AFM Strategy 2023-2026

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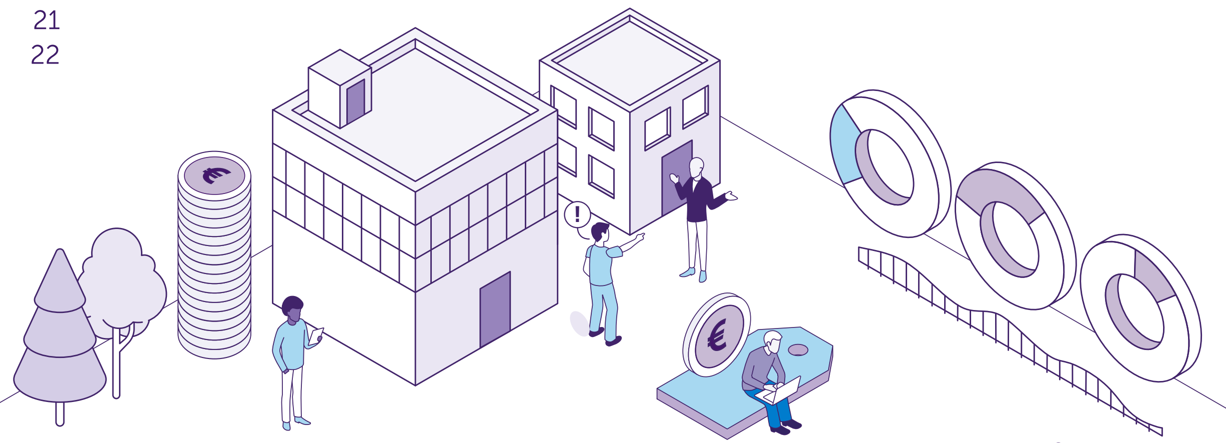


Summary

The AFM's strategy states our orientation in the next few years. The AFM Strategy 2023-2026 is a revision of our Strategy for 2020-2022. Since the major external developments are similar to those in the previous period, this strategy is not fundamentally different and constitutes a further development of our previous strategy.

We summarise our strategy in the Strategy House.

Our mission has not changed: The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to sustainable financial well-being in the Netherlands.

Sustainable financial well-being is the central priority in our work. We contribute to a sound financial system that provides the conditions for good allocation of capital. Our duty to protect financial consumers supports confidence in the use of financial services. Financial crises and incidents, such as with investment-linked insurance policies, show that problems in the financial sector may lead to significant costs, also for average citizens that are relatively distanced from the sector.

Our strategy is influenced by the external trends that determine the development of the risks for our supervision. The major trends concern digitalisation, internationalisation and sustainability. These trends are explained in Section 1. Our approach to supervision is risk-driven, data-driven and outcome-oriented. A summary of this approach is given in Section 2.

The core of our strategy is how we pursue our objectives in the four areas of our supervision: financial services, capital markets, asset management, and audit firms and reporting. Our approach in each of these areas is explained in detail in Sections 3 to 6.

Our professional organisation is the foundation of our strategy. The key goals here concern increasing our adaptability, being a learning organisation and strengthening our IT. These goals are explained in Section 7.

1. Trends and developments

The macroeconomic environment has become less stable. Following the shock of the COVID-19 pandemic, the war in Ukraine is causing lasting disruption to international relations. Rising inflation and higher interest rates are worsening the economic outlook and mean that lower growth and more uncertainty are likely.

Besides the developments mentioned above, three long-term trends are impacting Dutch society, the financial sector and the AFM:

- The process of digitalisation has been accelerated as a result of the COVID-19 pandemic. Digitalisation brings benefits for consumers and businesses, but it also poses new risks.
- The financial markets, financial services and conduct supervision are rapidly becoming more international. Managing risks to consumers has become more difficult now that financial service providers are operating in the Dutch market with a European passport. At EU level, we collaborate with our fellow supervisors on regulations and consistency in our supervision (supervisory convergence).
- Making our society sustainable is one of the most important challenges of our time. The financial sector has an important role to play in financing the sustainability transition. We encourage good reporting on sustainability and combat greenwashing.

2. Our supervisory approach

The AFM's approach to supervision is risk-driven, data-driven and outcome-oriented.

- Risk-driven supervision means that we periodically decide which risks should be prioritised, which should be assigned a lower priority and our reasons for doing so. We assess the scale of risks and what mandate and possibilities we have to address risks or not.
- In essence, data-driven supervision consists of formulating risk hypotheses, deriving risk indicators, determining information requirements and automated gathering and provision of necessary data. This way we convert market conditions, developments and behaviour into structured data, to enable us to systematically monitor how risks develop, obtain better insight and respond effectively.
- Outcome-oriented supervision means aiming to achieve a permanent positive impact on risk management and regulatory compliance, as well as appropriate behaviour in the financial markets. Outcome-oriented working is also a mindset. It requires that we keep each other alert and challenge each other to make the most effective contribution to a particular endeavour.

3. Financial services

The financial sector in the Netherlands has made significant progress towards giving a more central priority to customer interests in the past few years. It is important that the sector offers good financial products to the right target groups while exercising due care and that customers are assisted with appropriate advice when faced with complex decisions. There also needs to be ongoing attention to customers, including after the sale of a financial product or service. We will continue to devote significant effort to this fundamental basis.

In the next few years, digitalisation (accelerating as a result of the coronavirus measures), the transition to the new pensions system and the necessary improvements to the sustainability of our society will affect the financial well-being of consumers. It is important that the financial sector is fit and sufficiently adaptable to meet these needs.

With regard to digitalisation, we see that more and more financial affairs are being arranged from home. Financial services providers need to manage the risks of digitalisation and ensure that customer interests continue to have a central priority. For services provided from other countries using a European passport, consumer protection in the Netherlands needs to remain assured. Dealing responsibly with collected customer data and artificial intelligence (AI) requires controlled business operations and effective risk management. Supervision of a digital sector also requires further digitalisation and the improvement of the AFM's own data position.

The transition to the new pensions system is another important change. Pension scheme members will have greater personal responsibility for the accrual of their pension, while at the same time having to deal with greater uncertainty. Their pensions will in fact move in line with the financial markets. Pension administrators and financial advisers have a responsibility to provide good advice to employers and scheme members in the choices they have to make. We will contribute to ensuring that the transition to the new pensions system goes smoothly for the pensions sector and the scheme members.

Lastly, making our society sustainable will pose serious challenges for both consumers and businesses in the short and longer term. Lack of transparency on sustainability and greenwashing, uninsurability and declining values of stranded assets are all potential risks. Our aim is to ensure that the financial sector continues to give central priority to customer interests during these big changes. In our supervision of the new legal obligations with respect to transparency and service provision, we will move from guidance to enforcement where necessary in the coming years.

4. Capital markets

Properly functioning capital markets are important for the economy and the sustainable financial prosperity of households. The capital markets play an important role in the allocation of capital for economic activities, the transfer of financial risk, the funding of sustainability improvements and the energy transition. It is crucial that market participants have confidence that the market is functioning effectively. Our supervision therefore involves ensuring that all market participants meet their responsibility to ensure that trading is conducted reliably, transparently and fairly.

Technological developments and far-reaching digitalisation, growing internationalisation and increasing attention to sustainability impact the structure of the markets and the behaviour of trading participants. Trading platforms and other market participants have also relocated to Amsterdam as a result of Brexit, increasing the importance of the AFM's role in Europe. A European approach is needed to ensure that the capital markets function effectively.

In this changing environment, we will continue to push for fair trading practices and robust and transparent capital markets. The focus of our supervision with respect to each of these objectives – integrity, robustness and transparency – has been determined for the coming years. For each objective, we will select one priority for which extra effort in our supervision is required.

Fair trading practices prevent costs and risks being transferred to other parties and the undermining of market confidence. We prioritise our supervision of cross-platform market abuse. Only the supervisory authorities have a perspective and information position that spans across these trading platforms. For market participants, this requires further improvement in the quality of the data that they are obliged to provide.

Our approach to market robustness is intended to ensure that essential elements of the financial markets are adequately controlled, so that trading and settlement continues to be possible and reliable in times of stress. Operational risks have increased as a result of the central role of IT processes at firms that enable the financial system to function. Legislation and regulations have not yet been adequately adjusted in past years to deal with this. New European legislation, such as the Digital Operational Resilience Act (DORA) and the Investment Firms Regulation and Directive (IFR/IFD), will provide more specific frameworks for firms. This legislation and regulations will give supervisors more possibilities to address risks in relation to controlled and sound business operations at institutions, also with respect to the control of outsourcing and the safeguarding of cybersecurity. In the coming period, we will accordingly devote extra attention to supervision of operational reliability and controlled business operations at institutions with market relevance.

Our underlying objective in the promotion of transparent markets is that full, comprehensible and consistent information for market participants and supervisors contributes to fair trading practices and well-considered decisions by investors. Relevant trade information is necessary for the supervision of fair trading and robust markets. In addition, the availability of market data and central reference prices is essential for the orderly operation of the capital markets. For this reason, among other things, we support the introduction of a consolidated tape, which will entail the centralised grouping of trading information.

5. Asset management

The asset management sector manages hundreds of billions of euros' worth of assets for pension funds, insurers and households. The sector is diverse, encompassing fiduciary management and investment funds, venture capital and brokers, and everything in between. The sector is internationally oriented and consists of hundreds of Dutch and foreign asset managers.

The Netherlands has a rather large asset management sector compared to other European countries, mainly because the large Dutch pension fund sector has invested a significant proportion of its assets with Dutch asset managers. Asset managers also manage assets for other institutional investors, such as insurers or foreign parties. Errors or abuses in this sector have a significant impact on a large group of investors.

As the primary supervisor for the asset management sector in the Netherlands, we strive to limit risks in this sector. We strive to find a balance between the European direction, with supervisory convergence, and our own approach and inclusion of the risks we have identified with their related priorities.

There are several developments in the coming years that will affect the sector and the way in which we exercise our supervision. New regulations will set stricter requirements for business operations, including in the areas of sustainability and digital resilience. The increasing degree of outsourcing of business activities is also placing higher demands on business operations. Outsourcing may never lead to loss of control and oversight.

Moreover, market conditions are changing. We are seeing consolidation in the sector, increasing investment in illiquid investments, technological developments and cybercrime, and attention to money laundering and the financing of terrorism. The pensions transition and the sustainability transition will also demand much from this complex sector. These changes in the market will place high demands in areas such as risk management and liquidity management. The sector will have to be robust and remain adaptable.

The asset management sector is important for financial stability. Recent developments, such as liquidity issues at money market funds and sizeable margin calls on pension funds during market shocks show that some systemic risks can impinge on the sector. The AFM has a legal mandate to contribute to financial stability.

In our supervision of the sector, we use both structured and unstructured data. We enrich our data position and refine our supervision on the basis of licence and other applications, notifications (or rescindments thereof) to and from other supervisors, (fund) notifications and regularly recurring reports. We aim to standardise and then automate more of our processes. It is also our aim to further expand our knowledge of features and quantitative insights of markets and participants.

6. Audit firms and reporting

The provision of reliable and relevant financial and non-financial information by companies is a crucial precondition for a properly functioning financial system. The AFM's supervision of reporting and audit firms is designed to ensure that end users, such as investors, credit providers and customers, can rely on the perspective presented by an organisation's reporting.

The government decision to expand our supervisory responsibility to include audit firms with a non-public-interest entity (PIE) licence with effect from 1 January 2022 is a fundamental change. As a result of this decision, in addition to the 6 PIE audit firms, more than 250 other audit firms collectively performing around 20,000 statutory audits annually are now subject to direct supervision by the AFM.

There are several developments in the next few years that will significantly impact the chain of financial and non-financial reporting and auditing, and therefore also our supervision. The increasing attention to sustainability means that the end users of reporting also expect a high level of transparency regarding the extent to which objectives relating to sustainability are met. Organisations will be subject to strict requirements. At the same time, the public expects auditors and audit firms to fulfil a gatekeeping role with respect to the identification of fraud or the threat of bankruptcy.

Digitalisation and technology are also changing the nature of our society and companies. For end users, it is important that audit firms express an adequate opinion of the reporting of companies that are highly digitalised and also design their own technology to ensure higher quality.

We will further develop our supervision of reporting and audit firms in the coming period, including the standardisation and automation of recurring supervisory processes where possible. Our aim is to further increase the impact of our supervision by means of greater flexibility and shorter cycle processes for faster response times. Developments in the structure of the audit sector and the internationalisation of the market and supervision will also require our attention in the years to come.

7. Professional organisation

We need to be an effective organisation if we are to achieve our strategic objectives. This means an organisation that is flexible and learning, that continues to develop the way in which we exercise our supervision, where good and satisfied people work and that has effectively functioning IT.

An adaptable AFM means it is flexible and responds quickly to its environment and the risks that it identifies. This requires an operation that is able to respond quickly, with a clear definition of roles and responsibilities. We are a learning organisation that pays close attention to the personal growth of our employees. We continually evaluate the effectiveness of the way in which we exercise our supervision and develop our supervisory approach accordingly. We also use the opportunities presented by data-driven supervision.

At the AFM, our people are our capital. We are an attractive employer that attracts, develops and retains good people. With a people-oriented approach and a safe and future-proof working environment, we enable our employees to get the best out of themselves and each other. It is also important to have vital employees that work with pleasure and enthusiasm and thus become more creative and productive. We help our employees to use their talents, encourage optimal personal development and strive to ensure a safe and inclusive working environment.

Our IT support has to be up to date to deal promptly with necessary developments (new supervisory duties, more automation of supervision, technical developments in IT). Firstly, we will migrate a number of important applications to the cloud. At the same time, we will increase the standardisation of certain supervisory processes, so that IT support here can be more straightforward and more flexible. These are important conditions for further developing the MyAFM environment into a fully-fledged portal that institutions can use safely and on which they can manage and submit their information.

01 Trends and developments

The macroeconomic environment has become less stable. Following the shock of the COVID-19 pandemic, the war in Ukraine is causing long-term disruption to international relations. Rising inflation and higher interest rates are worsening the economic outlook and mean that lower growth and more uncertainty are likely.

We will address three major trends: digitalisation, internationalisation and sustainability. These long-term, fundamental developments continue to impact the operation of the financial markets and affect our direction and our supervisory approach.

Digitalisation

The multi-year perspective

- Digitalisation and new technologies are causing fundamental changes in the way in which financial products and services are offered. This exerts pressure on financial institutions' adaptability and business models. The arrival of new and innovative players increases this pressure.
- The provision of financial services by Big Tech and fintech parties is increasing every year. Partnerships between traditional financial institutions and these companies can lead to cost savings and innovation but also to margin pressure and concentration risk.
- Data gathering and processing are increasingly becoming core business activities for financial firms. Data are an important tool for improving services and profitability. Data power is a major factor in the growing role taken by Big Tech companies in the financial system. But the increasing usage of data also poses risks. The concerns include ensuring high quality of data and the legitimate and careful handling of personal information. The security of data against cyberattacks moreover requires continuous attention.
- Since services are increasingly provided in digital form, dependency on IT systems is increasing. Dependence on digital systems, coupled with the trend of outsourcing of business processes, is leading to a concentration of vulnerabilities, and therefore also to a risk of outages in these systems at financial institutions.
- Outsourcing of digital business processes can lead to concentration risk and loss of knowledge. An outage at a single essential party can disrupt service provision in a large proportion of the sector. The risk of serious disruption is increasing due to the greater number, scale and complexity of cyber incidents.
- Digitalisation is providing low-threshold access to advice and products (including through apps and digital marketing). However, ease of use and low-threshold access need to remain in balance with the risks that customers are able and willing to bear.
- Financial institutions are increasingly using AI in their business processes. AI presents opportunities, as consumers can be served more effectively. But the use of AI in the financial sector also involves risks. For example, if it is not clear how an AI model arrives at a particular outcome.
- Algorithms generate much of the trading in the financial markets. The supervisory authority has to ensure that institutions are in control not only of their own algorithms but also of other algorithms used by their systems.
- Blockchain technology is facilitating the rise of cryptocurrencies and decentralised finance.
- Digitalisation may be a threat to the inclusivity of the financial sector. If financial services are only available online, this entails the risk that some vulnerable groups are left behind or excluded from access to these services.
- New European legislation and regulations (such as MiCAR, DORA and the AI Regulation) are aimed at influencing the direction of various digital developments and addressing potential risks. Dealing with this increasing regulatory pressure is a heavy burden for the sector.

Impact on the AFM

Digitalisation and new technologies are causing us to gradually transform into a more data-driven supervisory organisation. Market experts, lawyers, auditors, economists and behavioural scientists will continue to be important for recognising, understanding and dealing with risks. Specialists such as data scientists, data analysts and IT auditors are becoming increasingly important in the supervisory process. The intelligent application of technology presents opportunities for us to make our supervision more efficient and effective in order to continue to perform our duties to the best of our ability.

Harmonisation and collaboration with other market supervisors is also becoming increasingly important. Digitalisation and the application of new technologies involve themes that affect multiple markets and have to be addressed by not only the AFM, but also De Nederlandsche Bank (DNB), the Netherlands Authority for Consumers and Markets (the ACM), the Dutch Data Protection Authority (the Dutch DPA) and other supervisory authorities. These issues include big data, privacy, cloud services, artificial intelligence and cybersecurity and the increasingly important position of Big Tech.

Internationalisation

The multi-year perspective

- The provision of financial services is becoming increasingly international and thus involves cross-border issues, risks and challenges.
- The capital markets are now closely interconnected around the world. The infrastructure of and conduct in the capital markets are therefore inherently cross-border, for instance with respect to trading platforms and market abuse. The internationalisation of the capital markets is also leading to an increase in financial products and market players.
- The capital market in Europe is fragmented, with dozens of national exchanges and trading platforms in various countries. The advantage of this is that trading platforms compete with each other and thus offer new innovative services and strive to keep costs low. The disadvantage is that there is no central price information, which would benefit market efficiency. We strongly support the integration of the European capital markets via the provision of centralised information on securities transactions, known as a consolidated tape.
- In the Netherlands, Brexit has led to a sizeable shift of trading platforms from London to Amsterdam. The Netherlands has now become one of the main European trading centres.
- In addition, we note that many participants in the financial markets are increasingly operating across national borders by means of a European passport. For instance, this is happening in the asset management sector and among retail brokers that are increasingly operating across borders with an AFM licence or at the same time are part of a foreign parent company.
- Increasing internationalisation in combination with digitalisation makes it easier for providers to offer financial products across national borders. Dubious providers, either with a European passport from another EU Member State or not, are increasingly targeting consumers via the internet and apps.

Impact on the AFM

For the AFM, internationalisation is increasing the importance of collaboration and harmonisation with other supervisory authorities. Cross-border financial markets clearly lead to cross-border issues, risks and challenges that are becoming increasingly difficult to deal with adequately at the national level. Stronger direction on dealing with risk from Europe and far-reaching supervisory convergence are reducing our freedom to conduct our supervision according to our own perceptions. We are therefore actively involved in influencing the European supervisory agenda.

Sustainability

The multi-year perspective

- Achieving the climate goals agreed in Paris requires urgent action.
- The climate goals are part of the broader effort to improve the sustainability of our society. This concerns not only climate and environmental objectives (Environment), but also social objectives (Social) and objectives relating to good governance (Governance), collectively known as ESG.
- Adequate pricing of negative externalities is the key economic means for facilitating the transition to a sustainable economy. For the realisation of the climate targets,

this comes down to the pricing of greenhouse gas emissions, in particular CO_2. The AFM also has a role in the pricing of emissions (via its supervision of the (secondary) market for CO_2 emission rights derivatives (ICE Endex)).

- The transformation to a sustainable economy will involve a huge need for funding. This means that the financial sector has an important role to play. The financial sector makes sustainable economic activity possible through finance and investment.
- Sustainability risks also involve financial risks. Financial institutions may be affected by risks in the physical world, as climate change causes damage to our living environment. There are also transition risks, with losses caused by increasing regulation and setting of sustainable norms by governments or changes in consumer preferences.
- Physical and transition risks are reflected in the market value of investments, the creditworthiness of companies raising finance and the obligations of insurers. The increasing damage from natural disasters raises important issues, especially for the insurance sector. This could for instance lead to changes in cover and premiums; also, some forms of climate-related damage may become uninsurable for consumers and businesses.
- Sustainable investing is popular. The risk of greenwashing is thus an increasing cause for concern.
- New regulations should lead to better information on the sustainability risks and performance of financial products. With respect to this transparency, there are a great deal of new European and other regulations setting requirements for the information provided in relation to sustainable financial products. The route map for this is the Sustainable Finance Strategy of the European Commission.

Impact on the AFM

The issue of sustainability expands the legal mandate of the AFM. The increasing importance of the issue is reflected in our supervisory objectives for the coming years. The introduction of new sustainability regulations and the further formulation of standards will mean a shift in the focus of our supervision from guidance to the market to supervision and enforcement.

The longer-term perspective

It is important to reflect on the longer-term perspective in addition to the short and medium term. Large and impactful changes often come about due to an accumulation of trends that unfold slowly over a longer period of time. The trends discussed above – digitalisation, internationalisation and sustainability – will also have an effect on how the financial markets operate in the longer term and will influence our direction and our supervisory approach. Our supervision has to develop with these changes and anticipate any risks that arise as a result.

The impact of digitalisation on the financial sector and the organisation of supervision in Europe will continue to increase. For effective supervision of the increasingly cross-border provision of services, it is logical that financial regulation and supervision will have to be organised at the European level. More European supervision could be achieved through closer cooperation between the national supervisors, although more supranational supervision would seem to be more effective in the longer term. National conduct supervisors could take a more prominent role in areas in which they have acquired competences and specialist expertise as a result of their market situation, such as the knowledge of trading platforms acquired by the AFM.

Digitalisation, specialisation and outsourcing are also leading to a closer interrelationship between the financial sector and other sectors, such as the tech sector. Technology companies are taking over parts of the financial chain, and financial firms are using cloud services and are increasingly outsourcing certain business activities. In the future, tech companies could also start to offer many more financial services directly.

For us – in addition to an international perspective – this brings a need for more cross-sectoral supervision. At national level, this can be achieved through closer cooperation between sectoral supervisors (AFM, DNB) and horizontal supervisors (ACM, Dutch DPA). In the longer term, given the global operations of the tech providers, further progress towards European supervision will be needed. Here, it is important that we not only focus on sound and controlled digital business operations at financial institutions but also anticipate potential undesirable consequences of the use of AI, for instance the exclusion of certain consumer groups (uninsurability). Finally, supervision of a digitalised financial sector requires much greater knowledge of data techniques, IT and AI at the supervisor. One important question for us is how quickly and to what extent IT and data are determining factors for the manner in which we exercise our supervision.

The sustainability transition will also have an increasingly significant impact. The societal ambitions for 2030 and 2050 are challenging and require serious effort from all parties involved. It is also probable that the physical impact of climate change will become more recognisable during this period. How quickly this will happen and how severe the impact will be cannot be predicted. This means that all parties in the financial ecosystem (from businesses and banks to assurance providers) will need adequate knowledge and focus on sustainability factors. This will be driven by transparency regulations, the tightening of norms in order to meet climate targets and, over time, increasing risks resulting from climate change and other negative sustainability effects. For the AFM, this means supervision of transparency reporting and attention to protection of financial consumers, as well as accumulating expertise.

02 Our supervisory approach

As an independent conduct supervisor, the AFM is committed to fair and transparent financial markets and thus contributes to sustainable financial well-being in the Netherlands. This requires that market participants conduct themselves appropriately, control risks and comply with the rules. We supervise this and intervene to prevent or mitigate harmful outcomes. Our approach to supervision is risk-driven, data-driven and result-oriented. We report periodically on our supervisory approach and the results we have achieved. This supervision places high demands on all parts of our organisation.

Risk-driven supervision

Risk-driven supervision means that we consciously consider which risks need to be addressed, and the degree of effort that they require.

A risk-driven way of working is necessary, because we are not continually able to determine whether all forms of conduct are appropriate, we cannot establish whether all risks are being controlled and we cannot check that all regulations are being complied with. We make choices as to which risks should be prioritised on a periodic basis. We assess the scale of the various risks and what mandate and possibilities we have to address risks or not. This requires a clear demarcation of what we are responsible for and a reasonable overview of all risks.

In some of our work, the risks we encounter are new, different or very complicated. The supervisory process can be described as 'timely recognition, full understanding and a thorough response'. The challenge in supervision is to be aware of new developments and to understand the effects of the changing environment on the financial markets.

This also means that we need to be a flexible organisation, so that we can respond adequately to changing circumstances.

In part of our work, the risks are very well known and understood. This part of the supervisory process can be described as 'continuous monitoring, periodic review and focused intervention'. Improving this supervision consists of accurate risk direction and continuous efficiency improvements in the supervisory process.

Some of our work is prescribed or determined for us, for example the processing of licence applications. In addition, the way in which we wish to conduct our supervision is sometimes restricted due to supervisory convergence, a development in which national supervisors in Europe are increasingly adopting a similar approach in their supervision.

Data-driven supervision

Data-driven supervision means that we strengthen our information position through the systematic accessing of data. This enables us to use more automated processes for the assessment and prioritisation of risks.

In essence, data-driven supervision consists of the formulation of risk hypotheses, derivation of risk indicators, determining information requirements and automated gathering and accessing of necessary data. In a sense, we convert market conditions, developments and behaviour into structured data, enabling us to systematically monitor how risks develop. Data-driven supervision can also contribute to timely recognition and understanding of new risks. More and new data enable us to discover more patterns and thus identify risks at an earlier stage.

The further development of data-driven supervision will require intelligent collection of, access to and analysis of large amounts of structured and unstructured data. For example, the processing of large volumes of transaction reports and automatic text analysis of prospectuses or marketing communications. All of this places high demands on IT infrastructure, tools, skills and management direction. Data-driven supervision also poses a challenge for daily implementation. Data requests and recording are thus executed with due consideration and care. Data-driven supervision supports prioritisation and evaluation by supervisors but will not replace them. Decisions are thus always made by the supervisors.

Result-oriented supervision

Result-oriented supervision means that the AFM focuses on achieving maximum impact.

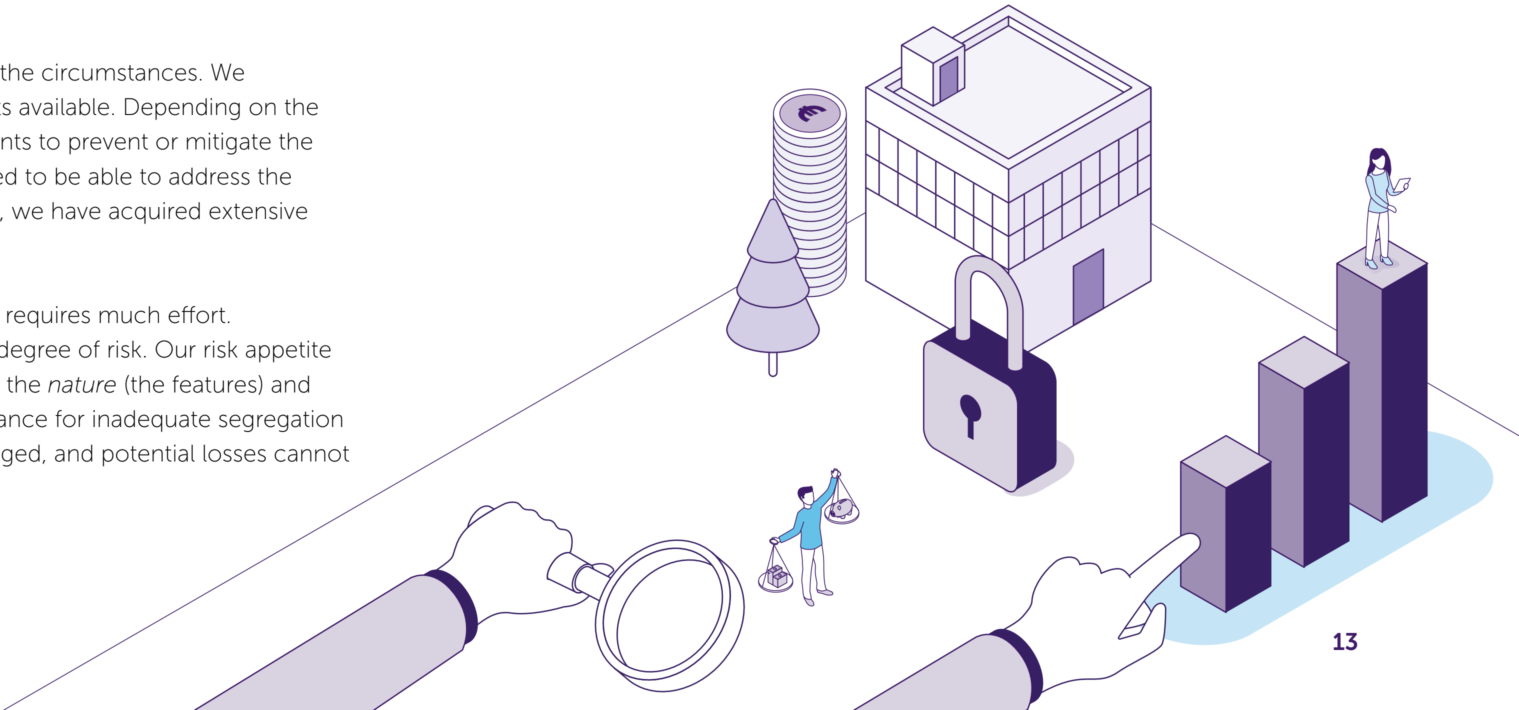
The operation of markets is not perfect and can lead to undesirable outcomes. We aim to prevent or mitigate these undesirable outcomes. This means that we intervene when we see that conduct is not appropriate, risk management is not adequate, or rules are contravened.

The most effective form of intervention depends on the circumstances. We have a wide range of formal and informal instruments available. Depending on the incident, we can apply a mix of appropriate instruments to prevent or mitigate the risk. However, to achieve a permanent result, we need to be able to address the motivations and causes of behaviour. In recent years, we have acquired extensive expertise in relation to conduct and culture.

A complete solution to a problem is challenging and requires much effort. Sometimes, we have to make choices and accept a degree of risk. Our risk appetite varies depending on the type of risk and depends on the *nature* (the features) and *scale* (the damage). For instance, we have zero tolerance for inadequate segregation of assets, as this is a risk that can be effectively managed, and potential losses cannot be easily remedied after the event.

On the other hand, we accept that certain risks, such as investment fraud, cannot usually be immediately identified, simply because this would be extraordinarily difficult and would require disproportionate capacity.

Result-oriented supervision requires an attitude of continuous learning. It requires that we keep one another alert and challenge each other to make the most effective contribution to a particular endeavour. It means that we have to be open to other approaches in order to achieve the desired result. For instance, by influencing regulations, initiating dialogue with the sector or collaborating with other supervisory organisations. Our ability to intervene in a structured manner is a continuous item of attention. This also applies to the measurement of the results of our supervisory interventions.



03 Financial services

Central priority to customer interests in times of transition

The financial sector in the Netherlands has made significant progress towards giving a more central priority to customer interests in the past few years. It is important that the sector offers good financial products to the appropriate target groups while exercising due care. Also, customers must be assisted with appropriate advice when faced with complex decisions. There also needs to be ongoing attention to customers, including after the sale of a financial product or service. We will continue to devote much of our efforts to this issue.

In the next few years, digitalisation (accelerating as a result of the coronavirus measures), the transition to the new pensions system and the necessary improvements to the sustainability of society will have an impact on the financial well-being of consumers. It is important that the financial sector is fit and adaptable to meet these needs.

With regard to digitalisation, we see that more and more financial affairs are being arranged from home. Financial services providers need to manage the risks of digitalisation and ensure that customer interests remain a central priority. Clear frameworks are needed to help customers make the right decisions. Consumer protection in the Netherlands needs to be safeguarded now that services are being provided across national borders. In addition, data gathering and artificial intelligence (AI) need to be applied in a responsible manner. This requires controlled business operations and good risk management. Supervision of a digital sector also requires further digitalisation and improvement of the AFM's own data position.

The transition to the new pensions system is another important change. Pension scheme members will have greater personal responsibility for the accrual of their pension, while at the same time having to deal with greater uncertainty because their pensions will fluctuate more with the financial markets. Pension administrators and financial advisers have a responsibility to provide good advice to employers and scheme members in the choices they need to make. We will contribute to ensuring that the transition to the new pensions system goes smoothly for the pensions sector and the scheme members.

Lastly, making our society sustainable will involve serious challenges for both consumers and businesses. The Dutch government has committed to ambitious targets. The most specific target, a 55% reduction in CO_2 emissions, has to be met by 2030. The next 10 years will be a crucial period, involving a huge transition to a more sustainable economy. Lack of transparency on sustainability and greenwashing are potential risks, as are uninsurability and a decline in the value of stranded assets. During these big changes, the AFM's focus is to ensure that the financial sector continues to give central priority to customer interests. In its supervision of the new legal obligations with respect to transparency and service provision, the AFM will move from guidance to enforcement where necessary in the coming years.

The various changes and items of attention will affect the lives and financial position of all consumers in the coming years. In our supervision of financial services providers, our aim is to ensure that market participants continue to give central priority to the interests of their customers during these transitions and circumstances. We will strive to enable consumers to become more financially resilient and adaptable. It is important that people are also able to stand up for their own interests. This means that financial advisers and providers of financial products have an important role to play. To be able to continue to fulfil this role in the future, it is important that financial services providers have a vision of how they want their business to develop. In practice, this often means that financial services providers need to choose to focus on a particular product or target market.

Priorities

1. Digitalisation should be used in the customer's interests

Digitalisation of both society and the financial sector is expected to continue, among other things due to the increasing availability of data as a result of Open Finance (Open Banking and Open Insurance). Providers will also continue to innovate their financial products, partly due to the increasing availability of customer data. Customer data will be more frequently used to assess individual risks, to set prices and conditions, for online targeting, for guidance in the online choice/decision environment and for customer acceptance. This may also involve the use of artificial intelligence. The process of informing and advice can be further automated as well, for example with robo advice.

a. Clear frameworks for digitalisation should steer customers in the right direction

Digitalisation and innovation offer important opportunities for consumers, such as ease of use and low-threshold access to advice and products. Financial services providers can actively support customers when personal circumstances change due to life events. Problematic financial situations may perhaps then be prevented by adjusting financial products already in the customer's portfolio. More possibilities for offering consumers better financial insight will also develop, for instance by providing regular financial overviews.

Data analysis can give financial services providers better insight into the characteristics of individual consumers. This could have negative effects, such as the erosion of solidarity with insurance policies or even uninsurability. Individualisation and targeting could also mean that products and their terms and conditions become less clear and less comparable. The so-called online decision architecture can be designed in such a way that consumers are steered towards products and options that are not in their interests. For instance, to risky investment products or unwise payment options. In our supervision, we will give priority to market participants offering products via apps with a low threshold and to digital marketing targeting consumers for whom these products are not suitable.

The use of AI and other technological innovations requires appropriate ethical frameworks. Market participants need to establish these frameworks as a matter of policy. A start has been made at European level with the preparation of the Artificial Intelligence Regulation (AIR), which aims to ensure that AI systems to be introduced and used in the European market are safe and in accordance with the applicable fundamental rights and values in the EU.

Regarding the design and implementation of ethical frameworks, we have already seen good initiatives from market participants. We will, preferably in cooperation with industry organisations, encourage market participants to commit to prudent assessment frameworks for decision making on AI applications and innovative products or services. We will also focus on explainability in the use of customer data and algorithms for customer acceptance, in the setting of prices for financial products, for decision architecture and for online targeting.

b. Business operations and risk management should ensure responsible use of customer data and AI

In the coming years, market participants need to prepare their business operations for new European regulations, such as the Digital Operations Resilience Act (DORA) and the AIR mentioned above. The aim of DORA is to make market parties more resilient against cyber risks and IT risks. The AIR will set requirements that AI systems have to meet, such as the recording of all the steps relating to the programming and testing of algorithms and the assurance of human control.

We will supervise that market participants amend their business operations and risk management in line with these regulations in a timely and competent manner. Financial services providers need to focus on the expertise, culture and competences needed to apply innovative developments in a responsible manner.

Digitalisation and outsourcing of business processes means that the role of parties such as software providers, cloud services and Big Tech companies that are not or not directly subject to our supervision is becoming more important. Market participants need to continue to take ultimate responsibility, despite the increase in outsourcing in the financial chain.

c. Cross-border service provision should not lead to erosion of consumer protection

Digitalisation makes it easier for service providers to offer financial products across national borders. New players and large technology firms are taking a more prominent role in the financial sector. A more integrated European financial market can give consumers more choice and better products and services. This is not without risk. Supervision of consumer protection is not equally strong across all European countries. In addition, we see new players or players new to the financial sector that are not sufficiently aware of the standards that apply in the sector. Dubious parties with a European passport intentionally target consumers from other Member States in order to avoid strict supervision. We also see different interpretations of European legislation across the Member States. This forms a risk for the convergence of supervision. At the European level, we cooperate to follow the same principles as far as possible. National deviations from European rules may mean there is no level playing field.

We want to see all players giving central priority to customer interests: similar activities mean similar rules and similar supervision. We actively contribute to the development of level two European regulations. To ensure that supervision in all Member States is adequate, we continue to cooperate positively with the European supervisors (ESMA, EIOPA, EBA and ECB) and the national supervisors. In this collaboration, we focus particularly on combating malicious or poor service provision from other countries, involving for instance investment products or consumer credit. We take vigorous action against criminal behaviour, such as aggressive and misleading sales techniques. Since we have no mandate in other EU Member States, cooperation with other supervisors is necessary. In addition, our aim at the EU level is that 'host' supervisors (the supervisor in the country where the consumer takes the service) should, where necessary, be given s ufficient powers to protect national consumers.

d. Supervision of a digitalised sector means that the AFM needs to be digitalised and needs to improve its data position

As the market becomes ever more digitalised, supervision of the sector needs to reflect this. If, for example, we wish to be able to critically assess processes relating

to the application of algorithms at financial services providers, this requires different expertise from our employees, the appropriate technology and a legal mandate.

The AFM needs a more complete data position for effective and efficient supervision. This will enable us to identify risks at an early stage and provide a timely response. We also strive to conduct our data requests as efficiently as possible. We are looking for further cooperation with fellow supervisors and industry organisations where possible. We will invest in the use of technology in our supervision, such as the monitoring of advertising and the detection of illegal and harmful practices. Lastly, we are working on the further automation of our supervisory processes to achieve efficient supervision.

2. Responsible choices for a healthy financial future

The introduction of the Future of Pensions Act (Wtp) marks an important transition of the Dutch pensions system. Employers and around 10 million pension scheme members will have to make impactful and complicated choices in the next few years. Employers and employees will have to consider carefully what type of scheme they wish to use. And scheme members themselves will have greater responsibility, more choices, but also less certainty. With effective assistance, pension providers (pension funds, pension insurers and PPIs) and financial advisers can remove much of the uncertainty. They have to assist employers and scheme members in making the right choices.

The conversion of current pension products to the new system will require pension providers to have proper processes and reliable administrations. The most important issues concern careful service provision and a wider, integrated vision of customers' financial situation, both now and looking forward to retirement. In the development of new third pillar of pension products, providers will have to continue to devote attention to defining the target market for their products and the risks that these target customers are able and willing to bear. In a contribution scheme with variable benefits, the ultimate level of pension income will be less predictable for consumers.

a. The pensions sector and scheme members need to make a successful transition to the new system.

The AFM has been assigned new supervisory responsibilities as a result of the transition to the new system. We have prioritised the following objectives for our supervision:

- Scheme members understand the changes to their pension during the transition.
- Scheme members have insight into their future pension situation.
- The scheme is appropriate for the scheme member population.
- Scheme members make appropriate choices.
- Pension communication raises realistic expectations among scheme members.
- Scheme members can follow the development of their pensions.
- The advice on pensions is of sufficient quality.

We will utilise various instruments to achieve these supervisory objectives. Due to the complexity of the transition, it is important to maintain close contact with the pensions sector, both through the industry organisation and in dialogue with the pension providers. We will also prepare guidance with respect to key elements in consultation with the sector to provide clarity as to how the AFM interprets the legal requirements. We will also use data analysis to monitor developments in the sector from several perspectives and to assess developments in quantitative terms. This will contribute to more effective and risk-based conduct supervision.

b. Financial products and services should contribute to good financial housekeeping.

Since the second pillar pensions will more closely move in step with the financial markets and scheme members will be given the option of taking a lump sum, it is important that consumers give more consideration to other aspects of their financial housekeeping. For instance, this includes their mortgage, investments, any supplementary pension products and tax implications. Owning one's own home with no outstanding mortgage, for instance, will substantially reduce costs after retirement. Insufficient pension accrual can be supplemented by additional insurance (third pillar), bank savings or personal investments. Some groups of self-employed people have more difficulty in providing for retirement. In addition, many of them do not have a decent buffer in case of loss of income.

We have set the following priorities in this respect:
- encouraging regular financial maintenance;
- consumers keeping a healthy financial future within reach;
- investment not involving any inappropriate risk.

Encouraging regular financial maintenance
Everyone in the Netherlands should have the opportunity to obtain insight into their financial health in an accessible way. This increases financial resilience and means people can take action to improve their situation in good time, where possible. The process of digitalisation referred to above gives more opportunities to make this accessible at an acceptable cost. The fact remains that it is difficult to encourage people to pay regular attention to their finances and take action when needed. We intend to work with other stakeholders to study what is needed to encourage regular financial maintenance.

Consumers keeping a healthy financial future within reach
Consumers, especially those currently having difficulty making ends meet, may look for other ways to maintain their level of consumption when a loss of purchasing power occurs. Demand for consumer credit or other deferred payment products will probably increase as a result. This could include 'buy now, pay later' arrangements or private lease. The ease and speed with which these products can be arranged online is a cause for concern. These products can indeed lead to problematic debt. We will closely monitor these developments to ensure that they do not lead to undesirable outcomes.

The relatively high level of mortgage debt of Dutch households is a source of concern, especially given the rise in inflation and the potential for further increases in interest rates. Improvements to the sustainability of properties, the tightness in the housing market and the ageing population are additional factors leading to new mortgage products. Some new products are attractive, while others are risky, such as sustainability mortgages, mortgages for tenants paying a high rent (*duurhuurhypotheek*) and equity release mortgages. We will continue to supervise that lending standards are adequately applied, so that mortgage providers do not provide mortgages that are unsuitable, and that, when the pensions system is changed, the pension income is included in the credit test in a timely and adequate manner.

Investment not involving any inappropriate risk
Rising inflation, interest on savings that is still low and the changes to the pensions system may be reasons for consumers to search for ways to get a higher yield on their money. Investing for oneself has become easier, partly due to innovation and digitalisation. But this also brings new risks: finfluencers on social media, new parties in the chain such as AI experts, foreign brokers, exclusive trading venues and crypto providers. The ways in which (potential) investors are tempted and serviced can no longer be traced to a single party in some cases. In many cases, this is driven by a chain of parties. It is becoming less clear which party is exerting influence, what form this influence takes and what its purpose is. The consequence can be that someone investing for themselves takes on too much risk, makes too many transactions and/or does not adequately diversify their investments. Our priority in our supervision is that the investor's interests are given central priority throughout the chain so that avoidable losses are prevented as far as possible. In cases involving criminal behaviour, we take action to the full extent of our mandate.

The crypto market has developed rapidly in recent years. High volatility, the absence of intrinsic value and limited legislation and regulations mean that the crypto market is high risk. New offerings may not turn out to be viable. Other risks involve deception by means of 'pump and dump' and fraud. The financial losses for consumers can be substantial. In the EU, the Markets in Crypto-Assets Regulation (MiCAR) is being developed to provide frameworks for the offering of cryptocurrencies and combat abuses. This regulation will not solve all the problems in the crypto market; it is an initial step in the regulation of the crypto sector and mitigation of the risks. MiCAR is expected to come into force in 2024.

3. A safe financial transition to a sustainable society
The transition to a sustainable society is one of the most important challenges of our time. The next 10 years will be a crucial period, involving a huge transition to a more sustainable economy. The financial sector has an important role to play in the sustainability transition. Besides the climate and the environment (the 'E' in ESG), this transition involves social responsibility in a wider sense, including social and governance ('S' and 'G') aspects.

a. Combating lack of transparency on sustainability and greenwashing
There is a strong public demand for progress to be made on the sustainability transition, also in the financial sector. We are also seeing a strong incentive in the market to meet the demand for sustainability from customers. A large amount of new sustainability regulation is also being introduced focusing on the service provision by financial firms, such as the Sustainable Finance Disclosure Regulation (SFDR) and the amendments to MiFID II and the Insurance Distribution Directive (IDD).

Consumers need to be able to make the transition to a sustainable society in a way that is financially responsible. We supervise that market participants are transparent regarding risk and impact, justify their sustainability claims and assist consumers with financial advice. Greenwashing must be prevented. Sustainability targets need to be clear, and the investment policy pursued must be in line with these targets. The sustainability transition will also affect the financial resilience of consumers. Consumers should be in a position to contribute to the sustainability transition and prepare for potential damage resulting from climate change.

b. New legal obligations regarding transparency and services are having significant impact on the financial sector
There is still insufficient insight into the risks to which the financial sector will be exposed during the sustainability transition. What is the impact on the sector? What investments are needed? Transparency also plays an important role. Without reliable and comparable information, there is a risk of greenwashing, and sustainability risks will be difficult to assess and price. Accordingly, the new regulations largely focus on transparency, product development, advice and risk management.

The roll-out of the European transparency regulation SFDR has impact. This regulation focuses on improving the transparency presented by market participants on how they are dealing with sustainability risks and impact and the specific sustainability features that are promoted as such. The SFDR applies to virtually all financial market participants providing investment services to customers, including capital accumulation for retirement.

We see compliance with the SFDR as a priority and will supervise that market participants present correct and comprehensive information on sustainability to their customers. Not only do consumers need to be well informed, they also need advice on sustainability factors. We expect market participants to guide consumers towards financial decisions that are appropriate to their sustainability wishes and needs. This is also a challenge for the legislator. We support shared European standards for sustainability classifications and sustainability claims.

Compliance with the new sustainability requirements will demand significant effort from market participants. The focus of our supervision will accordingly shift from guidance towards compliance.

c. Climate change is bringing new risks for consumers and businesses
Climate change is bringing new physical risks. In the Netherlands, we face floods, drought and declining ground water levels, damage to foundations and storms. These risks may make consumers and businesses financially vulnerable. We strive to ensure that consumers are enabled to make themselves financially resilient against climate risks.

Climate change means that consumers and businesses can be expected to face climate-related damage more frequently. However, climate-related change is far from always insurable. We will supervise that market participants properly inform consumers regarding the cover of non-life policies with respect to realistic climate risks. We urge the sector to consult with the government to find potential ways to insure risks that are currently uninsurable. Our role in these consultations will be to speak up for the interests of consumers.

Climate change may also have consequences for the financial position of households in the housing market. Subsidence can lead to problems with property foundations, leading to significant unexpected financial impact on households. This creates new risks that will receive our attention. Market participants need to take stock of these risks, bring them to the attention of their customers and, where necessary and possible, enable them to take preventive or remedial action.

Lastly, work on sustainability is needed in the Dutch housing market. There are 4.3 million owner-occupied properties in the Netherlands, and only 12% of them have an A energy label. This means that there are 3.8 million homes (88%) that need further work on sustainability. Sustainability improvements can be made possible through external funding. We will supervise that this lending is appropriate and responsible and that households do not get into unforeseen problems due to disappointing developments or market conditions.

Combating criminal behaviour in the financial sector

Criminal behaviour is a many-headed monster. It is not limited to money laundering or investment fraud and manifests itself in all the corners of the financial system, both in the Netherlands and abroad. The Dutch financial sector has an excellent infrastructure in the areas of logistics, legal matters, finance and digitalisation. Technological developments and economic circumstances are now creating more opportunities for exposing Dutch consumers and the financial sector to criminal behaviour. From the Netherlands, but also from other countries in Europe. This also often involves well-organised abuse of the system and strategic anticipation of significant developments that present opportunities for criminal gain. Criminal behaviour has to be combated and prevented where possible.

Dealing with criminal behaviour in the financial sector is one of the core tasks of the AFM. Our mandate includes a clear role for supervision of market manipulation and insider trading , dealing with illegal service providers (that do not have an appropriate licence) and supervision of the prevention of money laundering. Crime that undermines society moreover negatively affects the integrity of the financial-economic system and puts pressure on the gatekeeping function of financial institutions and thereby on how we exercise our conduct supervision. Both the public and the government also support vigorous action in this area.

Priorities

1. **The AFM is strengthening its information position with respect to criminal behaviour.**

Insight is necessary to deal effectively with criminal behaviour, and this comes from a good information position. To strengthen our information position, we need to improve our cross-sectoral data, with all divisions of the AFM making a contribution.

2. **The AFM is strengthening its approach to criminal behaviour in the financial sector.**

Unintentionally, developments in the financial sector also present opportunities for criminal behaviour. Criminals are creative in the use of opportunities presented by technology, digitalisation and cross-border structures. Accurate analysis of risks and detection of patterns enable us to set the right priorities for dealing with financial criminality.

3. **The AFM prevents and combats money laundering and the financing of terrorism.**

Financial institutions must strictly fulfil their gatekeeping role, thus ensuring that their services and infrastructure are not misused for money laundering and the financing of terrorism, or by legal or natural persons on the sanctions list. We will continue to apply ourselves to supervision for the prevention of money laundering and the financing of terrorism and to compliance with the Sanctions Act and will collaborate in strengthening this supervision at the European level

4. **Cooperation with partners in the chain is still very important, in particular the role of the AFM in the FEC.**

Financial criminality can only be dealt with by joining forces. At the European level, we urge for a strengthening of supervisory convergence. This is important for the Netherlands, especially now that digitalisation is leading to an increased offering of services from outside our national borders. At the national level, cooperation in the Financial Expertise Centre (FEC) continues to be relevant for good exchange of information and increasing synergy in dealing with criminal behaviour in the financial sector.

04 Capital markets

Fair trading behaviour and robust and transparent markets.

Properly functioning capital markets contribute to the economy and the sustainable financial prosperity of households. The capital markets play an important role in the allocation of capital for economic activities, the transfer of financial risk, the funding of sustainability improvements and the energy transition. It is crucial that market participants have confidence that the market is functioning properly. The AFM's supervision therefore aims to ensure that all market participants, in new issues and from order to settlement, meet their responsibility to ensure that trading is conducted reliably, transparently and fairly.

Technological developments and far-reaching digitalisation, continuous internationalisation and increasing attention to sustainability impact the structure of the markets and the behaviour of trading participants. Trading platforms and other market participants have also relocated to Amsterdam as a result of Brexit. Our role at the European level has thus become more important. A European approach is needed to ensure that the capital markets function effectively. The AFM has an important part to play here.

In this changing environment, we will continue to push for fair trading conduct and robust and transparent capital markets. The focus of our supervision with respect to each of these objectives – integrity, robustness and transparency – has been reformulated for the upcoming years. For each objective, we will select one priority for which extra effort in our supervision is required.

Fair trading practices prevent costs and risks being transferred to other parties and confidence in the market being undermined. We prioritise our approach to cross-platform market abuse. Only the supervisory authorities have a perspective and information position that encompasses all these trading platforms. For market participants, this requires further improvement in the quality of the data that they are required to provide.

Our approach to market robustness is designed to ensure that essential elements of the financial markets are adequately controlled so that trading and settlement are and continue to be possible and reliable in times of stress. Operational risks have increased as a result of the central role of IT processes at firms with systemic relevance. Legislation and regulations have not yet been adequately adjusted in past years to deal with this. New European legislation, such as DORA and IFR/IFD, is now providing more specific frameworks for firms. This legislation and these regulations will give supervisors more possibilities to address risks in relation to controlled and sound business operations at institutions.

Our objective behind our promotion of transparent markets is that full, comprehensible and consistent information for market participants and supervisors contributes to fair trading practices and well-considered decisions by investors. Relevant trade information is necessary for the supervision of fair trading and robust markets. In addition, the availability of market data and central reference prices is essential for the orderly operation of the capital markets. For this reason, among other things, we support the introduction of a consolidated tape, which will entail the centralised availability of trading information.

Priorities

1. Fair trading practices

Fair trading practices prevent costs and risks being shifted to other parties and confidence in the market being undermined.

a. Market abuse involving multiple platforms

Unfair trading practices range from inappropriate treatment of a small retail investor on a local trading platform to internationally organised professionals that gain an unfair advantage through actions on multiple platforms. The trading platforms are themselves responsible for detecting and reporting unfair trading behaviour on their own platforms.

We expect the trading platforms to improve the quality and intensity of their surveillance. This allows us to prioritise market abuse committed on multiple platforms. Only the supervisory authorities have a perspective and information position that encompasses all these trading platforms. For market participants, this requires further improvement in the quality of the data that they are required to provide. Due to the arrival of many trading platforms in Amsterdam, we are now the leading supervisor in the EU for important asset classes (equities/bonds/commodities/emission rights). In the coming years, we will work on the processing and analysis of these data. Given the international character of the capital markets and the participants active in these markets, we prefer to cooperate as closely as possible with other national and European supervisors.

b. Risks of new instruments

New instruments such as crypto derivatives and SPACs offer different possibilities for effective functioning of the capital markets in order to bring supply and demand of capital and risk together. These instruments may involve less well-known risks. Transparency regarding these risks helps the market to value these instruments, but transparency alone may not be adequate to offset risks that may undermine confidence in the market. We strive to improve the reliability of both new and existing instruments by advising on regulation and supervision. If this does not lead to a satisfactory result, an instrument can be removed from the market.

c. Fair conduct by institutions

Our supervision aims to ensure a level playing field, and we intervene if market participants abuse their position. The provision of services by institutions that do not have the correct licence has a disruptive effect. We actively combat this. A level playing field will allow the capital markets to function more effectively. Trading platforms, traders, issuing institutions, Central Clearing Counterparties (CCPs) and Central Securities Depositories (CSDs) compete with each other in various areas. Nevertheless, individual parties can acquire a special position in the market that gives them a degree of market power. The data position of trading platforms and traders is an example of this, as is the influence that these trading platforms can have on the best execution of orders.

Algorithms generate much of the trading in the financial markets (for example, 80% in equities, with increasing activity in other markets as well). Algorithm-based trading has been the norm for years and has many advantages. However, an uncontrolled algorithm can seriously disrupt the market and can have a huge impact on prices in extreme cases. Since algorithms continue to develop, managing this risk continues to be important. We supervise that institutions use algorithms in a controlled manner, either singly or in relation to other algorithms. New regulations such as DORA will increase our options with respect to enforcement.

2. Robust markets

Crucial elements of the financial markets have to be adequately controlled, so that trading and settlement remains possible and reliable even in times of stress.

a. Controlled business operations

Trading, clearing and settlement have to be guaranteed at all times. This requires supervision of operational reliability and controlled business operations at institutions with market relevance. Institutions themselves bear primary responsibility for operational reliability; supervision is an additional safeguard. New legislation, such as DORA and IFR/IFD, will give the AFM additional powers to take more direct action with respect to a controlled and sound business operation at institutions, including control of outsourcing and the safeguarding of cybersecurity.

The uniformity of legislation for the whole financial market opens up the possibility of closer cooperation within the AFM and with external parties such as DNB and ESMA. Some institutions qualify as having systemic relevance due to their central and irreplaceable role in an essential capital market. These institutions need extra attention as a result of our duty to focus on financial stability in our supervision. For example, we conduct scenario analyses to assess the consequences of an outage of a platform.

b. Reliable chain

Methods of trading and settlement vary depending on the financial instrument concerned. The arrival of new instruments (such as crypto derivatives) and new techniques (such as DLT) introduces new aspects to the trading and settlement chain. The trend with bonds is towards all-to-all trading and thus towards central clearing. In the fintech world, there are many initiatives that could develop rapidly. We support these trends, as long as they improve the reliability of the trading and settlement chain for financial instruments. We will intervene if a trend negatively affects reliability. In addition, we support regulations that set appropriate and relevant requirements and allows room for desirable innovation.

c. Resilient market

The capital markets are exposed to a failure of a single player in the infrastructure, known as a single point of failure, or SPOF. Examples include a trading platform on which the reference price is set, a CCP or a very important index. Reducing this exposure contributes to more robust capital markets. Certain elements have systemic relevance, for instance because, if the market comes to a halt, there will soon be a rapid increase in risk. These markets require extra attention in our supervision, for example by monitoring developments that could affect financial stability. We perform this in cooperation with European and Dutch supervisors (ESMA, ECB, ESRB, DNB, the ACM and NEa) with the objective of ensuring that the risks are controlled throughout the trading, clearing and settlement chain. Since Brexit, the AFM has had a leading role in this area within the EU.

3. Transparent markets

Fair trading and well-considered investment decisions by investors require complete, comprehensible and consistent information for market participants and supervisors.

a. Relevant trading information and insights

When making investment decisions, it is important that good trading information, such as information on orders and transactions, is available to investors. This is also important for the AFM. Relevant trade information is necessary for the supervision of fair trading and robust markets. The market generates a large volume of trading information, and the amount of this information will increase further due to EU regulations. This information needs to be released in a timely manner and must be correct and complete. We supervise transaction reporting and notification requirements. We also publish information that can be useful to investors, such as the Market Watch and publications of our reviews.

We support the introduction of a consolidated tape, with a central grouping of trading information. We believe that availability of market data and central reference prices is essential for the orderly operation of the capital markets. The market in Europe is highly fragmented, however, with dozens of national exchanges and bilateral and other trading platforms in various countries. There is currently a lack of central market and price information.

b. New financial instruments

There has been a large increase in the number and variety of financial instruments placed in the market by existing and new parties in recent years. These instruments range from CO_2 emission rights and their derivatives, SPACs and cryptos to green bonds, derivatives and securities financing products. We expect this trend to continue. In addition to the growth of the number and diversity of financial instruments, our supervision of transparency also involves increasing attention to the ESG aspects of these instruments. We are developing our risk-based supervisory approach by means of further standardisation and automation. This enables us to continue to exercise efficient supervision with limited capacity in a changing context.

c. Transparency from issuing institutions, also on ESG

To be able to make well-considered investment decisions, investors expect issuing institutions to be as transparent as possible. Timely and correct information to investors by institutions is and will remain an important focus of our active institutional supervision. Transparency on non-financial information (ESG) will receive more supervisory attention in the coming years. This will involve an increase in the scope of what is considered to be price-sensitive information. Our supervision will (and will have to) develop in order to remain effective. Transparency on sustainability is seen as a key precondition for the ability to fund and facilitate the sustainability transition. The availability of a good European taxonomy is important here for ensuring a level playing field within the EU.

4. Sustainability and the energy transition

The AFM will devote extra attention to the theme of sustainability and the energy transition in the coming years. The capital markets play an important role in the sustainability transition through funding (for which ESG information is necessary) and the trade in CO_2 emission rights derivatives. Energy and commodities that are needed for the energy transition have become more important. We are anticipating the following developments in our supervision:

CO_2 *emission rights*. Reliable and transparent price formation of CO_2 emission rights derivatives is important for a successful transition. We accordingly devote extra attention to fair and transparent trading and to ensuring controlled and sound business operations at the platform. Based on our perspective of the integrity of the market as a whole, we focus on synergies with supervision of other parts of the market for CO_2 emission rights.

Commodity derivatives, focus on gas. As markets in other countries use the gas prices set in the Netherlands as a reference, a high level of confidence in this price formation will continue to be important. The traded prices of gas and electricity have a significant impact on the prices consumers pay in the energy bills. Many businesses also depend on predictable and reliable energy prices for their production.

Instruments. Our supervision will also focus on the consequences of the energy transition for existing instruments, such as better provision of information on sustainability aspects and on new financial instruments, such as green bonds and sustainability-linked bonds.

Energy supervision. Lastly, we are studying how to design our energy supervision to be more effective and complete, including through closer cooperation with other supervisors (DNB, ACM, NEa).

5. International alignment and cooperation

The capital markets, regulations and risks are generally international in nature. For the AFM, convergence of supervision of capital markets participants such as trading platforms, traders and issuing institutions is key. This will ensure a level playing field and the orderly functioning of the European capital markets. This will benefit the Netherlands. Since Brexit, the 'Dutch' capital market has become prominent in the EU. We are applying this increased influence of the AFM in European institutions such as the European Commission and ESMA to promote this convergence.

We also support the assignment of supervisory duties at the European level to ESMA. This involves consideration of the extent to which the regulations are actually European and the activities of the institutions are pan-European. Examples concern the supervision of clearing and settlement parties (such as CCPs or CSDs).

An effective supervisory approach requires good cooperation with other supervisors and institutions, including the UK supervisor, the FCA. We cannot effectively exercise supervision of market abuse across multiple platforms alone; we depend on other supervisory organisations. When making decisions regarding the form and intensity of international cooperation, there will always be a need for thorough consideration of whether priorities and working methods dovetail adequately with those of the AFM.

6. Data-driven supervision

Data-driven supervision starts with the availability of data and the ability to use data for primary supervisory duties, including monitoring the functioning of the capital markets and fair trading behaviour. Effective use of data stands or falls on the quality of the data. Supervision of compliance with reporting requirements by institutions that are obliged to supply data to the AFM is an important priority. Work is still needed to achieve structural accessibility of datasets and on supervision of the related reporting requirements.

In the next strategy period, extra capacity will be applied to supervision of the transaction reporting requirements under MiFIR (and implicitly also FIRDS), SFTR, EMIR, FITRS and Notifications. We will additionally achieve a significant shortening of the 'time to market' for the release of these reports on our central data platform and invest in temporary facilities. Our IT environment has to be stable to achieve this target.

In the next few years, the introduction of DORA and IFD/IFR will lead to an increase in qualitative and quantitative data containing much supervisory information. The collection and provision of these data will take place in cooperation with internal departments and DNB (especially in relation to IFD/IFR). The translation of these data into usable supervisory information, including in risk dashboards, will require effort on our part.

05 **Asset management**

A robust and adaptable asset management sector

The asset management sector manages hundreds of billions of euros' worth of assets for pension funds, insurers and households. The sector is diverse, encompassing everything from fiduciary management and investment funds to venture capital and brokers. The sector is internationally oriented and consists of hundreds of Dutch and foreign asset managers. Errors or abuses in this sector have a significant impact on a large group of investors.

The Netherlands has a rather large asset management sector compared to other European countries, The main reason for this is that the large Dutch pension fund sector has invested a significant proportion of its assets with Dutch asset managers. Asset managers also manage assets for other institutional investors such as insurers or foreign parties.

As the primary supervisor for the asset management sector in the Netherlands, the AFM strives to limit risks in this sector. We strive to find a balance between the European direction, including supervisory convergence, and our own approach and inclusion of the risks and priorities we have identified. We also leverage our supervision with the assistance of the depositaries, for example, so with our supervision of a few parties, we can impact many more.

There are several developments in the coming years that will affect the sector and also the manner in which we exercise our supervision. New regulations, including in relation to sustainability and digital resilience, will set higher requirements for business operations. The increasing degree of outsourcing of business activities is also placing higher demands on business operations. Outsourcing should never lead to loss of control and oversight.

Moreover, market conditions are changing. We are seeing consolidation in the sector, increasing investment in illiquid investments, technological developments and cybercrime, and attention to money laundering and the financing of terrorism. The pensions transition and the sustainability transition will also demand much from the sector. These changes in the market will place high demands in areas such as risk management and liquidity management. The sector will have to be robust and remain adaptable.

The asset management sector is important for financial stability. Recent developments, such as liquidity issues at money market funds and sizeable margin calls on pension funds during market shocks show that systemic risks occur that impinge on the sector. The AFM has a statutory duty to contribute to financial stability.

In our supervision of the sector, we use both structured and unstructured data. We enrich our data position and refine our supervision on the basis of licence and other applications, notifications (or rescindments thereof) to and from other supervisors, (fund) notifications and regularly recurring reports. We intend to further standardise and then automate more of our processes. It is also our aim to further expand and maintain our knowledge of features and quantitative insights of markets and parties.

Priorities

1. Controlled and sound business operations

The AFM strives to ensure that investors are treated with due care and that asset managers are robust and adaptable. Changing market conditions and crisis situations place high demands on risk management and liquidity management. We expect asset managers to always maintain controlled and sound business operations. The outsourcing of activities also places high demands on business operations to be in control of the entire chain. Around 80% of our work is devoted to this: fixed and usually mandatory activities such as licensing, fund and other notifications, reviews of compliance with existing regulation such as the Wwft and the Sw, acting on signals and having discussions with asset managers, but also targeted sampling and surveys to test absorption of new legislation and adjustment to changed circumstances.

2. Complex and large asset managers

In its ongoing supervision, the AFM focuses mainly on large institutions in the sector. These mostly large and complex institutions are doing an increasing amount of work, and margins are under pressure. The pensions transition and the sustainability transition, but also the increased need for digital resilience, are so far-reaching that the risk of errors and abuses will increase. In the next few years, we will strengthen our account supervision in three ways. Firstly, by investing in our knowledge of institutions. This supports a timely change of course at the institution itself, if necessary, and makes comparison between segments and peers possible. Secondly, we will pay closer attention to aspects of conduct, such as the maturity of the governance structure, leadership styles and management dynamic, in our assessment of institutions. Finally, we will increase our ability to intervene by getting closer to the market with regular round table discussions and quick, specific surveys.

3. Financial stability

The asset management sector (or AM sector) is becoming increasingly important for financial stability. Stability risks in the AM sector require adequate attention so that they can be mitigated through supervision and regulation. We monitor the accumulation of liquidity risk in the sector, looking at simultaneous exits from funds and high margin calls on institutions with similar positions. We also monitor the risk of declining liquidity in the money markets and the usage of leveraged finance.

We watch for any manifestation of concentration risk, collective behaviour by market participants (via ETFs) and innovations in areas such as cryptocurrencies. By keeping the impact of new developments in scope in good time, we can anticipate risks in the financial system. To enable effective intervention, we continually review whether new supervisory instruments are desirable.

4. Alert to developments and risks

The AFM is alert to the impact of (new) developments and the associated risks. Around 20% of our work involves quickly responding to developments and understanding the associated (new) risks. In addition to a good information position and a quick response, this work also requires the ability to see both the detail and the bigger picture: how do developments affect the individual asset manager, the various market segments and overall financial stability? Our supervisory approach involves closely monitoring the latest developments, conducting exploratory studies and regularly performing thematic reviews. Some of the specific items of attention:

a. Uncertainty and liquidity

The past few years featured loose monetary policy, low interest rates, mostly limited volatility and the search for yield. The next few years may present a different mix of factors. Inflation and interest rates are rising. Geopolitical tensions followed by sanctions are increasing uncertainty. Higher market volatility could cause an increase in liquidity risk at asset managers, as expressed, for example, in highly unpredictable withdrawals from funds. In addition, higher volatility in swap rates or exchange rates could lead to higher margin calls at managers of derivatives portfolios. The AFM supervises risk management at individual asset managers and in the financial system, from the perspective of financial stability.

b. Sustainability/ESG (Environmental, Social and Governance)

The transition to a sustainable and ethical society is one of the most important challenges of our time. The financial sector has a big role to play in this transition, not only through the potential drive towards sustainability through invested capital, but also through the way in which the sector addresses ESG-related risks. For the AFM, the development of sustainability and responsible investing based on the ESG criteria (taking account of the environment, society and good governance) is high on its list of priorities. This is partly due to increased public expectations and the expanded legal mandate in this area at the European level.

We stress the importance of adequate control and integration of sustainability risks in business operations and the investment policy. Sustainability data, ESG scores and ratings are becoming increasingly important, but mutual variations in outcome and the methods used pose challenges. We aim to prevent investments that are profiled as ‘green’ when this is not really the case, also known as greenwashing. In our supervision, we focus closely on preventing a potential proliferation of supposedly ‘green’ products. Adequate and correct information on sustainability and the ESG factors is essential for this.

c. Digitalisation, AI and cybersecurity

Technological developments and digitalisation are changing how asset managers operate their businesses and the entire asset management chain. We will devote extra attention to these developments in the next few years, including the role of cryptocurrencies, digital assets, AI and cybersecurity. Asset managers are increasingly utilising algorithms, an element of artificial intelligence systems. A number of large players already use Distributed Ledger Technology (DLT) and AI systems, for both portfolio management and operational matters, including first and second-line applications in risk management and compliance.

The advantages of AI are high-speed trading and low cost. From a supervisory perspective, there are areas of attention, such as transparency regarding investment policy (black box), risk management (data quality and prevention of biases), outsourcing to the cloud and potential domino effects that may cause financial instability. The risk associated with cybersecurity is an item of attention, partly because the asset management sector is vulnerable in some respects due to the use of legacy IT systems. Systems have to be properly secured. Proper procedures and processes are important for this.

New legislation is in preparation, including the Digital Operational Resilience Act (DORA). DORA can improve the digital resilience of financial firms. Timely anticipation of technological developments and the related risks can help to maintain confidence in the sector.

5. Intensive cooperation

How we support the robustness and resilience of the asset management sector in our daily supervision is (increasingly) determined at the European level. Legislation is European, supervision within Europe is increasingly converging and ESMA is promoting centralised prioritisation. This means that we increasingly exercise our supervision in line with Europe, which limits our choices and our approach, even though we still have to deal with our local risk issues. We also have our own unique legal structures, such as the *Fondsen voor Gemene Rekening*, or FGR (mutual funds according to Dutch law). There are also developments specific to the Netherlands, such as the pensions transition. We therefore actively influence 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. As far as possible, we stick to our own principles if this makes our supervision more efficient.

In addition, closer harmonisation and cooperation is needed at the national level to make supervision as efficient and effective as possible for all participants. As the primary (licensing) supervisor, the AFM is responsible for supervising that business operations are sound and controlled and that conduct standards are complied with. DNB is responsible for compliance with prudential standards. New duties, for example in relation to IFR/IFD, will be allocated at the European level and require closer harmonisation and cooperation as a result of the Dutch twin peaks model.

Within the AFM as well, cooperation with other departments that also exercise parts of the supervision of the AM sector is essential. Harmonisation will optimise supervision, and supervision of small and medium-sized institutions will be conducted mainly on a thematic basis in the coming strategy period. The most important of these themes concern investment fraud and AML/sanctions, and the fair treatment of retail investors.

6. Better supervision as a result of more and more useful data

In the coming period, the AFM will make the necessary changes to standardise and then automate its activities. It is also our aim to further expand and maintain our knowledge of features and quantitative insights of segments of markets and parties active in these markets.

We explore markets we are not yet familiar with and make connections between various insights and sources. This strengthens our supervision and enables us to make better-informed decisions. We link external risks and developments to our supervisory population and process this in our supervisory strategies in market segments. This also enables us to formulate thematic supervision and monitor risks in specific areas of supervision, such as liquidity and outsourcing. A significant improvement in our IT capability is an essential precondition for realising these ambitions.

06 Audit firms and reporting

Reliable and relevant provision of (non-)financial information

The provision of reliable and relevant financial and non-financial information by companies is a crucial precondition for a properly functioning financial chain. The AFM's supervision of reporting and audit firms is jointly designed to ensure that end users such as investors, credit providers and customers can rely on the picture presented by an organisation's reporting. The supervision of reporting is not restricted to the financial reporting of listed companies (of which there are around 230).

It also concerns the non-financial reporting and how this connects with the financial reporting. The supervision of audit firms focuses on ensuring that they act in the public interest and how they safeguard the quality of their statutory audits. From client acceptance to the issue of the auditor's report to the users of the (non-) financial reporting, but also how the audit firms and the auditors working in these firms fulfil this task and thereby serve the public interest by providing assurance with regard to the reliability and relevance of the reporting.

The government decision to expand the AFM's remit to include audit firms with a regular licence with effect from 1 January 2022 represents a fundamental change in our supervision. As a result of this decision, in addition to the 6 public-interest entity (PIE) audit firms, more than 250 other audit firms collectively performing around 20,000 statutory audits are now subject to direct supervision by the AFM.

There are several developments in the next few years that will significantly impact the chain of financial and non-financial reporting and auditing and therefore also our supervision. The increasing attention to sustainability means that the end users of reporting also expect a high level of transparency regarding the extent to which objectives relating to sustainability are met. Organisations will be subject to strict requirements. At the same time, the public expects auditors and audit firms to fulfil a gatekeeping role with respect to the identification of fraud or the threat of bankruptcy.

Digitalisation and technology are also changing the nature of our society and companies. For end users, it is important that audit firms express an adequate opinion of the reporting of companies that are highly digitalised and that they also design their own technology to ensure higher quality. Developments in the structure of the audit sector and the internationalisation of the market and supervision will also require attention to our supervisory strategy in the years to come.

We will further develop our supervision of reporting and audit firms in the coming period, including further improvement to the risk-based and data-driven nature of our supervision. We also aim to further increase the impact of our supervision by means of greater flexibility and faster response times and streamlining our processes.

Finally, the provision of reliable and relevant (non-)financial information is a collective responsibility of all the parties in the reporting and auditing chain: the companies themselves and their directors, the internal supervisory organs (supervisory boards and audit committees), the audit firms, the Royal Netherlands Institute of Chartered Accountants (NBA), SRA and the end users and their representative organisations. In the exercise of our supervision, we will therefore expressly look for cooperation and connection with these parties.

Priorities

1. Sustainability, society and corporate governance (ESG)

The end users of reporting, such as investors, credit providers but also customers, increasingly expect companies to be transparent – in line with new regulations – regarding how and to what extent they have realised their targets relating to sustainability, but also regarding how they have performed in terms of social responsibility and what the company's social objectives are. The AFM monitors that companies report in a coherent manner on their impact on these ESG factors and on the effect of these factors on the company itself.

The Corporate Sustainability Reporting Directive (CSRD) is likely to come into effect for the 2024 financial year. This new EU legislation means that requirements under the Corporate Governance Code on sustainability for companies, supervisory boards and audit committees will become part of the AFM's supervisory mandate. This regulation requires greater assurance regarding the presentation of non-financial reporting by large companies. This assurance will have to be provided by audit firms or possibly by alternative assurance providers. To adequately fulfil this new gatekeeping role, it is important that audit firms – through their quality control systems – work on developing knowledge and competence in this new area within their assurance teams.

2. Fraud and discontinuity

Fraud disrupts economic traffic between parties and undermines confidence in the integrity of the financial system. The primary responsibility for preventing, detecting and tackling fraud lies with the audited companies. If fraud is undetected, this can lead to material losses for a company's stakeholders. Fraud may also have broader effects on the market in the form of instability and loss of public confidence in the integrity of the financial system.

The problem of fraud is expected to manifest more often and in different areas (for example, greenwashing) as a result of trends such as sustainability, technological development and the internationalisation of business. In view of these developments, we see that the gatekeeping role for audit firms and auditors will become more

important. It is important in this regard that the audit sector takes a broad perspective. Auditors will not only have to identify and trace risks of fraudulent (financial and non-financial) reporting and wrongful allocation of assets in their statutory audits, they will also have to consider risks of corruption, tax evasion, sanctions busting, money laundering, cybercrime and cartel arrangements.

The audit sector appears to need further development with respect to identifying and dealing with fraud and fraud risks. The AFM wishes to see clear indications in the coming years that audit firms are devoting increased and permanent attention to the detection of and follow-up on risks of fraud in the statutory audits they perform. This needs to be promoted in the quality control systems and cultures of audit firms. Auditors need to have sufficient knowledge, competence and expertise and adopt a professional and critical attitude in order to identify, assess and adequately deal with a risk of fraud in the performance of the statutory audit.

Given the end of government support to alleviate the impact of the pandemic and a possible economic downturn due to the war in Ukraine, there could be an increase in the number of bankruptcies in the Netherlands. The discontinuity of an audited company could lead to material losses for all its stakeholders, especially investors and other credit providers. We accordingly believe it is very important that a company's inability to continue as a going concern due to reasonably foreseeable factors should be preceded by a timely warning from the auditor and dialogue between the auditor and investors in the company.

3. Technology and digitalisation

Companies are adopting new technologies in their processes, services and products. Besides this increase in automation, there are new chain-dependent business models, an increasing number of processes at companies are supported by artificial intelligence and sales are increasingly made through digital channels to meet the demands of the digital society. For the end users of reporting, it is important that audit firms take adequate account of these technological developments at their audit clients and discuss potential risks with the audit committee. We will strive to ensure that auditors obtain sufficient and appropriate audit evidence in order to arrive at a correct opinion in their statutory audit regarding the reporting of companies whose business models and operations are changing as a result of technology and digitalisation.

The audit firms themselves are also increasingly using technology and data analysis in their audits. This could potentially lead to broader and deeper audit procedures that could result in higher audit quality. There are, however, key preconditions for this that have to be met. A professional and critical attitude will continue to be important to avoid risks of an automation bias and safeguard the quality of statutory audits. This requires a degree of mutual accountability and an inclusive culture at the audit firm. We will moreover supervise that the audit firms have an IT environment and controlled and sound business operations in place that adequately control the risks associated with the application of technology and digitalisation.

4. The structure of the sector and internationalisation

The AFM continues to devote attention to negative incentives in the structure and organisation of the audit sector in both the PIE audit firm segment and among the regular licence holders. These incentives may form an obstacle to the further improvement and permanent safeguarding of the quality of statutory audits. The Quartermasters for the Future of the Audit Sector will present advice to the Minister of Finance at the end of 2023 on the possible introduction of various alternative model structures, such as the audit only model and the intermediary model. In addition, we will continue to encourage the further strengthening of countervailing powers at audit firms – for instance, the supervisory board, the quality control system and a quality-oriented culture – to counter any incentives to put the interests of the audit client above the public interest.

Demographic developments in the audit sector (ageing, rising outflow and declining inflow) are increasingly making it a challenge for audit firms to find suitable new employees. We are also seeing increasing demand for personnel with specific knowledge, for example in the areas of ESG, fraud, discontinuity and cybercrime. This is a development that ultimately could involve risks to the quality of statutory audits. The sector and other actors thus have an important responsibility to maintain the attractiveness of the audit profession.

Our supervision of financial and non-financial reporting and audit firms is – as a final point – heavily influenced by the European agenda. One important development here is the European drive towards further convergence and harmonisation of supervision in Europe. We support this and encourage this process of convergence. In respect of European and other regulators and standard setters, we work to ensure that important elements in our approach are included in new legislation and regulations. These elements concern a broad definition of quality (culture, quality control system and statutory auditing), attention to incentives in the structure of the audit sector and our increasingly data-driven approach to supervision.

5. Further development of supervision

The AFM will further develop our risk-based and data-driven supervision of reporting and audit firms in the coming period. Data will increasingly become the starting point for our supervisory activities. This means we will be able to identify trends and risks and translate them into specific supervisory activities earlier and more effectively. In addition, we wish to work on standardising and automating recurring supervisory processes where possible to reduce the burden on our limited supervisory capacity. We also aim to further increase the impact of our supervision by means of greater flexibility and faster response times. This will lead to shorter processing times for supervisory reviews and create more opportunities for dialogue with the sector on the findings of these reviews. Lastly, the rapidly changing external environment requires us to devote permanent attention and resources to the further development of the knowledge and expertise of our supervision officers in the areas of ESG, fraud and technology.

07 Professional organisation

The AFM has to be an effective organisation if we are to achieve these strategic objectives. This means an organisation that is flexible and learning, that continues to develop the way in which we exercise our supervision, where good and satisfied people work and that has effectively functioning IT.

An adaptable and learning organisatn

To be able to achieve our objectives fully and quickly in a changing society, we need an adaptable and learning organisation with effective direction.

Adaptable organisation

An adaptable AFM is an organisation that is flexible and responds quickly to its environment and the risks that it identifies. This requires an organisation that is able to respond quickly, with a clear definition of roles and responsibilities. This requires awareness and ownership of the greater whole – for both our objectives and the developments around us – and also the courage to deviate from the agreed plan.

We increasingly work in a digital and international context. This requires a *multidisciplinary* approach, with good cooperation between the various disciplines and departments at the AFM. The basic principle is that the actual challenges in our supervision should as far as possible be leading for the way in which we are organised and the design of our processes. In the coming years, we will take practical steps to ensure that our lawyers, economists and other behavioural scientists, data scientists and IT specialists work more closely together.

Learning organisation

We are a learning organisation with a focus on outcomes and how we can achieve positive effects for Dutch society. The aim in improving our processes is a high degree of result orientation, efficient application of our resources and the optimal functioning of our organisation. We think 'from outside in' so that we are aware of the perspective of society. We also devote much attention to the development of our employees. We can progress together with a constructive critical attitude and open dialogue. This is how we can get the best out of each other and improve together.

Development of supervisory methodology

Being a learning organisation also means that we continually evaluate the effectiveness of how we conduct, enforce and influence our supervision. To keep our supervisory methodology up to date, we measure the impact of our actions, gather feedback from outside our organisation and ensure that our supervisory methodology reflects the needs of the AFM and the expectations of the outside world. Our methodology uses the opportunities presented by data-driven supervision for effective supervision.

Effective direction

We make clear agreements regarding what our intended specific goals are and the preconditions that have to be in place to achieve these goals. We are careful and vigorous in ensuring the quality of our analysis, but also in the assessment of what is needed for our plans to be realised in a timely manner. One of our aims in the coming period concerns improving inter-departmental cooperation and better usage of management tools such as KPIs and OGSMs. We will be flexible in the adoption of new developments and priorities. Interim adjustments are made on the basis of the intended impact in addition to operational project progress.

An attractive employer

At the AFM, our people are our capital. To be able to exercise good supervision, it is vitally important for us to attract, develop and retain good people. With a people-oriented approach and a safe and future-proof working environment, we enable our employees to get the best out of themselves and each other.

We consider ways to improve the attractiveness of the AFM as an employer from several perspectives. Attracting new people is a growing challenge due to the tightness in the labour market. This makes strengthening our positioning in the labour market even more important. One way we do this is by showing what we offer our employees. For instance, people are increasingly looking for meaning in their lives and, because of the coronavirus pandemic, have developed other ways of working. We want to retain the positive aspects of this.

In addition, we are seeing a shift to the selection of competences instead of a perfect match for a position. In future, more than we do now, we will train new employees to become supervisors. Our data-driven approach will play an important role in this. This development-oriented approach is appropriate for us as a learning and adaptable organisation.

We are an attractive employer with a good working environment. For us, it is important to have vital employees that work with pleasure and enthusiasm, making them more creative and productive, willing to show greater commitment and less inclined to leave. We help our employees to use their talents, encourage optimal personal development and strive to ensure a safe and inclusive working environment. We believe that employees should be able to be themselves, and we appreciate diversity in background and expertise. All this is done with the aim of continually improving our supervision. This means that qualities such as vitality, diversity and inclusion, sustainability and management based on performance and development are major aspects in our strategy.

Flexible working has been hugely boosted by the COVID-19 pandemic. As an attractive employer, we want to keep the positive elements of this. But flexible working does involve certain challenges. Home working must not lead to lower commitment or reduced effectiveness.
We will continue to look at the long-term effects, such as the effectiveness of our supervision and the connection with the AFM and colleagues, for both existing and new employees. By monitoring and evaluating experiences, we may introduce changes in the office in the coming years.

We are seeing that external developments, such as digitalisation and changed legislation, are impacting our work. This increases the need to attract employees with various fields of expertise and work on the broad development of our existing employees. Managers have an important role in this respect. We are introducing a new system of recognition and remuneration, based on continuous dialogue focusing on performance and development. This will mean an even greater focus on employee development.

Effectively functioning IT

Society and the financial sector are becoming digitalised at a rapid pace. At the same time, new regulation is being introduced every year that means the AFM is assigned extra supervisory duties, such as DORA and MiCAR in the coming period. This calls for adaptability in our organisation and our IT.

Firstly, we will migrate a number of important applications to the cloud. This will simplify the maintenance and further upgrading of these applications. At the same time, we will introduce increased standardisation in some of our supervisory processes. This will enable the underlying applications to be simpler and will also allow us to take on new supervisory duties more easily. These are important conditions for developing the MyAFM environment into a fully-fledged portal that institutions can use safely and on which they can manage and submit their information.

These challenges mean that IT has to be seen as a strategic core function. Our IT support has to be up to date to deal promptly with necessary developments. Within supervision, we will increase the understanding of IT and strengthen the organisation and our efforts in this area. We will also strengthen our IT organisation to provide effective direction of these efforts.

Any questions or comments about this publication?

Send an email to: redactie@afm.nl

The Dutch Authority for the Financial Markets
PO Box 11723 | 1001 GS Amsterdam

Telephone
+31 20 797 2000

www.afm.nl

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