

## Speech Laura van Geest at AFME's 6th Annual European Compliance and Legal Conference

**Place:** Leonardo Royal Hotel Amsterdam

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**Speaker:** Laura van Geest

Title: Always look on the bright side of life

### Introduction

- Let me start with a quote from Monty Python's Life of Brian:
  - If life seems jolly rotten / There's something you've forgotten / And that's to laugh and smile and dance and sing
- Let's face it. These are not jolly times. We seem to be living in a mode of permanent crisis. First covid, then the invasion in Ukraine, now we need to worry about soaring inflation and sky rocketing energy bills. The so called Eating or Heating crisis.
- And then of course, countries have their own, home grown, crises. Think of the market response to the 'mini' budget in the UK, or our own nitrogen deposition debate, which has brought sectors like the building industry to a standstill.
- All in all, every reason to be pessimistic about the world we live in.
- But hardship and adversity can also inspire endurance. As the quote from Monty Python's Life of Brian illustrates.
- We have a moral duty to be optimistic – a favorite quote of a former Dutch minister, who in his turn quoted Immanuel Kant. And we have a moral duty to act.
- There is a lot that needs to get done. The financial markets are facing many urgent issues: sustainability, digitalisation, and that in a world of increasing internationalisation.
- The only way to make our aspirations come true is by taking action.
- By increasing our efforts together.
- This requires vigilance on our part as a supervisor, but of course also from you, as part of the second and third line of defence.

### Sustainability

- As the chair of the AFM, I see enormous opportunities in this area:
  1. Sustainability is a hot topic. There is a strong desire to transition towards a more sustainable economy.
  2. The transition to such an economy is generating a huge demand for financing. The financial sector has a key role to play.
  3. And on the other hand, investing in this area continues to be attractive to institutional and retail investors.

4. Taking action in the area of sustainability to make good on climate commitments and other marketing claims is a profitable business model. Alternatively, not taking action may even be harmful to your company's reputation.
5. And by tackling transition challenges now, you reduce the risk of being left with stranded assets.

But this also creates challenges:

- Yes, we see a strong incentive in the market to meet the sustainability demand among customers.
- But, that makes it tempting for some parties to stretch the concept of sustainability. To enter the murky waters of greenwashing. For us as supervisors, this is an area of concern.
- We welcome the fact that you are obligated to provide information in line with the SFDR requirements. This information gives customers more and better insight. This way, you help customers navigate the sustainable finance maize.
- But remember: all the information you provide must be correct. Also information outside the mandatory SFDR formats. That includes your marketing statements.
- The AFM will explicitly focus on marketing information. And for a good reason, retail customers decide to a large extent on the basis of this type of information.
- As with all information you provide, you must ensure the information in your marketing is correct, clear and not misleading.
  
- In the coming years, the AFM will keep monitoring the information within the scope of the SFDR, as well as your other sustainability claims.
- We will do so with the aid of the SFDR and the amendments to MiFID II and the Insurance Distribution Directive (IDD).
- I am pleased that the term 'sustainable' can no longer be used as freely as it once was. In part because the legislation in this area is becoming ever clearer. More detailed SFDR requirements will come into effect by January 1, 2023 and there is increasing clarity around the taxonomy.
- Now, perhaps this issue is raising your stress levels. Is it yet another box to tick on your action list. But by ensuring proper information around sustainability, you will not only do yourself a favour, but also help the greater good.
- And by addressing this quicker and better than competitors who take a half-baked approach, you will stand out from the crowd.
- That will help you, it will help us, and it will help consumers.

### Digitalisation

- Digitalisation and new technologies are triggering fundamental changes.
- Take the use of data, for example.

- Whichever way you look at it, data collection and processing are increasingly at the heart of the business process of financial companies. Data are an important tool for improving services and profitability.
- But the increasing use of data also poses risks:
  - How will you safeguard high quality of data
  - How will you ensure lawful and careful handling of personal data.
  - How will you protect data against cyberattacks.
  - How will you be able to avoid vulnerabilities, as business depends more and more on digital systems, as you outsource more and more of your business processes.
- And that's not even all.
  - Do you understand all your algorithms?
  - Can you guarantee that they don't lead to the exclusion of certain groups of customers?
  - Can you explain to your customers why a certain product is no longer offered to them because the system has so decided?
- To formulate answers to these questions, you will have to enter new areas of expertise, explore new fields, outside your comfort zone.
- Fortunately, potential future developments in regulation, such as the proposed AI Regulation, offer help in this area.
- It will be up to you to manage the risks posed by digitalisation, to ensure the continued integrity of markets, and to continue to put the interests of customers first. Controlled operations and proper risk management will be key to this.

### Internationalisation

- Digitalisation is also leading to a broadening of the financial sector. Financial products and services are offered on an international market.
- A more international financial sector creates great opportunities.
- Both for the sector and for consumers. Financial companies have expanded their sales areas and consumers have access to a wider range of products.
- But here, too, opportunities come with risks.
- We all remember how the selling of highly speculative investment products by means of digital services led to private individuals across Europe incurring significant losses.
- Good cooperation between supervisory authorities is essential to ensure the proper functioning of the international market, to avoid regulatory arbitrage.
- Such regular cooperation is already taking place within the EU and worldwide.
- Together with our fellow supervisory authorities, we aim for supervisory convergence. For you, this means that we aim to ensure that the outcome of supervision in country A is not totally different from that in country B.
- I can imagine that it makes your work easier if supervisory authorities all have the same interpretation of the European rules.
- Therefore, as supervisory authorities we meet to see how we can create a level playing field across Europe. We learn from the examples given by the Polish

supervisory authority and hear about interesting developments in the sector from our Spanish colleagues.

- Whichever way you look at it, supervisory convergence is necessary. Supervisory authorities need to jointly identify and tackle cross-border risks.
- An example of this is the supervision of credit rating agencies. At present, this supervision is not performed nationally, by 27 national supervisory authorities separately, but EU-wide by the ESMA.
- This may sound logical, but when this was first proposed it was quite groundbreaking.
- More areas of supervision have since been transferred to the European level.
- But this is not yet a firm trend. Many supervisory duties are still being performed by the national supervisory authorities.
- And that makes me wonder what the best approach would be. What if you could wipe the slate clean and start over? How would you design the supervision of a sector operating across Europe? A sector for which the supervisory requirements have been fully harmonised, and where there are few differences between local markets?
- Would you then opt for 27 separate supervisory authorities, or would you prefer this supervision at EU-wide level?
- I think that's an interesting question.
- And when I ponder this, I take into account not only the quality of the supervision, but also the cost side of it. Cooperation often comes with additional costs.
- But I prefer to focus on the advantages and possibilities. On the bright side of life 😊.
  - A lower risk of regulatory arbitrage.
  - A higher level of cost efficiency in supervision and compliance, if we all have the same obligations.
  - Better quality of supervision through more sharing of data. At present, it is still very difficult to plug in in different countries.

### Message to the audience

- In conclusion, I call on you not to turn regulation and supervision into a game to see what is allowed and what is not. Let's focus on the spirit. And get things done.
- Because trying to fight the inevitable is pointless and costly. Not so much financially, but also in terms of markets risks and even the world.
- Everyone involved, companies, consumers, compliance officers and supervisory authorities, we will all have to work together to ensure the conditions are right. That the changes can land safely and can be embedded in our financial system.
- No matter how great the challenges are, let's focus on making things work.
- Or as Brian's mates sang: 'Cheer up Brian, always look on the light side of life.'
- Well, if even he could muster that optimism, surely we should be confident that we can make the world of finance a better place.
- Thank you.