AFM agenda 2024

In short Ongoing digitalisation, internationalisation, the sustainability transition and the transition to the new pensions system are trends which will have a substantial impact on the financial sector as well as the AFM. These trends provide the direction for our work, aimed at mitigating potential risks. This Agenda 2024 outlines our activities in the coming year related to our supervision of financial services, capital markets, asset management and audit firms & reporting.

The AFM will be **agile in its response** to these **impactful trends and developments** in 2024:

In the AFM Agenda 2024, the AFM describes its **objectives and activities** for the coming year.

AFM

Contents

1. Key developments

For more details on the main developments and risks, please refer to our Trend Monitor publication.

General Developments

Economic growth is slowing, with persistent inflation and rising interest rates being the key drivers. Inflation surged in 2022 due to sharp increases in energy prices. All across the world, central banks have intervened with tightening monetary policies to moderate inflation, but core inflation in particular has yet to be curbed. Inflation is still expected to be well above ECB's two-percent inflation target in both 2023 and 2024. Meanwhile, the Netherlands is facing a minor recession as growth rates in the first and second quarters of 2023 were just below zero. The Dutch economy is expected to grow by 0.7% over the whole of 2023 and 1.4% in 2024, while the labour market remains tight. However, this slight economic growth is vulnerable to further inflationary and interest rate shocks and a possible slowdown in China.

For now, government intervention has mitigated the financial impact of the inflation and interest rate increases for Dutch households, nevertheless vigilance is required. The vulnerability of the economy is reflected in the financial position of households. The high inflation is hitting the budget of households, partly due to more expensive groceries and increased energy costs. The government is taking measures to mitigate the impact, particularly on low-income households. This helps to temporarily avert the expected rise in the number of people in poverty. Care for vulnerable people nevertheless remains a major concern and is therefore a focus of attention for supervisory authorities and policy makers. The situation in credit markets is stable for now. Mortgage interest rates are mostly fixed for longer periods of time and house prices are as yet adjusting to the new interest rate levels without any major shocks. Indications of escalating payment problems in consumer loans or mortgage loans are as yet few if any. Only a sharp economic downturn would worsen this situation, but this is not foreseen at the moment.

Within the financial sector, high inflation and rising interest rates have considerable impact on revenue models and the financial valuation of assets. The rise in central banks' policy rates is pushing up government bond and corporate bond yields. The return of interest rates to more 'normal' levels generally means a healthier revenue model for most financial undertakings. It also leads to a more robust financial system as it contains fewer incentives to seek returns through risky activities. The transition to normal interest rate levels, however, also results in an impairment of the outstanding debt, which particularly affects fixed-income securities holders. The expected value of companies buoyed by the promise of their growth potential (such as startups in the tech sector) is declining, while financing at very low interest rates is no longer possible. Given persistent inflation, rising interest rates, uncertainty in capital markets and high speed of news dissemination, it is not unlikely that this will lead to abrupt price fluctuations and liquidity problems in the coming period.

Digitalisation

The developments in artificial intelligence (AI) are evolving at lightning speed and are creating both opportunities and risks for the financial sector. The application of AI (for example Large Language Models such as ChatGPT) is about to increasingly impact society and the economy, and hence also the financial sector. In general, AI can contribute to the efficiency of the financial sector by taking all kinds of administrative tasks, data processing tasks and risk management tasks off its hands. Additionally, AI may be used for direct service provision by way of consulting services, devising and implementing trading strategies, personalising credit and insurance quotes, implementing targeted marketing campaigns, and so on. The use of AI also involves risks, for instance when it is not clear how an AI model has arrived at a particular result. Furthermore, personalisation with the help of AI may result in certain consumers being discriminated against or excluded from the market based on the algorithm used. It is important that financial institutions take sufficient control measures to mitigate the risks of digitalisation in the process of credit approvals when using algorithms. In addition, financial institutions need to be able to explain the results of their AI models. The European AI Regulation under development will provide additional leverage to guide the potentially huge impact of AI in a positive direction, however, most likely also immediately lags behind advancing technological capabilities.

The digitalisation of the financial sector and the offer of products via online platforms continue at a steady pace. First of all, consider the interrelatedness between the financial sector and (large) tech companies. The interrelatedness of large tech companies often leads to lower costs and increased efficiency, but also creates more dependency and concentration risks, vulnerabilities such as digital crime, and reduced leverage for supervision. The crypto market also continues to evolve. The Markets in Crypto Assets Regulation (MiCAR) will be a positive first step in bringing this market under supervision. The AFM is given more capabilities to combat malicious practices. The regulation will not solve everything, however; cryptos remain highly volatile and thus a risky investment. The development of the underlying technology, that is Distributed Ledger Technology (DLT), is still striving to fulfil its promise in the form of a shift from the traditional centralised financial system to a peer-to-peer financial system (Decentralised Finance, DeFi). For now, DeFi also bears several traditional financial risks and these are further compounded by its international decentralised character and the increased complexity of the underlying technology.

Sustainability

Achieving the Paris Agreement climate goals is under pressure. As a result, the risks of climate change, including extreme weather, sea-level rise and biodiversity loss, continue to increase. For the Netherlands, that in part means increasing financial losses due to droughts, floods and extreme weather. Much of this type of damage is uninsurable, which could increasingly lead to major financial risks for households and companies. For the most part, social awareness of this has yet to sink in.

There is a growing social and political desire for financial markets to accelerate the sustainability transition. Sustainability of the national housing sector is a prominent item on the political agenda. Mortgage standards will change in 2024 to promote the sustainability of private homes and make them more financeable. In short, a better energy label means a higher loan. The effectiveness of these measures also depends on the quality of advice provided by mortgage advisers and mortgage loan providers on the subject.

Demand for sustainable (investment) products are rising, resulting in strong incentives in the market to meet that demand. A wave of new sustainability legislation is enfolding. This legislation mainly focuses on improving transparency on sustainability risks and impacts, and the alignment of financial products with customers' sustainability needs. Indeed, confidence in the label 'green' is crucial for the transition. That also covers the risks of issuing institutions' net-zero claims and any new trends such as voluntary carbon markets. Early intervention and adjustment by policymakers and regulatory authorities eliminates much ambiguity.

As yet, the sustainability transition is lagging behind the preferred pace. In many areas within the financial sector, the pressure for sustainability is considerable, but there are also concerns about the pace of the sustainability transition. Asset managers are cautious to classify their funds because of insufficiently clear legislation on sustainability classifications. Issuing institutions and auditors, among others, face new European reporting regulations (CSRD), but existing sustainability data often still fall short of reporting requirements. Another issue is how to strike the optimal balance between financial returns and ESG impact of investments. The manner in which sustainable investments are presented insufficiently matches consumers' motivation for sustainable investments. As a result, consumers find it difficult to determine which sustainable investment matches their preferences. Actually prioritising ESG targets requires transparency in informing investors. After all, while expectations may be high, the actual impact on sustainability is often difficult to measure. Nor does the continued growth of passive investing, under pressure from economies of scale and cost savings, contribute to a solid commitment towards polluting companies. All in all, each delay reduces the chances of an expeditious and orderly transition to a sustainable economy.

Internationalisation

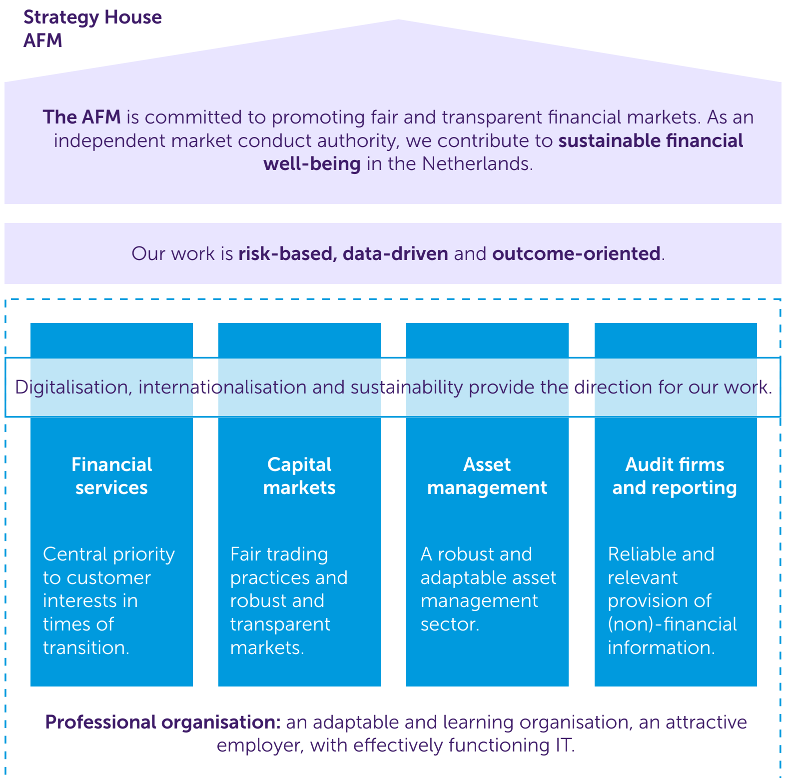
The provision of financial services is becoming increasingly international and thus involves cross-border issues and risks. The Dutch financial markets are attractive to international operators. We are seeing an increase in cross-border financial services, driven by digitalisation. In addition to the positive effects of an increase in the supply and a greater diversity of providers, the cross-border nature of financial markets also leads to cross-border risks, such as unscrupulous foreign providers of risky investment products, an increase in market abuse in capital markets and the creation of an uneven playing field between domestic and foreign providers of financial products and services. These risks are less adequately addressed at national level and require an international approach.

In response to the increase in cross-border financial services, there is a movement towards further internationalisation of supervision and supervisory convergence. In the near future, the financial sector will face a lot of new, extensive, European laws and regulations. Supervisory cooperation is also increasing, for example between the European Authority for the Internal Market in Electricity and Gas (ACER) and ESMA, following the volatile gas market last year. Geopolitical tensions play a key role globally and the European strategic autonomy is in the political limelight. Both a robust banking system and resilient and diversified capital markets are essential for a healthy financial system. This has led to renewed interest in the Capital Markets Union (CMU): the ambitious plan to allow investor money to move freely across European capital markets. Supervisory convergence is of great importance in that context.

2. Strategy

In 2022, the AFM renewed its strategy. The AFM Strategy 2023-2026 forms the basis of the AFM agenda 2024.

The strategy is summarised in the figure below.



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

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

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

The AFM's mission and external developments have been translated into multi-year supervision objectives for our four supervisory areas. The objectives for the coming year are set out in Chapter 3. In addition, AFM-wide issues, such as combating criminal behaviour and financial stability, are elaborated in Chapter 3.5.

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

3. Priorities and key activities in 2024

In 2024, the AFM will prioritise the following objectives.

The AFM manages the effects of digitalisation in the market by increasingly using data and technology to supervise technology.
- The supervision of DORA will be prepared and the supervision of (digital) business operations of institutions reinforced.
- Data-driven supervision ensures better supervision results.
- Preparation of the AI Regulation will be completed.

The AFM has international influence by making targeted contributions to EU regulations and actively improving EU supervision.
- The AFM will prepare for the crypto supervision and generate support in an EU context for effectively countering illegality and solving cross-border issues.
- We demonstrate within the EU that risk-based and data-driven supervision effectively ensures results.

The AFM has an integrated sustainability strategy.
- We will develop an integrated supervisory strategy for the supervision of sustainability.
- Connectivity between financial and non-financial data (ESG) will become the standard.
- The CSRD sustainability implementation will be prepared for 2025.

The AFM effectively implements supervisory priorities by introducing the supervision of the pension transition and by combating manipulative trading.
- The AFM supervision of the pension transition will get off to a successful start.
- The renewed supervision of financial services will be implemented successfully.
- The AFM combats manipulative trading with respect to shares, bonds and raw materials.

The AFM is a professional, vital and agile organisation with extensive capacity for learning, an effective IT infrastructure and sufficient budget.
- The IT strategy is a success thanks to predictable IT implementations, such as the completion of the cloud migrations, the support of new mandates and the update of MyAFM.
- The AFM participates in the creation of an appropriate cost framework, in cooperation with the Ministry of Finance and the Ministry of Social Affairs and Employment.
- The AFM reinforces its agility and capacity for learning.

New legislation

New legislation will be introduced in 2024 which the AFM will need to supervise or for which supervision needs to be prepared or intensified. This requires both a substantial extra effort from the AFM and additional financial resources. Table 1 lists the (new) mandates that will impact the AFM in 2024.

In consultation with the AFM, the Ministry of Finance has adjusted the cost framework in order to absorb the extra costs of supervising MiCAR and DORA in 2024. This is further explained in Chapter 4: Finances.

Table 1 Key (new) legal mandates in 2024

Name	Into effect	Explanation
MiCAR	2024	From the end of December 2024, market participants must have a MiCAR licence to provide crypto services and comply with the MiCAR standards. This will be a first step towards regulating the crypto market. In 2024, the focus of our supervision will be on licensing and the fit and proper test. Knowledge development, the preparation of market participants, international cooperation, preparations for the supervision, including the supervision of money laundering, these will also all require capacity.
DORA	2025	The DORA legislation aims to increase the cyber resilience of companies. The preparation of our supervision in 2024 will focus on informing, compliance with reporting requirements and responding to (the most serious) incidents. Every three years, the AFM carries out an investigation at five institutions with a high system relevance, including a follow-up and supervision of TLPT testing (TIBER).
CSRD	2024	The CSRD requires listed companies and large non-listed companies to extensively report their sustainability risks and their impact on sustainability according to the stipulated European Sustainability Reporting Standards (ESRS). This requirement enters into force in a series of steps as of the 2024 financial year.
SFDR	2021 and 2023	The SFDR has introduced obligations involving transparency in the area of sustainability in a series of steps. The subsidiary regulations have been applicable since 2023. The obligations imposed by the SFDR are highly specific and complex, and in part new for market participants and supervision. As a supervisory authority, we monitor compliance with legislation and offer guidance in the area of transparency, product governance and appropriateness. Supervising this regulation now requires more capacity than anticipated at the time SFDR legislation was introduced.
NPLD	2023	The AFM will be the competent authority to supervise the Non-Performing Loans Directive. The NPLD means that credit servicers, and other participants servicing corporate loans, will be subject to the supervision of the AFM. To this end, the AFM will assess licence applications, carry out conduct-of-business supervision and keep a national register.
DTR	2025	The implementation of the European Accessibility Act means that the AFM has to monitor compliance with new obligations for the providers of banking services and financial e-services in the area of information disclosure, internal proceedings and accessibility of functions on behalf of persons with a disability.

3.1 Supervision of financial services

Central priority to customer interests in times of transition

Major transitions have a lasting impact on society and the financial sector, affecting virtually every consumer. We distinguish three transitions, i.e. digitalisation and internationalisation, the transition to a sustainable economy and, finally, the pension transition. These transitions will continue to impact products and services offered by the financial sector in 2024, the way in which they are being offered and our supervision.

For these reasons, the AFM asserts that customer's interests should be given central priority at the time of these transitions. Giving central priority to the customer's interests means properly informing consumers of the financial products and services they intend to purchase, thereby preventing them from taking irresponsible risks. Moreover, these transitions are taking place at a time of persistently high inflation and rising interest rates. These macroeconomic developments also affect consumers' choices and the risks these may entail, such as higher-priced mortgages. Finally, the AFM pays close attention to the new laws and regulations and the effect thereof on both the sector and consumers. For example, the AFM prepares itself for its new supervisory mandate under the Markets in Crypto-Assets Regulation (MiCAR).

We aim to achieve the following in the supervision of financial services in 2024:

- Financial service providers use digitalisation in the customer's interest. For instance, distribution and sales environments are transparent and customer-oriented and financial service providers offer products and services better tailored to consumers' needs. Financial service providers must also ensure that digitalisation does not lead to exclusion, or that less digitally proficient consumers cannot keep up with this transition.
- Market participants support consumers in making responsible choices for a healthy financial future. Digitalisation is changing the decision architecture and distribution channels. The way in which consumers are influenced is thus also changing, for example by finfluencers and the use of social media. The sector should therefore offer products that fit consumers' needs, as in the case of (sustainable) investments.
- The AFM monitors compliance with legislation and regulations in the area of sustainability, such as the SFDR.
- Participants understand the transition to the new pension schemes and they are informed in a timely manner about the consequences that concern them personally. Pension schemes fit the risks participants are willing and able to take, involving careful guidance when making decisions and accurate information from pension providers.

Priority 1: Digitalisation

The digitalisation of the financial sector has a major impact on consumers and the market. It creates many opportunities and advantages, such as more innovative, personal and efficient financial products and service provision. However, it also involves risks, especially for less digitally skilled consumers. Apart from that, there are developments of which the effects are difficult to estimate, such as with Artificial Intelligence (AI) and Open Finance. For this reason, the AFM will continue to identify and explore new opportunities and risks in 2024 resulting from digitalisation, whereby the customer's interests should be given central priority.

Artificial Intelligence (AI)
The uptake of 'Large Language Models' (LLMs) are an example of fast-paced developments in the area of AI. Besides opportunities, the deployment of AI comes with risks. By means of the 'Artificial Intelligence Act' (AIA), Europe is taking a first step in regulating AI. The Regulation is founded on the protection of important EU values, such as non-discrimination, security and care. The Regulation further focuses on the definition of AI and the difference between 'unacceptable risks', 'high risks' and applications that are for the most part not regulated. The proposal affects various sectors and supervisory authorities. Within the financial sector, a number of matters have been designated as high risk, such as AI applications for credit scoring, creditworthiness testing, and life and health insurance applications. These matters are subject to further requirements for developing and using AI systems. Low-risk applications are (only) subject to transparency requirements.

The AIA does not apply to every use of AI within the financial sector. In addition, existing regulations apply in specific submarkets. AI policy and supervision will need to be given more substance in the coming years. In any case, existing regulations within the financial sector are an important stepping stone on which to base further regulations. Against this background, the AFM and DNB are working together to develop the supervision of AI and to thus prepare for the supervision.

The sector should seize the opportunities of digitalisation to improve services and prioritise consumers' interests. One of the ways in which market participants can do this is by making digital distribution channels and sales environments easily understandable and clear for consumers. After all, the consequences of digitally contracting products and services are not always clear for consumers. For example, the introduction of Buy Now, Pay Later (BNPL) has shown that while consumers prefer the option of paying later, they are often unaware of the fact that there may be costs involved. Another key effect of digitalisation is the use of further automation by providers of advice and lending services, where providers use customer data, computer systems and algorithms to design services more efficiently and personally. We consider it to be important that automation leads to flawless loan approval processes for mortgages and consumer loans and leads to better products and services for consumers. Automation has to mitigate risks, such as excessive lending.

Besides automation, customer data can be used by insurers to personalise the level of premiums (so-called personalised pricing) by deploying algorithms to estimate risks on an individual basis. This may offer some advantages, but may also put pressure on solidarity, causing uninsurability for certain groups of high-risk consumers. Moreover, insurers may use these data and information to further personalise profit margins. This is a cause of concern for the AFM: insurers should avoid exclusion and unfair treatment of customers. On top of that, digitalisation also changes the way in which consumers make decisions. For example, psychological insights into consumer behaviour are used to steer them in a particular direction (nudging). Apart from that, providers also more frequently make use of personalised marketing and social media. In recent years, financial influencers have also emerged. This may result in consumers purchasing products that do not match their situation or their needs.

While mortgage interest rates and capital market interest rates are on the rise, savings rates are only rising marginally, which is why consumers continue to be on the lookout for alternative ways of getting more value for their money. This is, among other things, reflected in the increasing number of Dutch citizens making use of execution-only investing. Execution-only investing is a means of investing whereby consumers (retail investors) invest without the intermediary of an adviser. One third of this group make unnecessary mistakes or take too much risk in this. Providers should therefore also give central priority to customer's interests in the (online) choice environment. They should encourage consumers to take out appropriate products that match their needs. We are also seeing an increase of cyber-related risks. Financial service providers need to be digitally resilient. Cyber attacks can slow down services, or even shut them down completely. Financial service providers also increasingly store data and customer data in the cloud, which means cyber attacks can hack sensitive data and make them public.

Key activities:
- In 2024, the AFM will focus on the automation of approval processes of providers of consumer loans and mortgage providers. The aim is to ensure that theses processes continue to contribute to responsible lending. We will identify the risks based on inspections at consumer credit providers. The results will be shared with the market as tools so that market participants know how to stay in control of (underwriting) processes. Moreover, the AFM will conduct both a file review into possible excessive lending at mortgage providers and an exploratory investigation on the robustness of automated mortgage approval processes, thereby particularly focusing on the control mechanisms within these processes.
- Dutch consumers are increasingly serviced by foreign financial service providers. The AFM closely monitors cross-border services for any signs of unsolicited products and/or services, and works together with fellow supervisory authorities in Europe to manage the negative effects on Dutch consumers.
- Now that the process of licensing is completed, the AFM will perform a baseline measurement of the ongoing requirements for crowdfunding service providers, with the aim of gaining insight into compliance risks and being visible as the supervisory authority of the ECSPR.
- The AFM will prepare itself for the supervision of buy-now-pay-later market participants, as these market participants will become subject to supervision under the revised Consumer Credit Directive (CCD). For the preparation, we will focus on responsible lending, the providers' earning models and transparency towards consumers. In 2024, the AFM will also pay extra attention to the brokers and neobrokers servicing the majority of Dutch consumers. Based on the previously developed supervisory strategy, 2024 will see a differentiated supervision performed on brokers, with the aim of giving the interests of execution-only investors central priority.
- The AFM will investigate margin personalisation focusing on the question as to whether insurers charge different profit margins per person. We have the objective that providers also comply with the duty of care in the digital environment. For this reason, the AFM proactively monitors market-wide technological developments.
- In its supervision, the AFM will prioritise market participants that make products easily available via apps, as well as online marketing. Examples are embedded finance, (mobile) websites and social media. We will monitor the risks arising from this low-threshold financial service provision and intervene where necessary.

Priority 2: Cryptos

Recent years have shown that the value of cryptos is very volatile. Nevertheless, consumers, and young consumers in particular, continue to invest in cryptos. Cryptos are a complex and risky product for consumers. Where cryptos previously were not subject to supervision by the AFM, the introduction of the Markets in Crypto-Assets Regulation (MiCAR) will now take a first step in regulating them. However, the legislation and regulations do not mean that investing in cryptos can then be done without any risks. It is thus important that consumers do not start to think of cryptos as a safe investment product by the introduction of MiCAR.

MiCAR subjects a number of types of products and services to supervision. Furthermore, crypto service providers and issuers of crypto assets will become subject to supervision; these are called crypto-asset service providers (CASP's). These market participants must apply for a licence. MiCAR imposes general requirements on these market participants regarding their governance, transparency and prevention of conflicts of interest, among other things. The sector therefore needs to comply with these new requirements and the AFM, in cooperation with DNB, is responsible for supervising proper compliance with MiCAR.

Key activities
- The AFM will further develop the supervision of MiCAR, thereby focusing on issues such as money laundering, consumer protection and illegality.
- Meetings will be held with CASPs in the Netherlands to establish an overview of the market for crypto assets and to get an idea of how these providers are preparing themselves for MiCAR.
- We will start by processing the licence applications and assessing the executives of CASPs.

- We will seek international cooperation with other supervisory authorities through ESMA because of the international nature of cryptos. Special attention is paid to licensing and the supervision of market abuse.

Priority 3: Sustainability

The changing climate presents new risks for consumers, such as damage to homes due to extreme weather. Consumers have little insight into the risks and which climate risks are covered by their insurers. Moreover, the market for sustainable finance is still developing, is perceived as a growth market and poses significant challenges. For instance, there is a risk of mis-selling to consumers who want to purchase a sustainable product. This risk reduces if market participants take consumers' sustainability preferences into account in product development and are transparent about the extent to which a product is sustainable. For instance, the sustainability transition could lead to new products that respond to changing consumer demands, such as green investment portfolios. Furthermore, mortgage lending standards will be based on the energy labels in 2024. The AFM monitors the desired or unwanted effects of this system adjustment and will present recommendations where necessary. In the Covenant on Improving Sustainability in the Property Chain (Convenant Verduurzaming Koopketen), advisers committed to actively include sustainability finance in advice to clients. This process could go significantly faster if, for example, sustainability were made a standard and permanent part of advisory software.

In recent years, there has been increased demand on the financial sector to jumpstart the sustainable transition. An example illustrating this are several legislative proposals published by the European Commission on sustainability. The proposals mostly serve to improve transparency on sustainability risks and to better connect with consumers' sustainability needs. For instance, the Sustainable Finance Disclosure Regulation (SFDR) requires financial institutions, pension funds and advisers to be transparent about their sustainable investments and about the extent to which they invest sustainably.

Key activities:

- The AFM will develop a vision on sustainability issues and modernisation of the lending standards with regard to mortgage loans. There are many policy issues in the mortgage market related to sustainability measures for housing, climate risks and property valuation. The interests of consumers should be paramount in modernising and further clarifying lending standards.
- In 2024, we will continue to supervise proper compliance with the SFDR, in which we attach great importance to the availability, quality and comprehensibility of sustainability-related information. We expect that the sector takes responsibility for proper compliance with the new rules on sustainability, though we will also engage with the sector on the possible challenges the sector is experiencing.
- The AFM will investigate the extent to which market participants are transparent about the sustainability of a product and the extent to which sustainability has factored into product development in line with SFDR and MiFID. For its part, the AFM will also closely monitor sustainability claims and use enforcement where necessary.
- The AFM will monitor on an ongoing basis whether insurers continue to give central priority to customer's interests despite pressure on margins. Additionally, the AFM remains alert for uninsurability or underinsurability and monitors the emergence of new risks, such as climate-related risks.

Priority 4: Pensions transition

The Future of Pensions Act came into force on 1 July 2023. As such, the pension sector has entered into a new and challenging implementation phase. Within the AFM, the focus has shifted from policy to supervision, which is why the AFM will focus on whether information disclosure from pension providers to members is clear, correct, timely and balanced. After all, the transition from existing agreements to defined contribution schemes will have a profound impact on this. As pensions will more readily respond to financial markets, pension outcomes will be more dependent on financial and economic trends, such as developments in stock market prices and interest rates. Members therefore need information about a possible decrease and increase in assets and their expected distribution. Pension administrators need to be aware that information for members is correct.

Furthermore, the AFM is going to supervise pension administrators' new tasks under the Future of Pensions Act. For example, communication plans will be reviewed as part of the implementation plan. We expect to assess a total of about 200 communication plans until mid 2025. We have been preparing ourselves for this for quite some time now, together with the pension sector and DNB, in order to be able to carry out adequate supervision on this crucial transitional phase in the pension provision of the largest part of the Dutch population.

Key activities:

- The AFM will launch several investigations into the new standards and tasks of administrators, such as in the area of decision-making guidance, transition communication, complaint procedures, risk preference assessments (RPA) and confirmations of assignment. It is essential for a successful pension transition that the sector implements these new standards correctly and that this is understandable to members.
- In 2024, the AFM will investigate the design of the decision-making guidance process by pension providers, among other things. It is important for members to receive the best possible guidance. The AFM will provide as much market-wide feedback as possible on the findings of its investigation so that the entire pension sector can benefit from the findings.
- The AFM will carry out an evaluation of the timeliness of the Uniform Pension Statement (UPS) and an exploratory review of the accuracy of scenario figures. The results of these studies will help to prepare for the transition.
- We will inspect the format of the first 'transitional UPSs'. This will be the most tangible information pension scheme members will receive about the personal impact of the transition. The objective is for the AFM to still have an opportunity to intervene if it sees risks in the information sent by the sector.
- The annual supervisory report has been updated and is in line with the Future of Pensions Act. This will contribute to risk-based data-driven pension supervision to provide insight into new developments and risks across the second-pillar pension market during and after the transition.

Priority 5: Supervision of financial service providers

Giving central priority to customer's interests not only requires action from financial service providers; it also requires action from the AFM. We are currently working on a renewed design and implementation of structured supervision of advisers and intermediaries. This approach will focus on projects relating to regular risk-based oversight, retail-wide projects and forums, as well as on optimising the use of data and integrating the data in supervisory processes with the aim of making the supervision more efficient and more effective. This is necessary to keep a grip on the rapidly changing market.

Key activities:

- In the first half of 2024, the AFM will complete the exploratory phase of the review of the quality of mortgage advice and inform the market of the outcome. In the second half of 2024, the AFM will investigate existing risks or recently identified risks in the mortgage advice market.
- The investigation into ethical and controlled business operations by financial service providers will continue in 2024. Purpose of this investigation is to arrive at a more standardised enforcement process. By this means, we aim to ensure that financial service providers comply with licensing requirements on an ongoing basis.
- The AFM will carry out risk-based supervision of the transparency requirements arising from the amended provision that advisers or intermediaries actively inform consumers on commission rates prior to taking out a non-life insurance policy.
- We will also develop a retail-wide risk inventory. We will translate the outcomes into recommendations for the sector. The aim is to better implement the renewed supervision of financial service providers and to thus give central priority to customer's interests.
- The AFM will investigate the operation of collective licensees to better understand how collective licensees manage their affiliated undertakings. This investigation may then provide useful results regarding best practices on controlling and managing these financial undertakings, and will refine AFM's internal assessment frameworks.

Regular activities in the supervision of financial services:

In 2024, the AFM will continue to devote a significant portion of its time and capacity to regular activities with respect to the supervision of financial services:

- Processing licence applications and exemptions for financial service providers. Financial service providers are obliged to obtain a licence from the AFM in order to perform activities.
- Assessing whether policymakers, Supervisory Board members and co-policymakers are fit and proper.
- Monitoring innovation in the market, with a focus on new entrants, product design and the development of automated processes. We do so by monitoring developments in the media, scrutinising new products and remaining in dialogue with market participants, other supervisory authorities and the Ministry of Finance.
- Monitoring market-wide (technological) developments and helping to ensure the duty of care in the digital environment. We do so by assessing requests made via the Innovation Hub, providing international input in respect of risk identification and taking part in relevant external activities, to name just a few examples.
- As a market conduct authority, we aim to protect millions of Dutch citizens who take part in a pension scheme. We do so by responding to signals relating to the pensions sector, dealing with requests for exemptions from licence requirements and requests for enforcement, and by managing ongoing dossiers and supervision tests in respect of pensions.
- Monitoring advertisements of providers of financial products and services. These advertisements must be correct, clear and not misleading.
- The AFM conducts analyses to monitor current and future climate-related risks. As part of a broader market view, the AFM constantly monitors changes in insurance cover for climate-related property damage and losses, so as to ensure that policyholders have a proper understanding of what is covered and what is not, and to make sure that they will not be confronted with surprises.

3.2 Supervision of the capital markets

Fair trading practices and robust and transparent capital markets

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

This year too, the effects of advancing digitalisation, sustainability and internationalisation are having a considerable impact on the market structure and behaviour of trading partners, as on our supervision. In the area of digitalisation, market participants will face the implementation of the Digital Operational Resilience Act (DORA), among other things, and the increasing importance of mastering algorithms. And EMIR-Refit (Regulatory Fitness and Performance Programme) will go live for those participants transacting in (OTC) derivatives. In other words: controlled business operations will become more important than ever.

In addition, capital markets play a key role in the sustainability transition in terms of funding and through the trade in CO_2 emission right derivatives. And because of the international operation of the capital markets, we are alert in our data-driven supervision to cross-border and cross-platform market abuse.

We aim to achieve the following in 2024 in our supervision of capital markets:

- The trading chain remains *robust*. Market participants are handling the implications of digitalisation well, including in the areas of cybersecurity, *artificial intelligence* and crypto developments.
- Cross-border market abuse will be addressed through cooperation with national and international partners. This is important for a *fair* trading chain.
- Market participants ensure reliable and consistent information on sustainability, reporting and notifications. Moreover, these are provided on time. This leads to *transparency* in the trading chain.

Priority 1: Market participants manage advancing digitalisation

Advancing digitalisation involves opportunities and risks. A major risk is the increasing dependence on a secure digital environment. The implementation of DORA contributes to managing this risk. A second risk relates to the increasing dependence on algorithms. Errors in algorithms and unexpected interaction effects between algorithms can trigger major shocks in capital markets. In 2024, the AFM will require more attention to ways to manage this. In addition, the introduction of MiCAR means that, as of 2024, the issue of crypto assets and the provision of specific crypto services can only be done with a licence or registration. The AFM is responsible for the licensing procedure and will make preparations for regular supervision following the licensing.

Key activities:

- The AFM will draw up a DORA implementation plan for our supervision. We will inform the sector about the new DORA legislation and regulations and the key issues regarding the implementation. We will conduct baseline measurements/gap analyses to get an understanding of where the sector stands on cybersecurity.
- We will focus on the management of algorithms by means of a CSA review (Common Supervisory Action). This enables us to assess the presence and adequate operation of pre-trade controls. We will also review the compliance of circuit breakers with existing guidelines so that they can adequately handle fluctuations in exchange rates. See AFM Market Watch.
- We will increase knowledge of cryptos among our supervisors and prepare for the licensing of crypto service providers. We will develop the regular supervision and the prevention of market abuse in the crypto market.
- In doing so, we specifically focus on cross-platform market manipulation and the impact of algorithms and the application of machine learning.
- The AFM will conduct a deep dive to review prospectuses offering new products with, for example, cyber-related risks.

Priority 2: Supervision of cross-border market abuse

Fair trading practices prevent a situation in which costs and risks are passed on to other participants, which would undermine confidence in the market. Capital markets are cross-border markets, which means that the AFM increasingly cooperates with fellow supervisory authorities abroad and other national or international partners.

Key activities:

- We will strengthen national and international cooperation with chain partners to, for instance, foster supervisory convergence in the area of market abuse, e.g. wash trades, stake building, and to act in concert in cross-border market abuse cases. We are committed to jointly working on preparations to tackle market abuse in the crypto market.
- We aim for policy advocacy in respect of revised legislation and regulations in relation to the MiFIR Review, IFD/IFR Review, EMIR Review, CSDR Refit and BMR Review. In doing so, we aim to promote an efficient market structure for the Capital Markets Union, among other things, by committing to open access and transparency, including monitoring and promoting open access and access to data via a Consolidated Tape, for example.

Priority 3: Compliance with requirements set out in legislation and regulations relating to sustainability

Capital markets play a key role in the sustainability transition in terms of funding and through the trade in CO_2 emission right derivatives. The move towards a sustainable economy has also created new financial products and services. The AFM will address this development in its supervision by monitoring the transparency of sustainability aspects in relation to existing and new instruments, such as green bonds, sustainability-linked bonds, benchmarks, etc. With CSRD coming into force in 2024 for listed companies and 2025 for other large companies, there will soon be a more comprehensive and clear legal framework.

Key activities:
- The AFM will develop a strategy for the assessment of prospectuses on sustainability-related information and the connectivity between financial and non-financial data. Relevant new legislation, including the implementation of CSRD, will also be incorporated in the assessment strategy.
- The AFM will also participate in the Common Supervisory Action (CSA) ESG benchmarks with the aim of increasing transparency of ESG factors in benchmark statements and methodologies.
- We will prepare an approach to tackle information manipulation in statements on sustainability.

Priority 4: Professionalisation of data-driven supervision

Transaction reports and notifications are important sources for our data-driven supervision. In the years ahead, the AFM will devote extra capacity to compliance with transaction reporting requirements and notifications. In addition to data-driven in-house detection, there will be more emphasis on market participants' own responsibility to ensure timely, accurate and complete reporting and notifications and the setup of systems and processes needed for this. We also aim to reduce the 'time-to-market' of these reports. We will do so by investing in our centralised data platform. We will also invest in the development of data-analysis tools. The introduction of new regulations such as DORA and IFD/IFR will increase the amount of data in the years ahead. This data will be collected and made available in cooperation with parties such as DNB. EMIR Refit will go live in 2024, thereby expanding the number of reportable fields for (OTC) derivatives from 129 to no less than 203. EMIR Refit will also introduce XML as the new reporting format. For both reporting entities and the AFM, these changes require far-reaching and complex adjustments to the reporting chain.

Key activities:
- We will professionalise data-driven and risk-based supervision by embedding various data sources, such as TRS and EMIR-related data sources, in dashboards and prioritisation tools that can be used for supervisory purposes. In this, we will also take into account the findings resulting from the Supervisory Review and Evaluation Process (SREP). We will develop an integrated set of dashboards to this end.
- Adequate receipt, processing and data verification of EMIR-Refit transaction reporting data.
- We will implement new controls and automated checks to detect any reporting issues for all reporting regimes.
- We will further roll out the supervisory strategy, processes and documentation to allow market participants to take more ownership in reviewing the quality of their own reports.
- We will develop a new portal for notifications.
- We will continue to work on improving the quality and presentation of public notification registers.
- We will identify new supervisory opportunities as a result of new data and new technology.

Regular activities in the supervision of capital markets

The AFM will continue to devote a significant portion of its capacity to regular activities with respect to the supervision of capital markets also in 2024:

- In our supervision of prospectuses and public offerings, we will apply a risk-based assessment strategy which will be reviewed periodically, including in 2024, as well as using and adding on new technologies, such as text mining.
- Executing non-recurring activities for institutions, including: BMR and trading platform licence applications, review and evaluation of CCPs and CSDs, waiver/ deferral requests, certificates of no objection, dispensations and open-access requests.
- Regular supervision of trading platforms and capital markets infrastructure parties including regular contacts so as to keep in touch with the market and follow up on any supervision issues.
- Participation in international standing committees, task forces, colleges and peer reviews. Sharing findings and experiences with other supervisory authorities in relation to technological developments such as algorithmic trading and machine learning.
- Supervision of prospectuses, final terms and supplements.
- Supervision of public offerings, supervision of the public takeover bid and assessment of documentation, including the tender offer.
- Real-time supervision of timely publication of inside information.
- Supervision of information disclosure by listed companies.
- Following up on signals and conducting enforcement procedures in the area of market abuse.

3.3 Supervision of asset management

A robust and adaptable asset management sector

The Netherlands has a relatively large asset management sector in comparison with other European countries. In the Netherlands, the asset management sector manages hundreds of billions of euros' worth of assets for pension funds, insurers and private households. Our supervision of the asset management sector gives priority to controlled and sound business operations. We therefore pay close attention to this when reviewing applications of new entrants, and in our regular supervision of established market participants. In 2024, we will also prioritise the risks ensuing from the digitalisation, sustainability and internationalisation trends. These trends have a significant impact on the asset management sector.

First, technological developments and digitalisation affect the way in which asset managers operate their businesses and affect the asset management chain as a whole. For instance, technological developments have significantly changed the way asset managers operate, providing them with opportunities to improve performance, optimise customer service and gain a competitive advantage in the sector. Asset managers' ability to adapt is therefore key in remaining relevant and competitive.

However, digitalisation also comes with major risks. For example, the progressive outsourcing of (partial) business processes to large service providers, including cloud platforms, makes asset management as a whole vulnerable to cyber incidents.

The sustainability transition, too, plays an increasingly prominent role within the sector. There is strong demand from investors for sustainable investments, and non-sustainable companies are increasingly being excluded from investment portfolios. It is important for asset managers to incorporate sustainability into their business operations, to manage the risks of this transition and offer full transparency to investors about the way they strive for sustainability.

Finally, developments within the asset management sector do not limit themselves to the Dutch borders. There are important European legislative and regulatory processes at play within the sector that have a major impact on the sector and AFM's oversight. A European approach and cooperation is essential in 2024 to create a level playing field and to be able to maintain an adequate level of supervision.

We aim to achieve the following in 2024 in our supervision of asset management:

- Asset managers ensure controlled and sound business operations, thus safeguarding the sector's resilience. If they outsource activities, they will be in control of the entire chain.
- In response to the pension transition, asset managers have implemented their business operations and related adjustments in data, IT applications, and administration. Coordination within the chain on pension administration, portfolio management and investment administration have also been intensified.
- Asset managers are aware of the risks of digitalisation and are committed to being able to explain the AI models.
- The digital resilience of asset managers has increased, partly owing to investments in IT risks, performances of TIBER tests and the implementation of DORA regulations.
- Asset managers have an adequate control of sustainability risks and the integration of sustainability risks into the business operations and investment policy. In this context, asset managers provide the correct information on sustainability based on the statutory requirements.
- The asset management sector has successfully implemented the European Long-Term Investment Fund (ELTIF) and is prepared for the revision of the AIFMD Directive, including accompanying new provisions from the Undertaking for Collective Investment in Transferable Securities Directive (UCITS).

Priority 1: Asset managers ensure controlled and sound business operations

To safeguard the sector's resilience, asset managers need to ensure controlled and sound business operations. Changing market conditions require even higher-quality business operations. Moreover, margin pressure, the surge in online or offline passive (index) investing and increasing legislation and regulations force asset managers to strategically reposition themselves. This increasing pressure on managed assets is partly contributing to more consolidation within the sector. In addition, outsourcing is gaining ground in the sector, both in outsourcing investment-related administrative tasks such as in IT and licensed activities, e.g. portfolio management and asset management. The potential for additional risks increases as many asset managers come to rely on the same third parties through outsourcing.

The Future of Pensions Act coming into force also entails major challenges, especially for asset managers fulfilling a fiduciary role. These challenges emerge in the realm of strategic portfolio management, among other things. Pension funds will call on asset managers to re-analyse modified versions of the investment portfolio and calculate scenarios. Outsourcing is also common within the pension sector, especially in asset management and pension administration. The pension transition will only further increase outsourcing. A close cooperation between the pension administration, asset management and investment administration is needed to ensure a smooth implementation. Moreover, the pension transition requires adjustments to the business operations, and these adjustments go hand in hand with changes in data management, IT applications and the administrative organisation.

We make use of the Supervisory Review & Evaluation Process (SREP) to create a comprehensive risk profile of supervised institutions with regard to the controlled and sound business operations. This approach is based on the joint EBA and ESMA Guidelines and forms part of a series of new guidelines and technical standards that have been developed pursuant to the Investment Firm Regulation (IFR) and the Investment Firm Directive (IFD), which entered into force in 2021. In the Netherlands, these requirements apply to investment firms and management companies of investment firms and UCITS management companies that provide investment services. Topics covered include governance, remuneration policy, separation of assets, management, PARP, operational risk management, IT risks and Business Continuity Management (BCM).

Key activities:

- To properly assess the risks of outsourcing, we launched an investigation on outsourcing in 2023. We will continue this investigation in 2024 and, if needed, take enforcement action,

aiming to boost controlled and sound business operations.
- The pension transition requires a solid and closer cooperation between the pension administrators, asset management and investment administration. The AFM supervises potential risks within this cooperation by means of a risk-based approach. We will execute deep dives in this area in our account supervision.
- Assessments are conducted for all SREP components, based on periodical data requests to institutions. The AFM will phase these data requests to spread out the workload over time for asset managers. The supervision will be further developed, partly based on this integrated risk profile.
- The AFM gives priority to the supervision of the business operations, including via our market-access supervision, the evaluation and processing of risks in supervisory reports, notifications and signals. For large asset managers, we will execute account supervision by holding quarterly discussions, by conducting in-depth reviews and by assessing risk and compliance reports.

Priority 2: Asset managers increase their digital resilience and are transparent about sustainability aspects

Digitalisation is playing an increasingly important role in the asset management sector. The use of Artificial-Intelligence (AI) systems in both portfolio management and operational processes is on the rise. AI can, for example, be used by means of Large Language Models (LLM) and Machine Learning (ML). These AI systems help asset managers to design business processes more efficiently or make new connections in investment policy. However, there is a risk that AI's actions and policies can no longer be explained and people no longer understand them. There can also be programming errors or data errors. Far-reaching digitalisation also makes the asset management sector vulnerable to cyber attacks. A cyber incident could potentially undermine the trust and continuity of asset management participants, which is why it is important that asset management parties and the AFM understand the origin of risks and how they have to be controlled.

Financial institutions also have an important part to play in the sustainability transition, by mobilising capital for sustainable investments and making decisions based on aspects of sustainability in companies' business operations in which they invest. The AFM seeks to facilitate the financial sector's role in the necessary sustainability transition. Our efforts to achieve this include the adoption of sustainability aspects in our supervision. In doing so, we focus on managing financial risks arising from the transition, ensuring regulatory compliance and transparency, and protecting investor interests.

The sustainability transition is accompanied by a growing supply of sustainable products and more attention for the sustainability policies of financial institutions. At the same time, sustainability risks are becoming increasingly relevant. Asset managers are also required to integrate sustainability risks in their risk management. Various laws and regulations have been introduced at European level to offer investors more insight into sustainability risks and allow them to compare financial products' sustainability aspects more easily. The Sustainable Finance Disclosure Regulation (SFDR) came into force in 2021. Through a variety of reviews, we identify the risks of the sustainability transition as best we can and see whether asset managers are correctly providing insight into the sustainability characteristics of financial products.

Key activities:
- The AFM will follow-up on the exploration (risk control) in relation to the use of ESG data by asset managers. The purpose of this review is to monitor the developments in the area of ESG data in relation to proposed regulations pertaining to ESG rating offices, as well as to examine permanent challenges concerning the access to accurate and complete ESG data.
- The AFM will develop the risk control framework within the asset management sector on the subject of Model Risk. We do this by means of an exploratory review. Model Risk is the risk of wrong decisions being taken as a result of incorrect and/or wrongly used models. The aim of this review is to obtain better insight into the risk control system of management companies.
- We will follow up on the 2023 exploratory review in relation to AI/algorithmic applications by asset managers. This follow-up aims to gain additional insights into the extent to which asset managers

are using AI systems and AI-related concepts in their provision of services. It also takes a closer look at how they have set up their risk control framework for this purpose.
- The AFM stimulates the asset management sector to be DORA-compliant in time. The AFM does so by organising roundtable discussions with institutions subject to supervision, industry associations and sector advisers, for example, and by asking institutions subject to supervision questions about their preparation for DORA, as well as the publication of so-called DORA updates.
- We will participate in ESMA's Common Supervisory Action (CSA) on Sustainability. CSA's objective is to jointly supervise in a European context compliance with SFDR and to promote the integration of sustainability risks and supervisory convergence. Additionally, the AFM will also conduct its own market-wide inspection into compliance with the SFDR. We will share the outcome of this inspection with the sector.

Priority 3: Intensive cooperation in Europe

The asset management sector is heavily internationally-oriented. Increasingly more legislation and regulations stem from Europe. This internationalisation demands a European approach promoting a level playing field. In addition to the aforementioned SFDR, CSRD and DORA, the amendments of the European Long-Term Investment Fund (ELTIF) Regulation will also enter into force in January 2024 and the Alternative Investment Fund Managers Directive (AIFMD) will be revised. This also involves adjustments to some of the provisions of the Undertaking for Collective Investment in Transferable Securities Directive (UCITS) to align them with the amendments of the AIFMD. In addition, the wave of consolidation in the asset management sector continues to attract more new and major international market participants to the Netherlands.

To establish this level playing field, we focus on supervisory convergency on the one hand: striving for uniformity and consistency in supervisory practices between different supervisory authorities and jurisdictions. After all, supervisory convergency within the asset management sector contributes to stable and efficient markets, and at the same time, protects the investors' interests. It also promotes international cooperation and ensures that asset managers can operate worldwide within a clear and consistent regulatory framework.

On the other hand, internationalisation also requires a balanced approach from us as supervisory authorities. While it remains important to ensure the effectiveness of our supervision, we remain true to our own principles. We also take specific developments in the Netherlands into account, such as the pension transition, to which we further align our supervision.

Key activities:
- We exert influence on the European agenda with respect to both prioritisation of risks and the manner of supervision, so that we can effectively address the risks we have identified. In Europe, the AFM participates in cooperation within ESMA, that is IMSC, IPISC, RSC and their sub groups. The AFM also contributes to supervisory briefings, Implementing Technical Standards (ITS), Regulatory Technical Standards (RTS) and Q&As. The aim is to achieve a level playing field and more effective supervision within Europe as a result.
- The AFM provides input on international regulations and its implementation in the Netherlands, and in so doing, seeks out cooperation with DNB and the Ministry of Finance. This, for example, applies to the developments in the area of Crowdfunding, DORA and MiCAR.
- Informally, the AFM seeks out cooperation with other supervisory authorities. One example is the European Passports Experts network, which is a partnership with a focus on the effect of the European passport that institutions use to operate freely within Europe.

Regular activities in the supervision of asset management:

- Using a risk-based approach, the AFM timely processes licence applications, registrations for new funds and passport applications, as well as assesses notifications, signals, assurance reports and custodian reports. In this regard, we utilise periodic reports to enrich our data position and refine our supervision. In doing so, we intend to further standardise and then automate more of our processes.
- We execute account supervision by holding quarterly discussions, by conducting in-depth reviews and by assessing risk and compliance reports.
- We influence and carry out enforcement actions with regard to individual institutions.
- New mandates, such as those involving IFR/IFD, will be assigned from Europe. These mandates require proper coordination between the AFM, as primary licensing supervisory authority, and DNB, as prudential supervisory authority. For this reason, we are committed to a closer cooperation with DNB in order to successfully implement international legislation.
- We participate in international forums and working groups, for example within ESMA and the ESRB, in order to further coordinate interpretations.
- The AFM not only strives for a level playing field in Europe, we also try to promote supervisory convergence worldwide. We therefore participate in the organisation of global supervisory authorities, such as the International Organization of Securities Commissions (IOSCO).

3.4 Supervision of audit firms and reporting

Reliable and relevant provision of financial and non-financial information

The supervision of audit firms and reporting is designed to ensure that end users, such as investors, lenders, customers and consumers, can rely on the perspective presented by a company's reporting. To realise this, the AFM supervises audit firms and the manner in which these audit firms assure the high quality of statutory audits. The AFM also supervises listed companies, thereby paying close attention to a clear link between financial reporting and non-financial reporting.

A great deal comes down on the audit sector and listed companies in 2024.

The increasing focus on transparent and accurate sustainability reporting requires significant efforts and knowledge accumulation among market participants. The AFM expects that companies report on ESG factors in a coherent and balanced manner. It is important that audit firms and their external auditors (EAs) adequately implement the application of the Corporate Sustainability Reporting Directive (CSRD) and be transparent about any challenges and dilemmas. To promote this, the AFM not only seeks to connect and cooperate with audit committees and representatives of investors, but also with new stakeholders emerging due to the sustainability transformation.

Furthermore, adequate detection, analysis and follow-up of fraud and continuity risks are gaining in significance due to the impact of digitalisation, economic developments, sustainability and advancing internationalisation of the business community. As good gatekeepers, audit firms are tasked to identify fraud and (imminent) bankruptcies in good time.

There is also increasing emphasis on adequate client and engagement acceptance by audit firms. This is partly caused by the continued shift of statutory audits from PIE-licensed audit firms to regular-licensed only audit firms and by the ongoing consolidation in the sector. Audit firms need to continuously ask themselves whether they have the knowledge and expertise to guarantee high-quality audits for both established and new clients. Also, their independence must be guaranteed.

Audit firms increasingly rely on technology and data analytics, both in business operations and the risk assessment of clients to be audited, as well as in the performance of statutory audits. This development not only offers opportunities to make business operations more efficient and to further improve the statutory audits, it may also create vulnerabilities to controlled and sound business operations.

This particularly applies to the control of the IT environment and the susceptibility to cybercrime.

Finally, in terms of behaviour and culture, the recent examination fraud has once again made it clear that attention to this issue must not weaken. As a supervisory authority, we will continue to remind audit firms of their key role in society. There should therefore be no room for doubts about the integrity and professional competence of external auditors.

We aim to achieve the following in 2024 in our supervision of audit firms and reporting:
Companies will report in a coherent and well-balanced manner on the impact of ESG factors. In doing so, they demonstrate how these factors affect the business model. Audit firms are prepared to provide assurance on this. This provides end users of the reporting with relevant and reliable information.

Audit firms have strengthened the quality control process on the three levels of quality: (i) governance and behaviour and culture within the audit firm, (ii) the quality control system and (iii) the quality of statutory audits. This increases the level of assurance given by external auditors in their audit opinions.

Audit firms will be given and will take more responsibility for the role of its external auditors and other employees in fraud detection and timely detection of (imminent) failures in the audit. This will subsequently reduce the social damage of fraud and bankruptcies.

The regular-licensed audit firms will have an increased focus on recognising risks at both organisational level and in the statutory audit. As a result, risks are identified and mitigated at an earlier stage and a higher level of quality is achieved at both the audit firm and in the statutory audit.

The AFM will continue to develop data collection and analysis processes and translate them in a more concrete manner into the supervisory activities and the prioritisation thereof.

Priority 1: Companies provide clarity on their impact on people, the environment and society (ESG)

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

Key activities:
- We will investigate to what extent companies include disclosures about their impact on people, the environment and society (ESG) in their reporting, and how these factors affect the companies themselves (double materiality). They are meant to report relevant non-financial information in line with the forthcoming new rules of the CSRD.
- We will exert influence on the audit sector, both PIE-licensed audit firms and regular-licensed audit firms, aimed at timely preparation in case they want to provide assurance on sustainability reporting following the introduction of the CSRD as of 2025/2026 by drawing attention to the findings in the 2023 AFM report titled 'CSRD: No time to lose!'.
- We will contribute to and provide input for the development and implementation of international standards for NFI by the EC/EFRAG and the IFRS Foundation.

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

Adequate detection, analysis and follow-up of fraud risks by audit firms are gaining in significance due to economic developments and the impact of digitalisation, sustainability and advancing internationalisation of the business community. Still, few fraud risks are detected. There is a performance gap, where applicable legislation and regulations are too often inadequately applied and the quality of fraud risk analysis in statutory audits is deficient in parts. Audit firms need to ensure that external auditors and other staff members have sufficient knowledge, competence and expertise and have an adequate perception of their role in order to adequately detect fraud risks and any (imminent) bankruptcies and in accordance with the audit standards and to follow up on them in the statutory audit. The audit firm's internal culture and quality control system must promote this.

Key activities:

- The AFM will review how PIE-licensed audit firms and regular-licensed audit firms follow up on identified fraud risks in the statutory audit. The purpose of the review is to check to what extent the rules are observed and encourage audit firms to make further improvements.
- We will continue the investigations launched in 2023 into examination fraud, and monitor behaviour and culture activities at PIE-licensed audit firms.
- We will develop a data position with regard to fraud and continuity risks at sector level, segment level and audit firm level. This puts us in a better position to focus sparse supervisory capacity on the most significant risks.

Priority 3: We draw attention to the market structure and disincentives for the quality of the statutory audit.

Structural vulnerabilities in the accountancy sector can impede or even adversely affect the high quality of statutory audits in the longer term. The Quartermasters for the Future of the Accounting Profession, appointed by the Minister of Finance, have reported on the importance of behaviour and culture of and within audit firms. This report showed, among other things, the need to make adjustments to the design of professional training programmes for accountants. The examination fraud by employees of a number of audit firms shows that attention to behaviour and culture continues to be essential.

The AFM also notes that the relevance of audit firms' quality is increasing, partly due to the broadening of the statutory audit to include fraud and discontinuity, sustainability, digitalisation and the use of technology. Audit firms have historically developed from a partnership of external auditors to organisations where the quality control system gained importance. Subsequently, the accountability for the quality of the statutory audits has increasingly shifted from the level of an individual external auditor to that of audit firms. The focal point for supervision thus lies with the audit firm, and the adjusted standard for 'duty of care' in the accountancy legislation to be amended is supportive of this.

Key activities:

- We will review compliance with the standards of the system of quality control. This will also include statutory audits by assessing Internal Quality audits at some of the PIE-licensed audit firms. The aim is to ensure sustainable high quality and to promote an adequate system of quality control.
- Attention to the process of continuous improvement in a selection of regular-licensed audit firms to understand the level of quality and the factors that (can) affect quality both favourably and unfavourably. The aim is to be able to determine whether regular-licensed audit firms are in control when it comes to guaranteeing the quality of the statutory audit.
- We will develop a policy vision on the public interest of the statutory audit and the limits, including statutory criteria, past which a statutory audit is currently mandatory for companies. The aim is to determine whether the public interest has changed over time and whether the criteria for the limit above which a statutory audit is required are still the right criteria.

Priority 4: The impact of technological developments and digitalisation cannot be underestimated.

Both audit firms and their clients to be audited need to have controlled and sound business operations in place with regard to IT infrastructure, data governance, cyber resilience and cybersecurity. Audit firms appear to be carefully taking initial steps in the use of AI in the statutory audits and their business operations. For proper supervision, it is important to understand the scale and manner in which audit firms do this.

Key activities:
- We will conduct a survey among audit firms on the use of technological innovations and AI in statutory audits. The aim of this exploratory investigation is to get a clearer understanding of where the sector stands and where it is heading.
- We will conduct an exploratory investigation among one or more PIE-licensed audit firms on the controlled and sound business operations with respect to IT infrastructure, data governance, cyber resilience and cybersecurity. The aim in this area is to get a clearer understanding of PIE-licensed audit firms' controlled and sound business operations.
- We will consult the guideline 'Controlled and sound business operations with regard to IT infrastructure, data governance and cybersecurity'. The aim is to work with the sector to arrive at a shared vision of the minimum requirements for controlled and sound business operations with regard to IT infrastructure, data governance, cyber resilience and cybersecurity.

Our regular supervisory activities concern subjects such as:

- Account supervision of PIE-licensed audit firms.
- Segment supervision of regular-licensed audit firms and expanding and maintaining the supervisory relationship with the regular licensees.
- Following up on signals and incident notifications, incident investigations and signals investigations at PIE-licensed audit firms and regular-licensed audit firms.
- Desktop reviews of compliance with reporting requirements by listed companies.
- Licensing and withdrawing licences, third country registrations and monitoring the number of statutory audits conducted by audit firms from outside the Netherlands ('Portugal route').
- International policy advocacy on ESG reporting and assurance and Standard 240 Fraud and discontinuity; cooperation with the PCAOB on examination fraud, among other things.

3.5 AFM-wide issues

3.5.1 Combating criminal behaviour

Combating criminal behaviour

If financial enterprises are or become involved in criminal activities, consciously or otherwise, this can damage confidence in the financial sector. Combating criminal behaviour in the financial sector is therefore at the core of the objectives of the AFM. Our mandate comprises clear responsibilities for the supervision of criminal activities in this sector, such as market manipulation, insider trading, investment fraud and mortgage fraud, tackling illegal service providers and ensuring compliance with anti-money laundering measures and sanctions.

We aim to achieve the following in 2024 in combating criminal behaviour:
- Financial institutions adequately perform their role as gatekeepers when it comes to preventing money laundering, preventing terrorist financing and complying with sanctions regulations.
- We strengthen our information position with regard to criminal behaviour and specifically identify the risks of criminal behaviour of new entrants to the execution-only chain and take appropriate action.
- Consumers are more aware of the risks posed by digitalisation and internationalisation with regard to deception and fraud by unscrupulous market participants.

Priority 1: Preventing and combating money laundering, the financing of terrorism and complying with sanctions regulation

Financial institutions act as gatekeepers in the fight against money laundering, the financing of terrorism and in complying with the sanctions regulation. Newly imposed sanctions as a result of the Russian invasion in Ukraine impact the control measures these gatekeepers have to take to ensure compliance with the sanctions imposed. In a risk-based manner, the AFM supervises compliance with the rules set out in the Sanctions regulation and the Money Laundering and Terrorist Financing (Prevention) Act (Wwft). Next year will also be marked by preparations for MiCAR and for the Regulation on information accompanying transfers of funds and certain crypto-assets (TFR). The introduction of these regulations means that part of the crypto market participants will be covered by the Wwft and the Sanctions regulation and will thus be subject to the supervision of the AFM.

Key activities:
- We will ensure a solid preparation and implementation of MiCAR and TFR, thereby specifically focusing on anti-money laundering.
- By means of data requests, we will update the insight into the risks that investment firms and financial service providers run and the degree of control of these risks. This will help us to strengthen compliance with the Money Laundering and Terrorist Financing (Prevention) Act (Wwft) and the 1977 Sanctions Act within these sectors.
- The government is preparing to modernise the Dutch sanctioning system. The aim of the modernisation is to further improve compliance with the requirements of European sanction decisions and regulations. The AFM contributes to the modernisation of the 1977 Sanctions Act by providing input to the legislator.
- Our commitment to international cooperation to enhance the supervision of the Wwft and the 1977 Sanctions Act remains unabated. In addition to taking part in the Standing Committee anti-money laundering and countering terrorist financing (AMLSC), we organise and participate in European risk-based AML/CFT supervisory lectures as part of this endeavour.

Priority 2: Strengthening the information position and combating criminal behaviour in the financial sector as a result of digitalisation and internationalisation.

The uptake in digitalisation and artificial intelligence has increased the accessibility of financial services, but at the same time provides more opportunities for criminals to deceive consumers. There are now numerous new links in the execution-only chain, such as finfluencers and sellers of subscriptions of investment tips and signals, so-called signal providers, who may prompt (inexperienced) investors to invest in risky products. We need to have the right information to see the signs and be able to take enforcement action to effectively combat criminal behaviour. Given that criminal behaviour is persistent or sometimes even elusive, we also focus on timely alerting consumers.

Effectively combating criminal behaviour is an international challenge. Investment fraud, in particular, is a major cause of financial loss. This type of fraud is often committed by entities that evade regular supervisory mechanisms, for example, by participants offering their services illegally such as illegal investment firms and so-called boiler rooms. There also participants that are not covered by regular supervision by the AFM, such as AIFM light management companies and European Passport holders. Given the digital nature of these risks, this type of criminality does not limit itself to Dutch borders. To tackle these risks, we therefore need to cooperate intensively with international supervisory authorities.

Key activities:
- In 2024, we will intensify the cooperation with external partners in the stakeholder chain, such as the Police, the Fiscal Intelligence and Investigation Service (FIOD), industry associations, and internal stakeholders. This will result in the build up of a structural information position aimed at potentially criminal behaviour of financial service providers.
- We will strengthen the enforcement chain by closer cooperation with the Financial Expertise Centre (FEC), the Public Prosecution Service (OM) and the Fiscal Intelligence and Investigation Service (FIOD). Within the FEC, the information exchange will be reinforced, and we will participate in one or more FEC projects to increase

engagement in this area. This will result in an improved information position and enable us to more effectively combat criminality in the financial sector.
- By stepping up internal and external cooperation, we will improve the combat against boiler rooms. This includes a cooperation with banks to make bank account numbers public in an effective manner, with the aim of blocking money flows, and addressing webhosts to take websites offline.
- We will carry out a thematic project aimed at AIFM light management companies, to gain insight into the risks of criminal behaviour within the sector. Based on these insights, the AFM will be able to take targeted action against this group.
- We will identify the possible risks of criminal behaviour of new entrants to the execution-only chain and take enforcement actions where needed.
- We will stress the necessity of European supervisory convergence on enforcement in international workgroups, to which end we will actively contribute to the Senior Supervisory Enforcement Standing Committee and the European Enforcement Network.
- We will begin by preparing and implementing MiCAR, thereby focusing on combating financial criminality and illegality.

Regular activities in the supervision of compliance with the Wwft, the 1977 Sanctions Act, and supervision of criminal behaviour.

- The Wwft and the 1977 Sanctions Act risk models are being updated. In addition, we are carrying out a thematic inspection and risk-based institution-specific investigation into compliance with the Wwft and the 1977 Sanctions Act.
- To provide direction to the sector, we publish guidelines and organise round-table discussions.
- We perform risk analyses to proactively identify upcoming trends and developments in the area of criminal behaviour.
- We continue to carry out ongoing investigations into investment fraud, both pro-actively as well as on the basis of signals.
- We periodically perform reassessments to review whether policy makers are fit and proper.

3.5.2 Financial stability

Within the scope of its supervisory responsibilities, the AFM closely supervises potential stability risks and actively contributes to their control through regular supervision. This involves stability risks in three areas that are primarily subject to AFM supervision. This first area comprises the supervision of the main elements in the European capital markets, including the natural gas market. The AFM also acts as the main supervisory authority for the expanding Dutch asset management sector. The Dutch asset management sector holds an increasingly prominent position within the financial landscape. Finally, the AFM will also continue to monitor the risks faced by customers of financial institutions, ensuring a solid and stable financial environment.

Regular activities in the framework of financial stability:

- The AFM actively contributes to national discussions on current developments that have the potential to pose risks to financial stability. The AFM mostly does so as participant of the Dutch Financial Stability Committee (FSC). Key activities of the FSC include the exchange of information and analyses with respect to the stability of the financial system, discussing issues and possible actions to reduce these risks and publishing recommendations on identified risks.
- The AFM takes part in national and international discussions on financial stability that are relevant for its area of supervision. The focus thereby lies on the risks of Non-Bank Financial Institutions (NBFI) and the development of macroprudential instruments for investment funds, among other things. The AFM does this both at a European level (at ESRB and ESMA) as well as internationally, at IOSCO. Holding the chair of the ESRB Expert Group on Non-bank Financial Intermediation (NBEG) Policy Taskforce, the AFM will also hold a key position in 2024 within the European policy debate.
- The AFM annually publishes an FS risk report stating the main risks for financial stability. This report serves as preparation for the annual roundtable discussions with the Dutch Central Bank (DNB), the Netherlands Bureau for Economic Policy Analysis (CPB) and the permanent committee for Finance.

- The AFM supervises the leverage (the debt-equity ratio) of Dutch investment funds. The results of this data analysis will be discussed periodically with DNB, where appropriate action will be determined.
- Attention to liquidity risks in the asset management sector continues unabated. Particular attention will be paid to the application of liquidity stress testing policies of asset managers and the liquidity management of the major pension administrators.
- The AFM contributes to financial stability by means of its regular supervision and conduct-of-business supervision, especially in the field of asset management and capital markets. Among other things, conduct-of-business supervision seeks to ensure due care in the treatment of clients.

3.5.3 Professional organisation

The rapid changes in society call on the AFM's adaptability. Digitalisation of the financial sector and the AFM demands, for example, an agile organisation with a strong learning capability to quickly adapt to changing circumstances. We want to attract and develop well-qualified people and offer them a pleasant work environment, which also requires a solid IT organisation and infrastructure.

Priority 1: an agile and learning organisation

The AFM needs to be able to quickly respond to changes in the outside world. In 2023, we started to increase the organisation's flexibility and learning capacity. Our ambition is to achieve concrete improvements with a number of initiatives and thus inspire all our employees to initiate process improvements themselves. In 2024, we will continue to work on these initiatives towards achieving more long-term impact.

Key activities:
- We will complete and implement a long-term vision on the AFM's organisation to be able to achieve the objectives of the 2023-2026 AFM strategy.
- We will promote quick response management to make the management of the AFM more effective and to increase our impact.
- We will conduct research on the way in which we can further expand our learning ability. The results will be implemented thereafter.
- We will boost decisiveness within the organisation by raising awareness, providing tools and eliminating obstructions.
- We will improve the AFM's flexibility by working in a more standardised fashion and supporting process optimisation.

Priority 2: a preferred employer

The AFM is a knowledge organisation. The quality of our supervision depends on our employees. It is therefore important to recruit competent staff, offer an attractive work environment, and to develop and retain our employees. The AFM needs employees with wide-ranging qualities for the large number of new mandates and digitalisation. Unfortunately, such employees are difficult to find, making recruitment challenging also in 2024.

Key activities:
- We will attract and retain staff for the new supervisory mandates, such as MiCAR, DORA and the Future of Pensions Act. Additionally, we will research and implement new working methods and solutions to absorb mandates in another manner.
- We will develop a vision on Working@AFM 2.0 to ensure a future-proof and attractive work concept, both in the office and in terms of hybrid working.
- We will implement our objectives with regard to ongoing dialogue, diversity and inclusion, vitality and sustainability, so that we continue to create a work environment in which all employees are naturally empowered and willing to give their best.

Priority 3: a strong IT organisation and infrastructure

In 2022, the AFM began by reinforcing its IT on the basis of a renewed IT strategy. The main objectives of that strategy are to reinforce the IT organisation, consolidate its foundation and increase its ability to deliver new functionality in a timely manner.

Key activities:

- We will invest in further growth in maturity of the IT governance organisation:
  - We will implement the revised structure of the IT governance organisation.
  - We will implement a new working method within the IT governance organisation.
  - We will develop and establish a future-proof architecture.

- We will continue the cloud migration, phase out legacy and set up a more robust application life cycle management:
  - Completing CRM and SharePoint cloud migrations.
  - Phasing out old applications and software.
  - Setting up life cycle management, for example, for our capital market systems.

- We will standardise and harmonise processes and systems:
  - Setting up an AFM-wide data governance and data management.
  - Harmonising and optimising processes, starting with DORA notifications.
  - Implementing the new MyAFM environment.

- Implementing IT for new mandates such as DORA and MiCAR.

These activities will be further prioritised in the course of 2024, which may mean that not all of the abovementioned activities will be completed by 2024. Furthermore, we will perform a deep dive on the IT strategy and implementation thereof in connection with the new cost framework.

4. Finances in 2024

The financing of the AFM is arranged in the Financial Supervision (Funding) Act 2019 (Wbft 2019). Pursuant to this act, our budget must be annually submitted for approval to the Minister of Finance and the Minister for Poverty Policy, Participation and Pensions. The AFM is bound by a ceiling in this cost framework when setting its budget, which has been established by the Minister of Finance and the Minister for Poverty Policy, Participation and Pensions.

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

Cost framework

In consultation with the AFM, the Minister of Finance and the Minister for Poverty Policy, Participation and Pensions have established a cost framework for the period from 2021 to 2024 (Table 4.1). This clearly sets out the maximum costs of supervision in general terms during this period and the development of these costs. The cost framework contributes to the frugality and efficiency of the AFM.

Table 4.1 Cost Framework (EUR x million).

AFM cost framework 2021-2024 (in millions)	2020	2021	2022	2023	2024
Basic amount (based on budget for 2020)	**106,2**	**105,9**	**105,9**	**105,9**	**105,9**
Known expansion of remit		3,0	5,2	12,0	20,8
of which Initial		*1,5*	*2,0*	*2,0*	*2,0*
of which Intensification of supervision of non-PIE audit firms		*1,5*	*2,6*	*4,1*	*5,1*
of which Intensification of supervision of PIE audit firms		-	*0,6*	*1,8*	*2,4*
of which Expansion of pensions supervision		-	-	*4,1*	*4,6*
of which DORA		-	-	-	*3,1*
of which MiCAR		-	-	-	3,6
Strengthening data-driven supervision		3,5	3,5	3,5	3,0
Savings		1,7-	3,1-	3,4-	3,7-
New basic amount	**106,2**	**110,7**	**111,5**	**118,0**	**126,0**
Specification of remit		0,4-	0,8-	1,2-	1,6-
Adjustment for salaries		0,8	2,1	4,6	8,1
Adjustment for prices		0,6	1,3	4,3	6,3
Budgetary framework	**106,2**	**111,7**	**114,1**	**125,7**	**138,7**
Contingencies		1,5	2,0	3,0	4,0
of which included in the budget		-	-	-	*2,2*
of which not included in the budget		*1,5*	*2,0*	*3,0*	*1,8*
Multi-year framework	**106,2**	**113,2**	**116,1**	**128,7**	**142,7**

The item ‘known expansion of remit’ is intended for the supervision of the new regulations covering the audit sector, financial-economic crime, the capital markets and pensions, which enter into force in the 2021-2024 period. This item has been adjusted on an interim basis over the life of the cost framework in connection with the intensification of supervision of the PIE audit firms and the entry into force of the Future of Pensions Act. Also, a number of significant new supervisory mandates have been added for 2024 which were not yet known at the time the current cost framework was being established: the preparation of the supervision arising from the Digital Operational Resilience Act (DORA) and the Markets in Crypto-Assets Regulation (MiCAR), the implementation of the Corporate Sustainability Reporting Directive (CSRD), the Non-Performing Loans Directive (NPLD) and the European Accessibility Act. The AFM structurally needs additional capacity as of 2024 to perform these new mandates and the preparations thereof. Agreements on the implementation have been made for each new mandate, in addition to financial arrangements with the Ministry of Finance with regard to the final year of the current cost framework and 2024 budget. This has led to an increase of the 2024 cost framework; specifically for DORA and MiCAR. See Table 4-1. Although the total required capacity for all new mandates exceeds the increase of the 2024 cost framework, it has been agreed that the AFM will work with a phased growth as much as possible and where possible, whereby the ‘contingencies’ item will be used for up to €2.2 million for the other previously mentioned new mandates. In addition, the new mandates will also be considered in relation to the 2025-2028 cost framework, which will be agreed in 2024 with the Minister of Finance and the Minister of Poverty Policy, Participation and Pensions. The other €1.8 million of the contingencies item will not be included in the 2024 budget, making the 2024 budget €1,8 million below the 2024 multi-year framework. This will to some extent reduce the impact on levies in 2024.

Including adjustment for salaries[1] and prices, the budgetary framework for 2024 amounts to €138.7 million, including the increase for DORA and MiCAR. Including an item for contingencies of €4.0 million, the 2024 multi-year framework comes down to €142.7 million. This contingencies item gives the AFM the flexibility to defray costs of unforeseen events without exceeding its multiannual budget. The contingencies item can only be used if the impact of the unforeseen event cannot be dealt with within the regular budget. The AFM Executive Board must prepare a substantiated request for this that requires the approval of the Supervisory Council. Following the approval, the request will be passed to the Minister of Finance. For 2024, the Supervisory Board granted the approval and this request to add €2.2 million to the 2024 budget has been coordinated with the Minister of Finance.

1 Normally, the adjustment for salaries is based on the CPB’s June forecast, in conformity with the arrangements in the cost framework. Because no June forecast was published in 2023, as in 2022, the adjustment for salaries for 2024 was based on the CPB’s March forecast.

Budget
The budgeted total expenses for 2024 amount to €140.9 million, which is 12% higher than the budgeted expenses in 2023. This increase is largely due to new mandates and wage and price adjustments.

The increase of the total expenses of €15.2 million is largely caused by higher employee expenses, higher IT expenses and higher financial expenses.

The increase in the salary, social insurance contributions and pension charges is attributable to a larger number of internal FTEs (+5%) and an increase in the average cost per FTE mainly due to a collective salary increase. Among other things, pension charges are cushioned by a lower supplementation (pension indexation) as a result of increased interest rates.

The increase in the costs of temporary hires is largely explained by the additional focus in 2024 on IT change capacity as part of the IT strategy. There was also a limited increase in average hiring costs per FTE.

Table 4.2 Expenses by type (EUR x million)

Expenses per type	Budget 2023	Budget 2024	Difference compared to Budget 2023	Actual result for 2022
Salary expenses	*64,7*	*70,6*	*9%*	*60,1*
Social security contributions	*8,5*	*9,0*	*6%*	*7,5*
Pension charges	*13,6*	*13,8*	*1%*	*10,7*
Temporary hires	*5,4*	*6,8*	*26%*	*3,6*
Other employee expenses	*4,2*	*5,2*	*25%*	*2,5*
Employee expenses	96,4	105,5	9%	84,5
Premises costs	5,1	5,2	1%	4,9
Advisory fees	3,6	4,2	16%	2,1
One-off expenses due to change of pension provider	0,0	0,0		0,1-
IT expenses	16,7	20,4	22%	16,4
General expenses*	2,4	3,7	57%	2,7
Depreciation and amortisation	1,5	1,1	-27%	1,2
Financial income and expenses	0,0	0,9		0,0-
Total expenses	**125,7**	**140,9**	**12%**	**111,7**
* Of which contribution to ESMA	1,2	1,3	0%	0,0

The IT expenses have risen sharply in the 2024 budget. This increase is due to the following three causes: (1) increased costs for the execution of the IT run, (2) additional focus in 2024 on IT change projects as part of the IT strategy, and (3) IT development for the new DORA and MiCAR mandates. In 2024, this increase in IT expenses will be absorbed within the cost framework by, among other things, understaffing in positions that are partly difficult to recruit and strict choices in tasks, investments and prioritisation.

The financial income and expenses in 2024 are €0.9 million higher than in the budget for 2023 (nil). Interest rates have been negative in recent years, which is why the AFM did not need to pay any interest on its outstanding debts with the Ministry of Finance and why this item was budgeted at nil.

The number of FTEs will increase by a net 6%, from 740 to 783 FTEs in the 2024 budget. This represents an increase of the number of salaried employees by 36 FTEs and an increase in the number of temporary hires by 7 FTEs compared to the 2023 budget. This increase is largely due to new mandates.

This increase in the number of FTEs is largely due to the expansion of the supervision of audit firms (primarily in the area of 'Accountancy'), the additional pensions supervision pursuant to the Future of Pensions Act (primarily in the area of 'Financial services'), the supervision pursuant to the implementation of MiCAR (primarily in the area of 'Financial services'), the supervision pursuant to DORA (primarily in the area of 'Direct supervision support') and the supervision of sustainability reporting pursuant to the CSRD (primarily in the area of 'Accountancy').

Table 4.3 Deployment of FTEs

Deployment of FTEs (including temporary hires)	Budget 2023	Budget 2024	Difference compared to Budget 2023	Actual result for 2022
Financial services	192	216	12%	180
Capital markets	83	85	2%	82
Asset management	43	44	2%	41
Accountancy	72	84	16%	59
Sub-total for four areas of supervision	**391**	**429**	**10%**	**362**
Direct supervision support*	191	198	4%	178
Other divisions**	158	156	-1%	140
Total	**740**	**783**	**6%**	**680**

**This concerns Strategy, Policy and International Affairs, Legal Affairs, the Expertise Centre, and Data-Driven Supervision.*
***These are the executive divisions.*

Table 4.4 Investments (EUR x million)

Investments	Budget 2023	Budget 2024	Difference compared to Budget 2023	Actual result for 2022
Renovations	0,1	0,7	626%	0,3
Furniture and fixtures	0,2	0,2	-2%	0,3
Computer equipment & standard software	0,0	0,0	0%	1,5
Total investment	**0,3**	**0,9**	**190%**	**2,1**

Table 4.5 Total expenses Wbft/BES (EUR x million)

Total expenses	Budget 2023	Budget 2024	Difference compared to Budget 2023	Actual result for 2022
Expenses under the Financial Supervision (Funding) Act (Wbft)	125,1	140,3	12%	111,1
Expenses for BES islands	0,6	0,6	1%	0,6
Total expenses	**125,7**	**140,9**	**12%**	**111,7**

Maintenance investments in the premises are budgeted for 2024, assuming an extension of the lease. These investments can be depreciated over a longer period following the extension. No significant investments in new computer equipment are foreseen for 2024 as a number of necessary replacement investments in new computer equipment were done in 2022.

From budget to levies

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

Table 4.6 Wbft operating difference (EUR x million)

Operating difference under Wbft	Budget 2023	Budget 2024	Difference compared to Budget 2023	Actual result for 2022
Market contribution for non-recurring services	*7,1*	*8,2*	*16%*	*7,2*
Market contribution for regular supervision	*118,0*	*132,1*	*12%*	*96,4*
Administrative fines and penalty payments to be offset with market participants	*0,0*	*0,0*	*0%*	*3,1*
Administrative fines and penalty payments due to the government	*0,0*	*0,0*	*0%*	*0,0*
Total income under Wbft	125,1	140,3	12%	106,7
Total expenses under Wbft	125,1	140,3	12%	111,1
Operating difference under Wbft	**0,0**	**0,0**	**0%**	**-4,4**
Addition to levy reserve	*N.A.*	*N.A.*	*0%*	*3,1*
Intention to use the levy reserve	*N.A.*	*tbd*	*0%*	*N.A.*

A further breakdown is made between the income and expenses on the basis of the Wbft (Table 4.6) and the income and expenses for supervision of the BES Islands (Table 4.7).

The AFM recoups these costs incurred under the Wbft from the market in two ways: through annual levies for its regular supervision expenses and through a fee per service.

The fees for non-recurring services, such as licence applications and assessments of management board members, are set by ministerial regulation. The budgeted income in 2024 amounts to €8.2 million, which is more than in the budget for 2023 (€7.1 million). This rise is partly caused by applications as a result of the implementation of MiCAR as of 1 January 2025. By contrast, the expected number of applications in the prospectus supervision dropped compared to the 2023 budget.

The market contribution for regular supervision consists of the budgeted expenses under the Wbft less the budgeted fees for non-recurring services. Since the fees for non-recurring services in principle cover its costs, the budgeted expenses are equal to the budgeted income from non-recurring services. The expenses covered by an annual levy charged to market participants in 2024 will amount to €132.1 million. This contribution from the market is €14.1 million more than the market contribution for regular supervision in the 2023 budget (€118.0 million) due to the increase in costs. This contribution from the market for regular supervision excludes (1) amounts carried forward from previous years and (2) any use of the levy reserve.
The total amount to be levied is allocated across 16 categories of institutions subject to supervision according to fixed percentages. These percentages are in principle fixed for a period of five years and included in Appendix 1A of the Bbft.

The amount carried forward from previous years is determined at the time when the 2023 financial statements are adopted. Operating differences occur every year as a result of differences between budgeted and actual expenses and income. Operating differences are settled with the market in the year after they arise on the basis of the fixed percentages that applied in the previous year (Appendix 1A to the Bbft).

Income from administrative fines and penalties may vary from year to year and is not budgeted. The income up to €4.5 million are either used to add to the levy reserve, or accrue to all institutions subject to supervision through the operating difference[2]. The levy reserve aims to cover incidental costs or any other costs that would lead to disproportionately high fees for certain institutions subject to supervision.

The AFM intends to make use of the levy reserve in 2024 to cushion the increase of the market contribution for regular supervision as a result of a number of new mandates. Use of the levy reserve will have to be approved by both the Minister of Finance and the Minister for Poverty Policy, Participation and Pensions. This approval takes place upon the adoption of the Financial Supervision (Funding) Regulation at 1 June 2024 at the latest.

The costs of supervision of the BES Islands in the 2024 budget have remained the same compared to the 2023 budget. The funding of the supervision of the BES Islands is governed by the Financial Markets (BES Islands) Act (Wfm BES) and the Money Laundering and Terrorist Financing Prevention (BES Islands) Act (Wwft BES). The fees for non-recurring supervisory operations and for regular supervision are stated in the underlying Financial Markets (BES Islands) Regulation. The fees are not set on a cost-effective basis. The government reimburses expenses to the extent that this contribution from the market is not sufficient. The budgeted market contribution is very limited and is equal to zero when rounded to the nearest million.

Table 4.7 BES operating difference (EUR x million)

Operating difference for BES Islands	Budget 2023	Budget 2024	Difference compared to Budget 2023	Actual result for 2022
Market contribution for regular supervision	*0,008*	*0,009*	*0%*	*0,009*
Market contribution for non-recurring services	*0,004*	*0,000*	*0%*	*0,000*
Government contribution	*0,614*	*0,621*	*1%*	*0,552*
Total income for BES Islands	0,626	0,630	1%	0,561
Total expenses for BES Islands	0,626	0,630	1%	0,561
Operating difference for BES Islands	**0,000**	**0,000**	**0%**	**0,000**

2 Income from administrative fines and penalties above €4.5 million are paid to the Ministry of Finance.

Risks and uncertainties in the budget

The 2024 budget concerns the last year of the ongoing 2021-2024 cost framework. The 2024 budget contains a number of risks and uncertainties, in addition to the inflation and interest rate developments. The AFM has provided insight into where the biggest risks lie by 2024 and which activities we, as supervisory authority, can carry out to reduce or avoid those risks.

Brexit has occurred without equivalence for financial services being granted to UK firms, with the exception of UK central counterparties (CCPs). This has given the AFM a more substantial role in the supervision of the European capital markets than initially expected. There have also been unforeseen developments in the energy market that continue to require capacity. Yet perhaps the greatest challenge concerns the many new supervisory mandates to be performed by the AFM, which is challenging not only in terms of recruitment, but also in terms of IT, other operations and supervisory support. Further new laws and regulations (especially from the EU) will also have to be translated into new supervisory mandates in the coming years, with the first supervisory mandates being taken up in 2024. The AFM also has new important mandates in the area of sustainability. One of the results thereof is an expanding IT organisation, partly on account of statutory requirements and partly due to the expansion of our supervisory activities and the need to ensure that the AFM's services match market requirements. This entails structurally higher IT costs. From this also follows the conclusion that, in the longer term, we are looking to carry out more activities than we can currently carry out with our current capacity. In recent years, the AFM was able to fund these developments from existing resources, which sometimes required difficult choices and smart prioritisation, sometimes due to understaffing. Prioritisation also means that the AFM will not take on certain topics in 2024. The fact that the AFM does not prioritise certain topics, does not automatically mean that the AFM considers this to be a sensible decision. If, in the opinion of the AFM, the estimated residual risk of the non-prioritised topics becomes too great, the AFM will request the Minister of Finance to increase the supervisory capacity, so as to ensure that these matters will receive attention after all. The 2023 budget had already disclosed that additional funds would be required with regard to DORA and other additional new legislation. Agreements for 2024 have now been made in the current cost framework and the 2024 budget. These topics will be included in the preparations for the new 2025-2028 cost framework.

5. Appendix: External KPIs

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

This Agenda sets out the activities we will carry out. These are structured around the topics from the AFM OGSM defined by the Executive Board for 2024, supplemented by a number of operational objectives. We have attached a number of key performance indicators (KPIs) to our objectives that are explained in this appendix.

No.	Thema's	Priorities	Activities
1	Digitalisation	The AFM manages the effects of digitalisation in the market by increasingly using data and technology to supervise technology.	1.1 The supervision of DORA will be prepared and the supervision on (digital) business operations of institutions reinforced. 1.2 Data-driven supervision provides tangible supervision results. 1.3 Preparation of the AI Regulation will be completed.
2	Internationalisation	The AFM is influential internationally by making purposeful contributions to EU regulations and actively improving EU supervision.	2.1 The AFM will do the preparations towards the supervision of cryptos and generate support in the EU context for effectively countering illegality and solving cross-border issues. 2.2 We will demonstrate within the EU that working risk-based and data-driven effectively ensures results in supervision.
3	Sustainability	The AFM has an integrated strategy for the supervision of sustainability by enforcing appropriate information and advice on sustainability factors in investments, by supervising reliable ESG reporting and by preparing the supervision of compliance with CSRD.	3.1 We will develop an integrated supervisory strategy for the supervision of sustainability. 3.2 Connectivity between financial and non-financial data (ESG) will become the standard. 3.3 The CSRD sustainability implementation will be prepared for 2025.
4	Highlights in supervision	The AFM effectively implements supervisory priorities by introducing the supervision of the pension transition and by combating manipulative trading.	4.1 The AFM supervision of the pension transition will get off to a successful start. 4.2 The renewed supervision of financial services will be implemented successfully. 4.3 The AFM combats manipulative trading regarding equity, bonds and commodities.
5	Professional organisation	The AFM is a professional, vital and agile organisation with strong capacity for learning, an effective IT infrastructure and sufficient budget.	5.1 The IT strategy is a success thanks to predictable IT implementations, such as the completion of the cloud migrations, the support of new mandates and the update of 'MijnAFM'. 5.2 The AFM participates in the creation of an appropriate cost framework, in cooperation with the Ministry of Finance and the Ministry of Social Affairs and Employment. 5.3 The aim is to process 100% of the licence applications and the fit and proper tests within the statutory time limit. 5.4 The AFM aims to ensure that its costs remain within the established cost framework/budget.