 233 asset management portfolios showed that sustainability is reported on for just over half of these portfolios (Figure 15, above).[47] Investment firms offering portfolio management and/or advisory services are required to gather information on 'the sustainability preferences of both new and existing clients. However, the diligence and accuracy of information collection have not yet reached the desired level. Additionally, a significant number of investment firms report that they are unable to provide their clients with suitable investments that align with those clients' sustainability preferences (Figure 15, below). The AFM therefore calls on investment firms to invest in expanding their investment offerings to better align with the sustainability preferences of their clients.

47 'Assist investors in finding sustainable investment opportunities', AFM, May 2024.

A growing range of investment products with sustainable characteristics does not necessarily mean that investments are becoming more sustainable. Within the framework of the SFDR, companies are allowed to set their own criteria for assessing whether an investment can be classified as a 'sustainable investment'. In the pre-contractual information for a product with sustainable characteristics or with sustainable investments as its objective, companies should include the minimum percentage of investments they will invest sustainably in accordance with these criteria. AFM research indicates that a significant proportion of the products promoting sustainable characteristics do not commit to making sustainable investments. Moreover, the share of investments in line with the EU Taxonomy criteria for sustainable investments was still limited in 2023. This share is expected to increase as companies start reporting more on their sustainability performance. ESMA's guidance on naming sustainable investment funds may help promote transparency.[48]

Figure 15 Although slightly more than half of investment portfolios report on sustainability, a significant proportion of investment firms indicate that they are unable to provide their clients with suitable investments that match their clients' sustainability preferences.





Source: AFM

48 'Guidelines on funds' names using ESG or sustainability-related terms', ESMA, August 2024.

Managing sustainability risks requires constant attention, especially when the quality of ESG data is limited. Sustainability risks – events that could potentially have a negative impact on the value of the investments – can occur in a variety of areas and have become increasingly important recently. Sustainability risks include not only physical, climate-related and environmental risks, but also transitional, social and governance risks. The failure to adequately integrate sustainability risks into portfolio management and risk management can lead to unforeseen value declines for investors, which can collectively impact financial stability. To accurately assess sustainability risks, it is essential to have accurate, timely and comprehensive ESG data. However, the quality of ESG data is still not at the desired level. This is partly due to the fact that many (physical) sustainability risks arise from the value chain, where there is less visibility. Further development of regulations will contribute to the improvement of data quality.

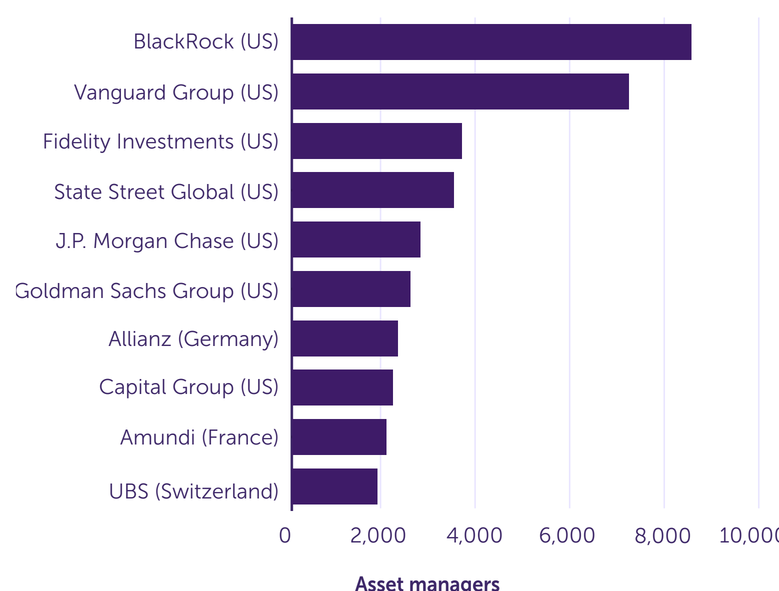
Nature-related risks require specific attention within risk management. There is growing evidence and attention paid to the fact that nature loss – in addition and in relation to climate change – poses significant risks to businesses, capital providers, financial systems and the economy. These nature-related risks cannot be captured in a single indicator and are even more difficult to quantify than climate risks. The data availability for nature-related risks is also lower than for climate risks. For asset managers, this makes it more difficult to manage these risks adequately; after all, financial risk management that is essentially quantitative cannot simply be extended to include one or more indicators of nature-related risks. Since biodiversity loss and other nature-related risks are currently relevant and material for many investments, waiting for better data and measurement methods is not an option. This means that more emphasis in asset managers' risk management should be placed on alternative, qualitative approaches to identify and manage nature-related risks, such as different types of analyses (heat map or scenario analyses), and that governance should support adequate decision-making in this regard.

Internationalisation

Among other factors, the growth of passive investing has allowed a few large firms, primarily based in the United States, to dominate the global asset management sector. In recent years, there has been a global outflow of assets from actively managed funds and an inflow into passive funds, primarily in the form of ETFs. Worldwide, more assets are now passively invested than actively invested.[49] Since passive funds offer little differentiation in terms of portfolios and manager quality, investors tend to opt for funds with the lowest fees. It is the large asset managers who can offer these low costs by effectively leveraging economies of scale. Consequently, the asset management sector is dominated globally by a few large, predominantly American asset managers (Figure 16). This increasing concentration poses a risk to financial stability, as an external shock affecting a dominant player could lead to large-scale liquidations of their funds, potentially causing financial difficulties for other players as well.[50]

49 'Global passive equity funds' assets eclipsed active in 2023 for first time', Reuters, February 2024.
50 'The Shift from Active to Passive Investing: Potential Risks to Financial Stability?', Federal Reserve Bank of Boston, May 2020.

Figure 16 In the global asset management sector, a number of large, mainly American parties are dominant.



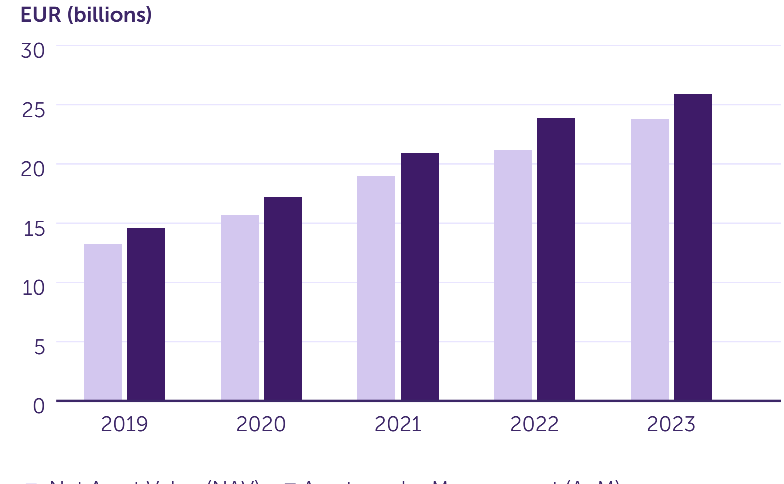
Source: Thinking Ahead Institute

In the coming period, new European laws and regulations and the further establishment of the European Capital Markets Union will have an impact on the playing field and competitiveness of the European asset management sector. The playing field and competitive position of the asset management sector is largely determined by European laws and regulations. An important development in this regard is the further establishment of a European Capital Markets Union (CMU). A CMU will attract more foreign investment to the EU, which can further increase the competitiveness of European companies and the liquidity of investments. In addition, the centralisation of supervisory data and supervision from Europe may improve the efficiency of supervision for international asset managers. An important part of the plans for a European Capital Markets Union is the harmonisation of European laws and regulations. This is also reflected in the revision of current laws and regulations, such as the AIFMD. The aim of this revision is to ensure harmonised rules on liquidity management tools, a specific framework for debt funds and greater transparency in the area of outsourcing.

Integrity and criminal behaviour

There has been an increase in the number of asset managers who are allowed to offer funds without a licence, which increases the risk of fraud and criminal activities. The AFM has seen the number of AIFMD 'light' managers in the Netherlands, as well as the assets they manage, grow strongly for years.[51] At the end of 2023, Assets under Management (AuM) amounted to almost €26 billion (Figure 17). These light managers are also allowed to offer their funds (under certain conditions) to retail investors,[52] without having an AFM licence and having to comply with the requirements that apply to authorised managers of alternative investment funds (licence holders). At the end of 2023, 42% of the Net Asset Value (NAV) [53] of AIFMD 'light' managers originated from retail investors. In many other European countries, it is prohibited to offer products to retail investors, or stricter conditions apply. The AFM investigates whether, and to what extent, there is an increased risk of criminal behaviour within this population. For example, there is a risk that light managers will provide misleading information to investors or prioritise their own interests or those of affiliated companies or individuals, resulting in damage to investors. In addition, there is a risk that light managers will commit fraud or embezzlement, as well as launder criminal (foreign) funds.

Figure 17 Assets under management by AIFMD 'light' managers are steadily increasing.



Source: AFM

51 'AIFM-light Marktbeeld', AFM, november 2024

52 'Retail investors' refers to investors who do not meet the criteria set out in Annex II of Directive 2014/65 (the MiFID II Directive).

53 The Net Asset Value of a fund is the value of all assets of a fund minus the debts.

Risk Map **for Asset Management**

Assessent risks

The risk maps describe risks that may arise or accelerate as a result of the above trends and developments.

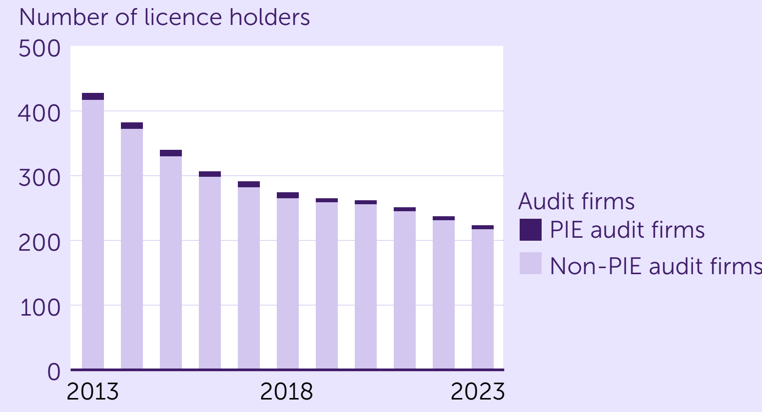
Keywords	Specific risk	Drivers	Importance
Consolidation and market power	The changing environment – including scale and margin pressure, the rise of (online) passive investment and increasing laws and regulations – is leading to a strategic repositioning of asset managers in the form of (cross-border) mergers and acquisitions. As a result, just a few players with a dominant market position remain in both the market and the supply chain. This may not lead to the best outcome for investors.	• Digitalisation • Internationalisation • Laws and regulations	Increased, Constant
Liquidity risk	Substantial outflows of assets or the use of excessive leverage cause liquidity problems for invest-ment funds. This risk is particularly relevant in times of market stress for open-end funds that invest in illiquid assets or for funds that make extensive use of derivatives. A discrepancy between the book value and market value of investments can amplify liquidity risk. This is particularly the case with commercial real estate or private equity funds, where valuation is hampered by insufficient market transactions.	• Macroeconomic developments • Geopolitical developments	Increased, Constant
Chain dependency	Outsourcing of activities, such as portfolio management, (investment) administration and IT to third parties, leads to chain dependence. If many asset management parties become dependent on a limited number of third parties, this leads to concentration and/or systemic risks (domino effect). Asset managers remain responsible for the activities they outsource to third parties and must therefore take sufficient control measures to guarantee services for clients.	• Digitalisation • Internationalisation	High, Constant
Digital operational resilience	Increasing use and dependence on IT systems makes asset managers vulnerable to cyberattacks and other IT incidents. Moreover, the increasing outsourcing of business processes to large service providers (such as cloud platforms) makes the entire asset management industry vulnerable to cyber incidents at such 'nodes'. Asset managers must take sufficient measures to ensure strong digital operational resilience, even when outsourcing IT.	• Digitalisation	Increased, Increase
ESG integration, control & communication	The failure to adequately integrate sustainability risks into portfolio management and risk management can lead to unforeseen declines in value for investors, which may collectively impact financial stability. Moreover, there is a risk of greenwashing if asset managers communicate in an unclear and/or incorrect manner regarding the sustainable characteristics of a product in their communication to investors. Both risks are exacerbated when accurate, timely and complete ESG data is lacking.	• Sustainability • Laws and regulations	Increased, Constant
AI in investment policy and operational management	Uncontrolled use of AI in both portfolio management and internal operational processes poses risks, such as potential biases and reduced transparency and explainability. In extreme cases, errors in algorithms or poor management of these risks can lead to financial instability. In addition, the increasing use and complexity of AI models increases asset managers' exposure to model risk.	• Digitalisation	High, Increase
Increase in AIFMD 'light' managers	An increasing number of AIFMD 'light' managers are permitted to offer their funds to non-professional investors without an AFM licence, which increases the risk of criminal behaviour, such as providing misleading information, prioritising their own interests at the expense of investors, committing fraud, embezzlement or laundering criminal (foreign) funds. As a result, investors are defrauded and society is undermined.	• Laws and regulations • Digitalisation	High, Constant

4. Accountancy and reporting

THIS CHAPTER IN 1 MINUTE

- The accountancy sector is facing **rising demand for audit and assurance services** against the backdrop of staff shortages.
- It is expected that audit firms will catch up with the use of innovations in the field of **digitalisation and data analysis**, including AI applications.
- The first annual reports based on the CSRD will be delivered in 2025. It is a major challenge for issuers to **report transparently and reliably on sustainability performance** and for audit firms to provide (limited) assurance in this regard.
- Audit firms are increasingly **outsourcing audit work to foreign entities**. It is important that they manage the accompanying risks.
- **Exam fraud** in the accountancy sector affects the **integrity of auditors**.

The number of licence holders shows a downward trend, *while the demand for audit and assurance work is increasing.*

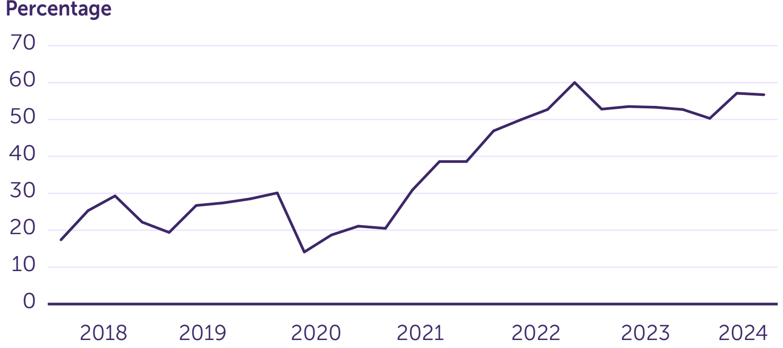


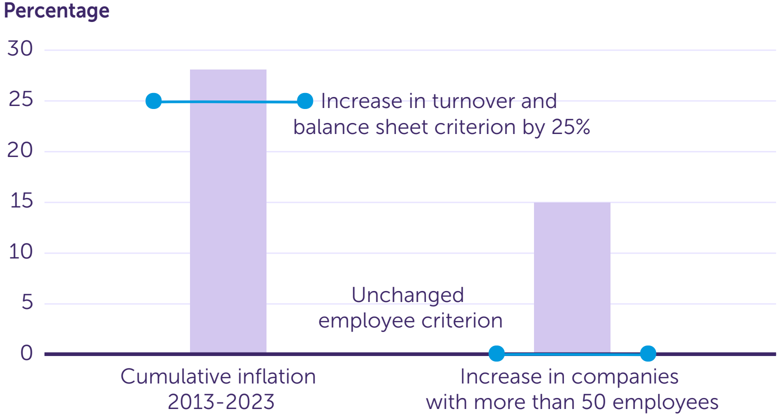
Source: Market Monitor 2013-2021; Data non-PIE and PIE audit firms 2022-2024.

General developments

The accountancy sector is characterised by increasing demand for audit and assurance services against the backdrop of staff shortages. More than half of audit firms indicate that they are facing staff shortages.[54] At the same time, the demand for audit and assurance work is increasing, partly due to the implementation of the CSRD and the growing need for IT assurance. The increasing social expectations regarding the role of the auditor in the timely identification of fraud and discontinuity risks also require extra time and attention from audit firms. The recent increase of the turnover and balance sheet criterion by 25% for the statutory audit offers only limited relief.[55] The increase is broadly in line with inflation since 2013 (Figure 18), when the previous criteria were established.[56] However, the criterion for the number of employees has not been adjusted, whereas the number of companies with more than 50 employees has increased. These developments – in combination with long-standing trends, such as the declining interest in accountancy education – mean that the shortage of staff is expected to continue in the coming years.[57]

Figure 18 The accountancy sector is expected to face staff shortages, and raising the criteria for a statutory audit provides limited relief in this regard.





Source: CBS

54 'COEN Conjunctuurenquête', CBS, April 2024. Figures relate to legal services and administration, which also includes law firms.

55 A statutory audit applies if a company meets two of the three criteria for two consecutive years: 15 million turnover (was 12 million), 7.5 million balance sheet total (was 6 million) and more than 50 employees (unchanged).

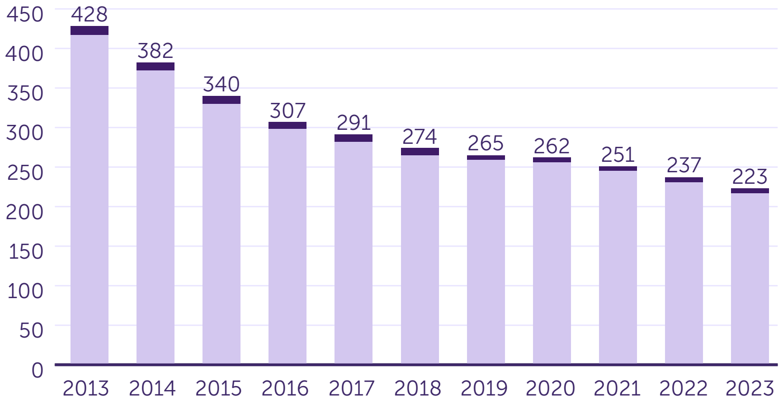
56 Note that inflation has risen sharply, especially since the coronavirus pandemic, and was relatively low before that. Therefore, this increase has not necessarily translated into an increase in the number of statutory audits. The AFM has previously estimated that the number of statutory audits will decrease by approximately 5% as a result of raising the criteria (see 'Sector in beeld 2023', AFM, November 2023).

57 'Sector in beeld 2022', AFM, November 2022.

Consolidation in the accountancy sector continues. The number of licensed audit firms shows a downward trend as a result of mergers, acquisitions and audit firms ceasing to operate (Figure 19).[58] Given that the number of statutory audits remains more or less the same, this decrease implies a higher number of statutory audits per audit firm.[59] The higher legal requirements and increased societal expectations with regard to a statutory audit, as well as an increase in the required expertise of the auditor, make it more difficult for smaller organisations to operate profitably. The consolidation of the sector is expected to continue steadily in the coming years.[60]

Private equity plays a prominent role in the consolidation wave. Private equity is a form of financing in which investors invest in companies outside the stock market. In the accountancy sector, the share of private equity investors is increasing. Stable turnover, attractive profitability and the need to invest in innovation make the accountancy sector popular with private equity parties. Although the share of these parties in the accountancy sector as a whole is currently still limited, it is expected to grow. In the segment of audit firms with a regular licence, we are already seeing signs of a strong increase. It is still unclear to what extent this growth will continue. Rough estimates indicate that up to a third of the market could eventually be in the hands of private equity investors.[61] The rise of private equity in the accountancy sector entails risks if the emphasis on financial performance comes at the expense of audit quality.[62] The AFM expects audit firms that are considering a private equity participation to properly weigh up and manage such risks.

Figure 19 The number of licence holders shows a downward trend.



Source: Market Monitor 2013-2021; Data non-PIE and PIE audit firms 2022-2024. Note: In 'Sector in beeld 2023', the 'monitor year' was used for this graph. This year, it has been decided to divide the data by financial year. In addition, a correction was made in the financial year of a number of audit firms. As a result, small differences can be seen in the number of audit firms in some years.

58 'Sector in beeld 2023', AFM, November 2023.

59 'Sector in beeld 2023', AFM, November 2023.

60 'Groot potentieel voor AI in de accountancy', ING, August 2024, and 'Accountancy wacht 'grote veranderingen', consolidatie in een dip', FD, January 2024.

61 'Accountantskantoren lopen het risico terecht te komen in een commerciële draaikolk', FD, June 2024.

62 'Private-equity-investeringen in accountancysector; houd oog voor het risico', AFM, April 2023.

The accountancy sector is also undergoing a reform process to sustainably improve the quality of statutory audits. The Accountancy Sector Amendment Act was submitted to the House of Representatives at the end of 2023 and is currently being discussed.[63] The bill proposes, among other things: the introduction of audit quality indicators, a power to designate in the event that companies cannot find an audit firm, governance requirements for the largest regular audit firms (internal supervisory body and suitability requirement for policymakers) and a clarification of the responsibility of audit firms for the quality of their statutory audits. In addition, in their final report, the 'Kwartiermakers Toekomst Accountancy' (a taskforce on the future of accountancy) mention revising the education programme for auditors as one of the most important follow-up actions.[64]

Digitalisation

Digitalisation affects the accountancy sector along three axes: the audited company, the statutory audit and the audit firm itself. Digitalisation is changing the processes, services and products of the audited company. Organisations are adopting new technologies in their processes, services and products. In addition to this automation, new business models are emerging that are often highly dependent on digitalisation. The leap that AI models have made in recent times gives digitalisation a further boost with new automation possibilities and the emergence of new revenue models. The (material) risks associated with this must be reflected in the reporting. For the auditor, this means that the performance of the statutory audit, the required expertise and the company's own business operations must adapt to this in a timely manner.

It is expected that audit firms will catch up in the use of data analytics, including in statutory audits. Digitalisation, data analysis and innovations around AI seem to lend themselves well to the accountancy sector.[65] Recent research by the PCAOB shows that American audit firms use (generative) AI applications for administrative tasks and searching for information, for example.[66] In the Dutch accountancy sector, however, the use of digitalisation seems difficult to achieve.[67] At the same time, innovations such as AI applications – given the staff shortage – can increase both productivity and the quality of audit work. It is therefore expected that Dutch audit firms will increasingly apply these innovations. Proper management of the accompanying risks is of great importance.[68]

Audit firms are an interesting target for cybercriminals, while at the same time the view of cyber resilience is limited. Cyber risks have become increasingly important in recent years. Based on their characteristics, audit firms appear to be an attractive target for cybercriminals (Figure 20).[69] They have a lot of sensitive information at their disposal, and certainly the larger audit firms are usually large, complex and international organisations. However, audit firms are excluded from DORA, which covers most financial institutions. This exclusion is therefore notable and limits the view of the cyber resilience of audit firms.

63 See Wijzigingswet accountancysector.

64 'Druk en tegendruk', final report of the Kwartiermakers Toekomst Accountancy, November 2023.

65 'Groot potentieel voor AI in de accountancy', ING, August 2024.

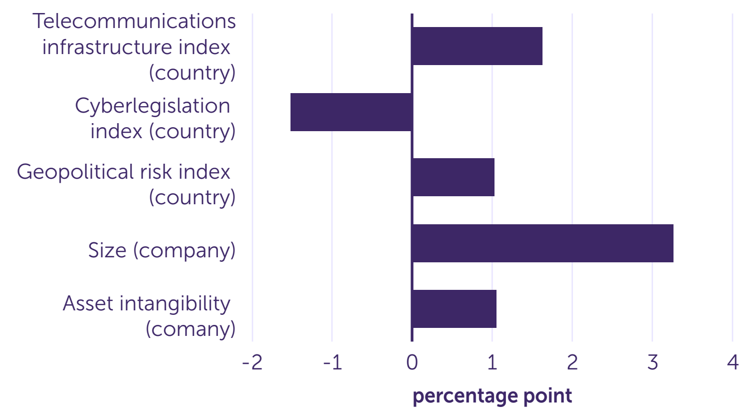
66 'Staff Update on Outreach Activities Related to the Integration of Generative Artificial Intelligence in Audits and Financial Reporting', PCAOB, July 2024.

67 'Druk en tegendruk', final report of the Kwartiermakers Toekomst Accountancy, November 2023.

68 'De impact van AI op de financiële sector en het toezicht', AFM and DNB, April 2024.

69 'Global financial stability report', IMF, April 2024.

Figure 20 Large organisations are more likely to have a cyber incident.



Source: IMF

Sustainability

The coming year will be dominated by the implementation of the CSRD and the delivery of the first annual reports according to this standard. The introduction of the Corporate Sustainability Reporting Directive (CSRD) has been in preparation for some time.[70] The first annual reports according to this standard will be published in early 2025. The double materiality analysis plays a key role in the CSRD. This gives users of annual reports insight into the impact, opportunities and risks in the field of sustainability and can provide input for the company's strategic direction.[71]

There is concern as to whether audit firms have sufficient capacity and expertise to provide (limited) assurance on sustainability information in a timely manner. Providing (limited) assurance for sustainability information is an important new task for audit firms. Providing this (limited) assurance requires new expertise and adaptation of the quality control system to integrate this expertise. This takes time and attention and may cause tension with the other statutory audit activities. The risk to the quality of statutory audits is somewhat mitigated by the fact that a limited degree of assurance is initially provided on sustainability information (limited assurance), rather than reasonable assurance. At the same time, there seems to be a need for a higher degree of certainty among some companies, and expectations may also be higher from a social point of view. Moreover, the option to allow independent assurance providers to audit sustainability information has not yet been used, which means that the (social) pressure remains on audit firms.

Smaller companies are also affected by the reporting obligations and it is questionable to what extent they are equipped to implement them. Although smaller companies are not directly covered by the CSRD, they are part of the value chain of larger companies that may be covered by the CSRD.[72] These larger companies will also map out the sustainability risks and impacts of the smaller companies in their value chain. As a result, smaller companies will also indirectly have to deal with the reporting obligations. For smaller companies, this can take up a relatively large amount of time and capacity, making it costly, especially if they are in the value chain of several large companies. It is important that these companies are advised and guided where necessary. Standardisation of reports can help with this where possible.

70 The formal implementation of the CSRD in Dutch legislation has been delayed. The implementation decision was presented to the House of Representatives on 12 June 2024, after which the Council of State must issue an opinion.

71 '10 Waypoints for CSRD – double materiality', AFM, July 2024.

72 'Tandarts en andere mkb'ers wacht nog een berg bureaucratie', FD, April 2024.

A broader question is to what extent the reporting obligations will contribute to more sustainable behaviour. The CSRD is aimed at providing transparency in sustainability information. The information that becomes available from the CSRD reports should lead to better management of sustainability risks and provide investors and other stakeholders with more insight into the sustainable performance of companies. The underlying goal is that this will lead to sustainable behaviour. It is still questionable to what extent this will be the case in practice. Against this background, it is striking that several companies, including outside Europe, are to a greater or lesser extent backtracking on previously set sustainability goals.[73] It is still too early to anticipate conclusions – after all, the CSRD reports have not yet been delivered – but it is important to continue to monitor the interaction between sustainable reporting and sustainable behaviour. In addition, the AFM calls for realistic targets to be set in order to avoid a possible expectation gap between what society expects from sustainability reporting and what companies and audit firms can achieve.

Internationalisation

Audit firms are increasingly outsourcing audit work. This typically involves outsourcing non-complex and routine work, such as routine audits, regular policy reviews or performing standard analyses. These activities are outsourced to shared service centres (SSC),[74] which carry out these activities for several audit firms and may or may not be located abroad. Outsourcing audit work can lead to an increase in the quality of the statutory audit by allowing a greater focus on complex issues. However, outsourcing audit procedures also increases distance and coordination between the SSC, the audit client and the audit team, which poses a risk to the quality of the statutory audit. In addition, when outsourcing to foreign entities, there is a risk that they will have insufficient knowledge of the Dutch context and the specific context in which the client operates.

The provision of services by audit firms from other EU Member States remains a point of attention. Dutch companies can use audit firms from other Member States, provided that they are registered with the AFM. The entry of audit firms from other Member States can help to overcome the capacity problem in the sector. A key issue is that the AFM will not be able to supervise the quality control system and the integrity of business operations of audit firms from another Member State. As a result of this limited mandate, the AFM is restricted in its enforcement and can make less impact.

73 'How companies are starting to back away from green targets', FT, June 2024.

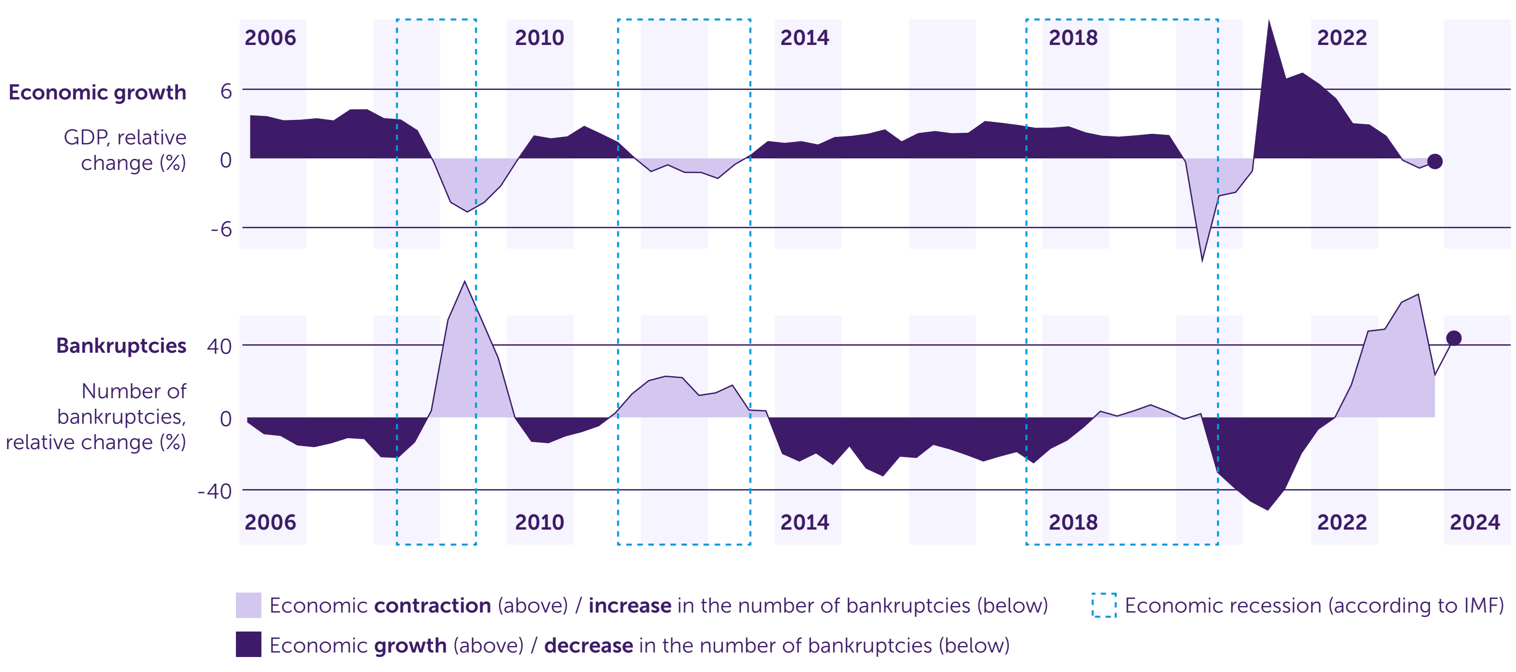
74 According to the PCAOB, a shared service centre is "an affiliated entity, established by a network of audit firms, which, among other organizations, provides to these audit firms personnel to assist in the performance of audits without this affiliated entity being an audit firm itself". In the literature, these outsourcing relationships can also be described as 'offshoring', 'nearshoring' or 'onshoring'.

Integrity and criminal behaviour

The number of bankruptcies in the Netherlands continues to rise, which means attention must continue to be paid to discontinuity risks. The number of bankruptcies in the Netherlands rose by 50% last year (Figure 21), albeit from a historically low number. Bankruptcies are a reliable cyclical indicator and we are currently observing a confluence of three factors: weak economic growth, the tapering of Covid-related support and tight financing conditions. This suggests that the number of bankruptcies will continue to rise, resulting in increasing financial stress. It is therefore particularly important that audit firms devote attention to discontinuity risks.

Attention to fraud risks at audited companies remains important. Audit firms have an important gatekeeper role in detecting fraud. Fraud is understood here in a broad sense. It does not refer only to financial fraud, but also to greenwashing, for example. Earlier research by the AFM shows that although auditors are paying increasing attention to the subject of fraud, there are still steps to be taken with regard to the quality of fraud risk analysis.[75] Fraud at an audited company that is not detected or disclosed in the statutory audit can result in material losses for shareholders and a broader loss of confidence in the financial markets. The AFM therefore calls on audit firms to remain vigilant in detecting fraud.

Figure 21 The number of bankruptcies has risen sharply.



Source: CBS

75 'More rigorous stance needed by auditors in fraud risk analysis', AFM, June 2023.

Exam fraud in the accountancy sector affects the integrity of auditors. Both nationally and internationally, various cases of exam fraud have become known within the accountancy sector. The AFM has therefore explicitly requested all audit firms with a PIE licence to conduct internal investigations on this matter, as there is no room for doubt about the integrity and competence of auditors. These investigations are still ongoing. It is also important to truly understand how exam fraud could have occurred. It is up to the audit firms themselves to prevent exam fraud, detect any irregularities, and address them. The AFM supervises this.

Finally, audit firms can abuse their gatekeeper role by knowingly facilitating fraud. Audited firms can use audit firms to mask investment fraud, money laundering or tax fraud by having annual accounts wrongfully approved and receiving advice on how to circumvent supervision. If audit firms do not sufficiently safeguard their gatekeeper role, this may negatively impact confidence in the accountancy sector and the financial sector as a whole.

Risk Map **for Accountancy and Reporting**

Assessent risks
- High
- Increased
- Very high

- Increase
- Constant
- Decrease

The risk maps describe risks that may arise or accelerate as a result of the above trends and developments.

Keywords	Specific risk	Drivers	Importance
Quality of sustainability reporting and assurance	The quality and reliability of the sustainability report are under pressure. It is a major challenge for companies to report transparently and reliably on sustainability performance and for audit firms to provide assurance in this regard. Audit firms do not have sufficient capacity and expertise to provide assurance on sustainability information. As a result, end-users do not have sufficient sustainability information at their disposal.	• Sustainability • Laws and regulations	Increased, Constant
Fraud and discontinuity in audited companies	Fraud (in a broad sense, including greenwashing, money laundering and corruption) and discontinuity in companies which have not been detected or the risk of which has not been identified in the statutory audit lead to material losses for end-users and to a broader loss of confidence in the financial markets.	• Internationalisation • Undermining • Macroeconomic developments	Increased, Constant
Digitalisation and digital operational resilience	Insufficient use of data and technology and inadequate control of digital operational resilience impair the quality of the statutory audit and lead to operational risks.	• Digitalisation	High, Increase
Audit accessibility	The accessibility of audits is under pressure due to increasing demand for audits (increasing scope and more companies subject to audit), while the supply is stagnating (staff shortages, reduced popularity of education). Developments such as the inflow of private equity into the segment of audit firms with a regular licence and the outsourcing of activities may have a negative impact on the quality of the statutory audit.	• Macroeconomic developments • Laws and regulations	Increased, Increase
Integrity risks	Integrity incidents at multiple audit firms, such as exam fraud, affect the integrity of auditors. Insufficient safeguarding of the gatekeeper role can also have a negative impact on confidence in the sector.	• Internationalisation • Undermining	Very high, Constant

Appendix

Regulatory agenda

Digitalisation

DORA (Digital Operational Resilience Act). DORA is a European directive and regulation with the primary aim of managing systemic risk and the resulting consumer and investor risk. DORA imposes uniform requirements on financial institutions in areas such as ICT risk management, ICT-related incident reports and the management of ICT risks when outsourcing to third parties and contains a European supervisory framework for critical third-party providers, such as large cloud service providers. DORA will apply to institutions that are regulated at European level, including trading venues, credit institutions and investment firms. DORA came into force in January 2023. From January 2025, market parties will have to comply with the relevant provisions.

MiCAR (Markets in Crypto-Assets Regulation). This is the first European legislative package to regulate cryptos and related services. These laws and regulations target both stablecoin issuers and crypto service providers and ensure uniform rules across the EU. MiCAR was published in June 2023 and will enter into force in December 2024. The implementation phase gives market parties and regulators the opportunity to prepare. Although MiCAR II is not planned for the time being, a lot of work will have to be done to promote convergent supervision within the EU and to answer many practical (interpretation) questions.

Artificial Intelligence Regulation. This regulation introduces rules at different levels of risk for high-risk applications of artificial intelligence. The AI Act oversees applications of artificial intelligence that may pose a risk to fundamental human rights and other EU values such as security. The AI Act applies EU-wide and has some specific interfaces with the financial sector. The full regulation will apply from August 2026, but some provisions will apply earlier. The prohibitions will apply from February 2025. The provisions for general purpose (AI) will apply from August 2025 and provisions for 'high-risk applications' will apply from August 2026. The latter category is particularly important for the AFM's supervision. AI applications that have been designated as high-risk and affect the financial sector include applications that are used for creditworthiness checks and premium and risk determination for life and health insurance.

FIDA (Financial Data Access Regulation). In June 2023, the European Commission's proposal for FIDA (open finance) was published. It is expected to enter into force in phases in 2027. This bill aims to establish a framework for the regulation of access to and use of customer data in the financial sector. Access to financial data refers to the access to and processing of business-to-business and business-to-customer financial data at the customer's request for a wide range of financial services, such as insurance and pension products. For this reason, FIDA applies to a large part of the financial service providers and therefore to the supervision by the AFM. Data on payment accounts is out of scope, as it is regulated under PSD3/PSR. A Council compromise is expected to be reached in early 2025, after which the trilogue will start.

ESAP (European Single Access Point). This is an amendment to 16 directives and 21 regulations, on the basis of which financial and non-financial information of companies (such as annual reports and prospectuses, information on financial instruments and sustainability information), in particular SMEs, is made more visible to investors through central databases in order to facilitate access to (cross-border) capital market financing. It entered into force on 9 January 2024. The first dates will be available to the public in 2027. This includes data on prospectuses, transparency requirements and short-sell notifications.

DMFSD (Distance Marketing on Financial Services Directive). This Directive aims to simplify and modernise the current legislative framework by repealing the existing Directive on the distance marketing of financial services. The general objective of the legislation is to promote the provision of financial services in the internal market while ensuring a high level of consumer protection. The Directive also sets out the rules on the use of online interfaces by financial service providers. In addition, the DMFSD ensures that appropriate pre-contractual information and the right of withdrawal are provided. Since the DMFSD applies as a lex generalis to almost all financial services, it affects a large part of the AFM's supervision. This includes credit, crowdfunding, insurance, but also cryptos. The DMFSD will come into force in mid-2026. The Dutch Ministry of Finance is working on the national implementation.

Sustainability

Revision of SFDR (Sustainable Finance Disclosure Regulation). These regulations have been in force since 2021. The lower regulations will apply from January 2023. On the basis of this regulation, information on the negative sustainability impact of the entity and of products, as well as information on sustainability characteristics and objectives of products, should be provided in a standardised manner. The SFDR aims to give investors a better understanding of sustainability risks and the sustainability aspects of financial products and to make them more comparable. In addition, it is intended to combat greenwashing. An EU Taxonomy has been developed for an unambiguous European definition of which economic activities are sustainable. Some of these have been applicable since the beginning of 2022. The SFDR information should also indicate, where applicable, the extent to which investments are aligned with this taxonomy. A comprehensive review of the SFDR framework was launched in 2023 to identify any shortcomings. In November 2023, the AFM published its proposals for improving the framework.[76] The European Commission is expected to come up with a concrete proposal for the revision of the SFDR in 2025.

CSRD (Corporate Sustainability Reporting Directive). To strengthen companies' transparency about their sustainability risks, opportunities and impact, the Non-Financial Reporting Directive (NFRD) was revised in 2023. The CSRD greatly broadens the scope of the NFRD by making sustainability reporting mandatory for smaller listed companies and for all large non-listed companies. In addition, the CSRD states that companies must report in accordance with the ESRS, an unambiguous reporting standard for sustainability reporting drawn up in Europe, and that an external auditor must provide assurance on sustainability reporting. These obligations will take effect for the larger listed companies covered by the CSRD from the 2024 financial year. From the 2025 financial year, the transparency obligations will apply to all large companies in the EU and from the 2027 financial year also to listed SMEs.

Green Bonds Regulation. This new EU Regulation introduces the European Green Bond label for bonds whose proceeds are used for activities that qualify as green under the Taxonomy Regulation. Issuers of bonds (or the originators of securitised bonds) that wish to use this label must include additional information in the prospectus, report periodically on the use of the proceeds (or exposures) of their (securitised) bond and have the spending plan assessed against the Taxonomy criteria in advance by an external review body. These external review bodies will be under the direct supervision of ESMA. The enforcement of the transparency requirements for European Green Bonds will be carried out by the national market regulators. It will enter into force on 21 December 2024.

76 'AFM position paper on improving the SFDR', AFM, November 2023.

Financial services

RIS (Retail Investment Strategy). The RIS is currently in trilogue, and a final agreement may be reached in mid-2025. At that time, the final texts will be published, and the deadline will start for legal implementation in Dutch legislation and the elaboration of a comprehensive package of subordinate regulations by ESMA and EIOPA in cooperation with the national supervisors. The RIS includes important changes to MiFID II, IDD, PRIIPS, UCITS and AIFMD. For example, the value for money concept will be introduced and new provisions will be introduced in the field of marketing, communication and cost transparency. Supervisors will also be given additional powers. PSD3/PSR (Payment Service Directive / Regulation). With this proposal, the Commission aims to strengthen confidence in the payment system, to improve the competitive position of open banking services, to achieve greater harmonisation of supervision and implementation at European level and to improve access to payment systems and payment accounts for non-bank Payment Service Providers. PSD3/PSR is expected to enter into force in 2026.

Revision of CCD (Consumer Credit Directive). The revised CCD modernises and strengthens protection for consumers using credit products. It promotes responsible and transparent behaviour of all players in the consumer credit market. With the revised CCD, BNPL providers and private lease providers with the option to buy will fall under the supervision of the AFM. In addition, it aims to increase supervisory powers to ensure that credit providers offer certain solutions for consumers with financial problems. This mainly concerns new provisions regarding payment delays and postponement measures. The revised CCD has been in force since November 2023. The Dutch Ministry of Finance is working on the national implementation and elaboration of the Member State option. The draft law is likely to be put out for consultation in early 2025.

AML/CFT (Anti-Money Laundering / Countering Financing of Terrorism Regulation and Directive). In May 2024, the Council approved the AML/CFT package, including the establishment of the Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA) as of 1 July 2025. As a result, the EBA will transfer its AML/CFT mandate (and its mandate with regard to restrictive measures, including sanctions) to AMLA. Other components of the AML/CFT package are the single rule book and the sixth anti-money laundering directive (AMLD), which will largely apply from July 2027. The Transfer-of-Funds regulation package has been put forward and is expected to enter into force at the end of this year. This brings (among other things) crypto-asset service providers under the operation of the EU AML/CFT rules and makes certain travel information mandatory in case of crypto transfers. In the coming period, further elaboration will take place in a large number of EU technical regulation standards. National legislation will also be adapted.

Capital markets

Listing Act. A provisional agreement was reached on the Listing Act in February 2024. The Act consists of several parts and aims to make European capital markets more attractive for companies and to facilitate access to capital for small and medium-sized enterprises. Final proposals are expected to be published by the end of 2024. The new rules will also contain different delegation bases for elaboration in Level 2 and 3.

Revision of MiFID II (Markets in Financial Instruments Directive)/ MiFIR (Markets in Financial Instruments Regulation). The MiFIR revision entered into force on 28 March 2024. The deadline for transposing MiFID II into national law is 29 September 2025. At the heart of the MiFIR review is the creation of a consolidated tape for stocks, ETFs, bonds and derivatives. A significant number of implementing measures are to be developed by ESMA and national supervisors in 2024-2025.

Revision of AIFMD/UCITS (Alternative Investment Fund Managers Directive/Undertakings for Collective Investment in Transferable Securities Directive). Some provisions of the UCITS Directive have been amended to align them with amendments to the AIFMD Directive. Both directives contain rules for funds (AIMFD for professional investors and UCITS for retail investors). The review was limited to the following topics: delegation, liquidity management, supervisory reporting, custody and loan origination by AIFMD funds. The new rules entered into force in April 2024 and must be implemented in national laws and regulations by April 2026 at the latest. The elaboration of Level 2 and 3 will also start on the basis of the various delegation bases.

Revision of EMIR (European Market Infrastructure Regulation). This revision, which was provisionally agreed in April 2024, aims to make clearing in the EU more attractive, boost more clearing at EU-established CCPs, improve financial stability in the EU and strengthen EU supervision of both EU and non-EU CCPs. For example, for CCPs it has been decided to simplify applications for authorisation of new activities, services and model changes. It also aims to reduce dependence on clearing in third countries by introducing an active account. This revision is expected to come into effect sometime in Q4 2024. A number of provisions will be further elaborated at Level 2.

Text box 3 European Capital Markets Union (CMU)

Although the CMU is not a formal (regulatory) process, it is a very important EU project with potentially different regulatory processes ahead. The development and integration of capital markets has long been a key ambition of the EU. Faced with urgent financing needs and the need to strengthen the competitiveness of European companies, a renewed effort is required to strengthen EU capital markets. It is assumed that a new action plan will be initiated under the new European Commission. The concrete proposals in this area are still unknown but will certainly influence the AFM's supervision in many ways.

Data centralisation. In line with the AFM's/DNB's CMU paper,[77] the AFM has published a position paper[78] on the desirability of centralising capital market data. The AFM's position has been shared in an international context, in ESMA committees and bilaterally with other supervisory authorities. The first reactions have been mostly positive. Many other regulators would be in favour of far-reaching centralisation of the receipt, storage and handling of capital market data.

T+1: shortening the settlement cycle. In the EU, the discussion has started as to whether a shorter settlement cycle (from T+2 to T+1) is desirable and feasible. It is desirable to stay in line with the British and American markets. The US has already moved to a shorter cycle for settling securities transactions, and the UK is in the process of doing so. From various round table discussions with market participants and regulators, it is expected that the EU will also switch to T+1, but the exact details are not yet known. Stakeholders also agree that this change requires a change to the Central Securities Depository Regulation (CSDR).

Investment Firms Directive & Regulation (IFD/R). This concerns the prudential framework for investment firms and is likely to be reopened soon after five years of operation. Given the great importance of the different types of investment firms for the CMU, an appropriate framework is essential. That is why the AFM, with DNB and the Ministry of Finance, have drafted a position paper for this purpose.[79] In particular, a revision of the IFR/IFD should improve the risk-based approach of the framework, ensure a level playing field for investment firms operating inside and outside the EU, prevent regulatory arbitrage and increase the proportionality and clarity of governance requirements.

77 'Next steps for the European Capital Markets Union (CMU)', AFM and DNB, February 2024.
78 'AFM position paper on centralisation of capital markets data in the EU', AFM, March 2024.
79 'The Dutch Ministry of Finance, the AFM and DNB: recommendations for the review of the prudential framework for investment firms', AFM, DNB, Ministry of Finance.