



# AFM Agenda 2020



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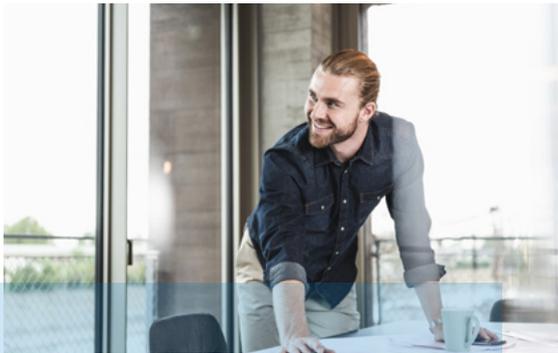
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01

# Foreword



The AFM's supervision is about timely recognition of, understanding and dealing with supervisory issues. Trends affect the world in which we operate and present new opportunities and risks. The AFM Agenda for 2020 describes the major trends in the financial sector and describes the key risks we will focus on in the coming year.





The five most important trends for our supervision are digitalisation, macroeconomic developments, changes in European and other regulation, geopolitical developments and the transition to a sustainable economy.

The digitalisation of financial services offers great convenience. Consumers have access to full banking services through their telephone. But digitalisation also presents new risks. Providers of financial products and services may use the digital environment to unfairly influence consumers. Digitalisation also makes it easier to commit various forms of financial criminality, such as phishing, investment fraud and money laundering. Our goal with our supervision is clear: we work to protect consumers, especially in situations where they are vulnerable.

The low level of interest rates is a major factor in the macro economy. Consumers and professionals will look for higher returns. This means there is a possibility that people will take on unjustified financial risks. Low interest rates also make it more attractive to borrow money, increasing the risk of excessive borrowing.

Brexit is shaking up relationships in the European capital markets. Various market parties, including trading platforms, are preparing for a hard Brexit. Amsterdam is a popular choice for relocation. The financial sector will have to reorganise itself in the post-Brexit era. In this volatile situation, the AFM is working hard to ensure that the market infrastructure is robust and that trading is ethical. We need to work closely with other national and international supervisors to achieve this.

The financial sector can make a significant contribution to the transition towards a sustainable economy. Investors are increasingly looking beyond the 'hard' financial figures and require information on issues such as whether a company's strategy, earnings model and environmental and other performance are future-proof. Companies need to clearly state in their annual reports how they are including the issue of sustainability in their decision-making processes, policy and investments. The AFM can provide guidance on transparency and comparability.

This 2020 Agenda also explains the renewed strategy of the AFM. The AFM's mission is, on the basis of the stated five trends, translated into tangible supervisory objectives for the financial markets. We will continue to make our supervisory processes more data driven and to develop the knowledge and competences of our employees. We strive to be a leading supervisor, and we need both our employees and technology to achieve this. The AFM's supervision makes an important contribution to sustainable financial well-being. But even with good supervision, things can still go wrong in the financial markets. Market parties and consumers also have an important responsibility to prevent problems. The AFM looks forward to working with stakeholders to achieve sustainable financial well-being in 2020.

*On behalf of the Executive Board,*

**Hanzo van Beusekom**  
*acting chair*



02

# Key developments



The AFM has conducted a more detailed analysis of the situation this year, also in the light of the renewal of its strategy. We have identified five trends that affect the supervision of the AFM, and which are thus relevant to our strategy (section 3) and result in this AFM Agenda for 2020 (section 4).





### **Digitalisation of the financial sector**

The application of innovations driven by technology in the financial sector is increasing. Existing institutions in the financial sector are playing a dominant role in this, but parties outside the sector are also gaining in importance. This applies mainly in the areas of data, software, IT management and cloud storage. New forms of financial service provision or activities such as crowdfunding and initial coin offerings will continue to be of interest to the AFM.

### **Macroeconomic developments: the low interest-rate environment**

Interest rates have been at historically low levels for some considerable time. Since economic growth appears to be slowing, there is little prospect of interest rates rising for the time being. The risks of this for the financial sector therefore still apply. Low interest rates can also have negative effects in the form of excessive borrowing ('cheap money') and a search for yield. The weakening economy makes it more urgent to deal with the problem of household debt.

### **Introduction of European and other legislation and regulation**

Significant regulation has been introduced in recent years, in the form of MiFID II, EMIR and BMR. Developments in the financial sector and supervision will also lead to amendments to and introduction of legislation and regulation in the coming years. Among others, this will concern the following issues: interest-rate benchmarks, central counterparties (CCPs) in countries outside the EU, sustainability, revision of the European System for Financial Supervision (ESFS), new initiatives for the capital markets union, revision of the pension system in the Netherlands, possible structural changes in the audit sector and the internal and external supervision of this sector. This means that there will be more rules that market parties have to comply with, which will have to be supervised by the AFM. This will require effort and commitment from both market parties and the AFM. We will thus continue to develop our supervision and prepare ourselves for new tasks.

### **Geopolitical developments**

The effects of Brexit remain a source of uncertainty for the financial markets. Numerous parties have now applied for a licence from the AFM, as a result of which they are now subject to our ongoing supervision. The AFM's supervision has accordingly increased in scale. Previously identified risks, such as access to CCPs and UK broker-dealers, have now been mostly addressed. However, a number of other risks, including event risks, risks in the consumer market and supervisory arbitrage, are still present. Outside Europe, the continuing trade tensions between the US and China, as well as tensions and risks in emerging markets, give rise to uncertainty.

### **Transition to a sustainable economy and society**

Global climate change is increasingly impacting the economy and the financial sector. The main contribution of market parties such as investment funds and institutional investors in the Netherlands to getting businesses to improve their sustainability takes the form of engagement strategies, in which they try to influence businesses to improve their performance on environmental, social and governance (ESG) issues. Better and more relevant non-financial information is needed for the assessment of risks associated with a company's business operation. It is essential that this information is available, comprehensive and accurate. Another development concerns the increasing demand for and offering of sustainable investment products and sustainable investments. Here too, it is essential that the information throughout the chain, from prospectuses to integrated reporting, is available and of good quality to avoid the risk of 'greenwashing', for example.

A more detailed assessment of these developments is provided in our separately published [Trend Monitor](#).

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## Strategy 2020-2022



The financial sector is undergoing rapid and continuing change. The financial markets are continually changing due to the influence of technology and the internationalisation of the playing field. New trading platforms combined with super-fast trading based on algorithms pose new challenges for supervision. Consumers are increasingly arranging their financial affairs online, as a result of which products and services are changing. New European regulation is setting higher requirements for market participants and offers consumers better protection. Cooperation in supervision at European level is becoming more intense. Banks and insurers have demonstrably improved their products and services in the last decade. At the same time, the traditional risks and pitfalls remain. The AFM will continue to adjust and improve its supervision in the light of these developments in order to continue to exercise its supervisory duty effectively.

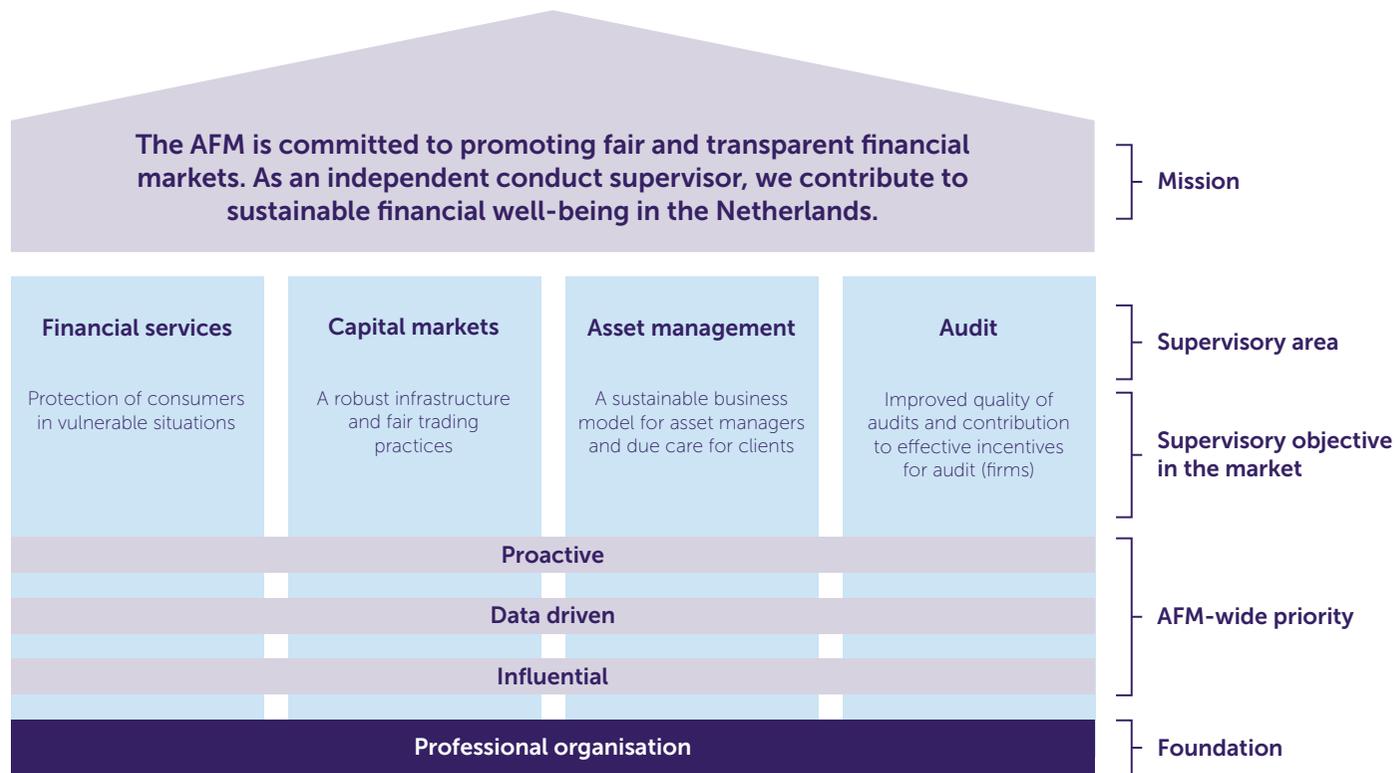




With its strategy for 2020-2022, the AFM builds on the renewal and strengthening of its supervision in previous years. Our strategy is summarised in the figure below.

Our mission and supervisory objectives reflect the AFM’s interpretation of its statutory duty. The AFM remains fully committed to its mission: *‘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.’* To achieve our mission, our strategy

for 2020-2022 reflects the changes in the financial world. We strive to realise our mission by looking ahead, connecting and working across borders. We describe the most important developments for our supervision in section 2. The mission and developments are translated into four multi-year supervisory objectives for the four major areas of supervision. In relation to this, we will use three priorities in our supervisory approach in the coming years and retain a strong basis for the commitment to achieving our supervisory goals and mission.





## Strategy for 2020-2022: supervisory goals

**The AFM has set itself one practical supervisory goal for each area of supervision in the coming years. In addition, each supervisory area includes ongoing duties that do not necessarily contribute to the specific supervisory goal, but which continue to reflect our mission.**

Supervision of financial services provision. Technological changes and internationalisation are changing the financial sector with respect to service provision, product offerings and types of providers. Our goal is to continue to protect consumers in this changing environment, particularly those in vulnerable situations. The focus here is on products that have a material effect in the long term and service provision in a digital environment. Products, purchase decision and advisory processes in a digital environment also need to be customer-oriented.

In the **capital markets**, we see radical changes due for instance to the introduction of new regulation and the arrival of new parties in the Netherlands as a result of Brexit. These developments have led to an expansion of our duties and an increase in the number of parties subject to our supervision. There has also been an increase in the volume of order and transaction data. In this context, our supervisory objective in the coming years is to continue to ensure that the infrastructure of the capital markets is robust and that trading practices are fair. The AFM anticipates developments in its supervision, partly by means of a data driven approach to supervision and the use of automated systems. We also strive to intensify international cooperation with other supervisors, in order to exchange knowledge and carry out investigations together where possible.

Our supervision of **asset management** – the supervision of asset managers and depositories – has focused primarily on the assessment of new institutions for the purpose of granting licences for the AIFMD and MiFID II and Brexit parties. In the years to come, this focus will shift from individual institutions to supervision of the asset management market as a whole. Our

aim will be to improve the quality of parties involved in asset management. Issues such as adequate governance and business conduct will continue to be important requirements. The cost structures used will also receive attention. Our supervision will moreover look at the structure of the sector. The AFM will strive to ensure that parties adequately control the risks arising from the delegation of activities by asset management parties, for instance. The supervisory objective for 2020-2022 is a sustainable business model with careful treatment of clients by asset managers.

Regarding the supervision of the **audit** sector – the supervision of audit firms – the AFM will continue to strive for permanent assurance that statutory audits are of high quality. Among other things, the AFM is working on making the quality of statutory audits visible and measurable, and on encouraging a quality-oriented culture at audit firms. We also participate in the international debate on potential reforms of the structure in which the audit sector and audit firms are organised. The issues of conduct, culture and structure are co-determining factors for quality. In addition, the AFM also encourages quality in reporting. The non-financial performance of businesses is becoming an increasingly important feature in reporting. The AFM strongly supports good integrated reporting with explicit attention to transparent sustainability reporting. We will also further develop our data driven supervision with respect to financial reporting, including the use of text mining. The AFM is preparing for the European Single Electronic Format (ESEF), a new digital format for financial statements.

In addition, there are the AFM-wide supervisory activities, which include the combating of money laundering, the financing of terrorism and other financial criminality.



## Strategy for 2020-2022: approach

**To achieve its supervisory objectives, the AFM applies the following three general priorities: to be proactive, data driven and influential. The further strengthening of our professional organisation is also an important condition for success.**

### Proactive

The AFM will continue to focus on addressing the major supervisory issues in this market. As far as possible, we will make use of data analysis and new technology in order to understand problems in the financial markets more quickly and more accurately. The AFM is also aware of the newest products, players, business models and the risks they entail. Insights from behavioural sciences and organisational culture will be used to identify the essence of supervisory issues. Being proactive also means that the AFM will continue to be keenly alert to problems on the fringes of its mandate. This mostly concerns new sub-markets and applications in the area of financial technology.

### Data driven

A data driven approach is essential for supervision of a sector that is undergoing rapid digitalisation. The growing volume of available data is enabling the AFM to observe more and increasingly substantiate its interventions with data, for both specific market parties and the market as a whole. In the coming years, the AFM will move steadily towards a situation in which data become a greater part of the supervisory process. We continue to work on automated signalling tools to identify trends and patterns in the market on the basis of data. Data will play an increasingly important part in the production of evidence in supervisory investigations and potential enforcement, and in the reporting of the effectiveness of our activities.

### Influential

To deal with supervisory issues effectively, legislation and regulation and policy, both national and international, must exert a positive influence on the playing field. This playing field is complex, and the AFM has to consider diverse interests and a variety of stakeholders. The AFM is keen to exert its influence and is undertaking several actions to this end. At international level, ESMA is the most relevant institution for the AFM for the supervision of the capital markets and consumer protection; IFIAR and CEAOB are the main institutions for the supervision of auditors, in which the AFM is leading relevant workflows. In addition, we work with other supervisors to exchange knowledge and experience. This is happening for instance in the area of data driven supervision and the supervision of new markets and sub-markets. At national level, we are involved in the discussions regarding a new pension system, among other things.

### Professional organisation

The retention and development of a professional organisation is essential in order to be able to implement our strategy for the coming years. We are continuing the line of renewing our supervision in future, partly by further integrating data driven working in our supervision.

A good connection with our stakeholders will continue to be essential for the quality of our supervision. We have a broad view of the outside world and we influence the entire chain. This means that besides politicians, consumer representatives and other interest groups as well as institutions subject to our supervision, we conduct a dialogue with consultants and suppliers to institutions subject to our supervision when this contributes to our objectives in the market. We continue to devote attention to a careful exchange of data and predictability of processes in our interaction with institutions subject to supervision and other stakeholders.



In recent years, the AFM has already made great advances with respect to the efficiency and adaptability of its organisation. We will continue to build a working environment that optimally facilitates efficient operation in the years to come as well. Processes and management are structured so that employees and management have the room to focus on our most important tasks. This means that we strive to systematically identify the consequences of implementation of new policy, legislation and regulation and include the supporting systems and information technology in our supervisory processes. We know which people we need (both qualitatively and quantitatively) to be able to carry out these processes and the facilities needed for this are available. We focus on using our resources as efficiently as possible. And we recognise the risks in implementation and take timely measures to mitigate them.

We will also continue to strive to be an attractive employer and strengthen our position in the employment market. Despite the current tightness in this market, we have generally been successful in attracting suitable people. But we must continue to make efforts to retain these people. This means that we will enhance our profile in the employment market by making greater use of our internal network in order to find new employees. We will fully continue our programmes for the development of talent and leadership among our current employees in the coming years.

By continuing to invest in the development of the organisation, we will create the conditions for a successful achievement of our strategy.

We will continue  
on our journey of  
renewing supervision



# 04

## Priorities and key activities in 2020



This section describes the supervisory objectives of the AFM in the areas of *financial services provision, capital markets, asset management and audit firms and reporting*. These supervisory objectives are translated into priorities and key activities in 2020. This section also explains the important other ongoing activities in 2020 in each area of supervision.





## Supervision of financial services provision

### Protection of consumers in vulnerable situations

Financial products play an important part in the lives of consumers. These products are necessary and give people opportunities: for example, many consumers are able to buy a house thanks to a mortgage loan. But financial products also involve risks, some of which are often not easy to evaluate. This means it is very important that financial services are provided with care. Especially for consumers in vulnerable situations. For this reason, one of the most important social objectives of legislation on financial supervision is that financial enterprises treat their customers with due care. In other words, 'giving central priority to the customer's interests'.

Big changes are occurring in the financial sector, among other things due to technological innovations. Innovations present opportunities, but they can also work to the customer's disadvantage. The AFM's most important objective in its supervision of financial services provision is to ensure that consumers are protected, particularly those in vulnerable situations. Vulnerability in this context can take many forms: a consumer is vulnerable if they have limited resources or expertise, but also if they are influenced in their choices to their disadvantage. We devote extra attention to digital developments in the overall area of financial services: with respect to products relating to loans, insurance, investments, payments and savings and services of providers such as banks and insurers, investment firms, authorised agents and intermediaries.

The following supervisory priorities with associated activities have been formulated to further ensure that consumers in vulnerable situations are protected.

### Supervisory priority: the sustainable contribution from products and services with long-term effects

Products and services can significantly affect the financial well-being of consumers. Also in the long term. Especially mortgages, consumer loans and pension products.

Borrowing allows people to bring forward their spending, but there is also a risk of taking on too much debt. Or customers can get into difficulties during the term of a loan, if for instance their personal circumstances change. We will thus continue to devote attention to whether credit providers lend responsibly, manage their lending with care and comply with codes of conduct. For this, we use innovative data processing as far as possible. With our proactive supervision and dialogue with the sector, we also strive to prevent future issues with interest-only mortgages. Lastly, we monitor the influence of the low interest-rate environment on lending to consumers.

With respect to pensions, we will continue to supervise compliance with obligations relating to the duty of care and communication on pensions (the provision of information by pension funds to participants on their financial situation) so that predictable disappointments can be avoided. The AFM is also proactively involved in the reform of the system, which started with the pension agreement concluded in 2019. Guidance with respect to options and the suitability of pension products on offer require special attention. The new pension system has to be comprehensible, feasible and explainable to consumers, particularly if the possibilities for individual freedom of choice are to be expanded. We will provide guidance on the formulation of policy with respect to information provision, new contracts and optional features. We will naturally involve our insights relating to consumer behaviour in this.

Our supervision of financial services also concerns services provided to business customers. The AFM will assess whether financial services and the



regulation thereof are appropriate for new groups of business customers.

We will also look closely in the coming years at whether advisory processes and financial products in a digital environment are clear and customer-oriented, for example with respect to execution-only services and automated advice. Consumers must be properly protected, also in digital environments. For this reason, the AFM uses its insights into consumer behaviour in its supervision of consumer protection in the digital domain.

In addition to the technological developments, the financial sector is also changing because of extensive internationalisation. The AFM notes that the roles of institutions, consumers and the supervisor have changed in recent years. In a time when products are offered in digital form and parties are approaching consumers across national borders, it may be necessary to look again at how parties meet their duty of care.

#### Key activities in 2020

- Encouraging the provision of information with care, with respect to action if necessary, to consumers with interest-only mortgages.
- Attention to equity-release mortgages, which enable consumers to cash in part of the excess equity in their homes.
- Encouraging responsible provision of consumer credit by means of supervisory reviews.
- Data analysis of the major risks in the consumer credit market. A structural request for data from the largest providers of consumer credit will be introduced in the market for this purpose.
- Supervisory reviews of product governance processes. At international level (ESAs) we will share our supervisory approach with respect to product governance in order to achieve convergence in supervision.
- A review of the duty of care during the term of financial products.
- An exploratory review of closed book portfolios (insurances). This will involve an assessment of whether the customer's interests are being taken into account.

- A review of the knowledge and experience test in the execution-only channel for mortgages.
- Supervision of pension communication and preparing for the reform of the pension system. The AFM will make a material contribution to the formulation of the new pension system to ensure that the interests of individual participants are protected, among other things through its participation as an advisory member of the Pension Agreement Working Group (Stuurgroep Uitwerking Pensioenakkoord).
- Developing a view with respect to the financing of SMEs, in particular with respect to the protection of vulnerable business borrowers.
- A review of digital marketing (a market and consumer review), with special attention to cross-border issues.
- More intense supervision on purchase decision and advisory processes and financial products in digital environments, such as the provision of guidance with respect to the knowledge and experience test.
- Thematic reviews to establish the extent to which business operations of licensees are ethical and controlled in accordance with the Financial Supervision Act. Control of integrity risks such as fraud and corruption will remain an item of attention.
- Risk-based supervision of compliance with the Anti-Money Laundering and Counter-Terrorist Financing Act and the Sanctions Act 1977.
- A market review with respect to PSD2: who are the new players, and what are the risks for consumers?
- More intense data driven supervision of insurance products, among other things through cooperation with the Centre for Insurance Statistics.

#### Supervisory priority: organisation of financial enterprises

A service provided with due care requires that the basis of the service provider's organisation is properly organised. This includes the associated technology. We will therefore intensify our supervision of compliance with the requirements in relation to people and processes at the enterprises subject to supervision that are active in the consumer market. Data analysis will be used increasingly frequently for this. We will also evaluate the conduct and culture of financial enterprises.



#### Key activities in 2020

- Reviews of conduct and culture at financial enterprises, for example intensifying supervision of the tone at the top with respect to giving central priority to the customer's interests and observance of the duty of care at large financial enterprises.
- Regular reviews of aspects such as remuneration and professional competence.
- Reviews of policy and processes at investment firms, for instance with regard to the operation and effectiveness of the compliance function.
- Visits to offices of advisers and intermediaries in financial products in order to obtain a better understanding of certain new and ongoing developments in the market for financial services and also to conduct certain audits.
- More intense supervision of the second and third line functions at financial institutions, and regular testing of the operation of the Compliance and Audit function by means of regular dialogue and checking reports.

#### Supervisory priority: a position of influence in financial services

The AFM has a strong position in supervision of consumer markets and policy in Europe. We apply this influence in the forums of foreign supervisory agencies. To maintain our role and position, in the coming years we will focus more on the following specific issues: consumer behaviour in the digital sales environment, communication on pensions, financial innovation, product governance, remuneration and cross-border provision of services. Where this concerns regulation, this will be in close cooperation with the Ministry of Finance.

#### Key activities in 2020

- Closer cooperation with foreign supervisors:
  - For the accumulation of a data position and in order to address common supervisory problems.
  - For supervision of European passport holders in order to

contribute to Common Supervisory Action with respect to the provision of investment services.

- To share knowledge with respect to reviews, influence and enforcement on a permanent basis.
- Further strengthening of the cooperation with ESMA in order to address common supervisory problems. This will also enable us to continue to work to influence priorities at European level with respect to the supervision of the provision of investment services.
- Continuation of the cooperation within EIOPA and IAIS in order to address common supervisory problems.

#### Ongoing supervisory activities for financial services

Besides the activities relating to the supervisory objective and priorities, the AFM will devote significant attention and capacity to its ongoing duties in its supervision of financial services provision in 2020. The AFM continues to be alert to new risks.

- Dealing with signals, and requests for exemption and enforcement.
- Responding to questions from consumers and market parties.
- Supervision to ensure that the information provided by financial institutions is correct, clear and not misleading.
- Granting licences to financial services providers so that they can commence their activities.
- Monitoring compliance with the product intervention measures to prevent obviously harmful products from being disseminated.
- The testing of suitability and properness of key officers at financial institutions.
- Activities relating to the interest-rate derivatives issue.



### **AFM-wide supervisory priority: combating money laundering, the financing of terrorism and other forms of financial criminality**

Financial enterprises have an important function in the prevention of money laundering, financing of terrorism and other forms of financial or economic criminality. As gatekeepers, their responsibilities include the following:

1. Preventing criminals using the financial system to launder the proceeds of crime;
2. Preventing persons and organisations subject to national or international sanctions from participating in the financial system;
3. Preventing businesses and persons from benefiting from fraud and corruption.

Audit firms also have a role in signalling financial criminality.

Companies involved in such activities, whether intentionally or not, damage confidence in the financial sector. The AFM works to achieve a financial sector that is not misused for financial or economic criminality and the financing of terrorism.

#### Key activities in 2020

- Risk-based supervision of compliance with the Anti-Money Laundering and Counter-Terrorist Financing Act and the Sanctions Act 1977. This includes the conduct of on-site investigations. The AFM takes enforcement action if necessary.
- A follow-up to the thematic review in 2019 of the obligation of investment firms and institutions to notify unusual transactions.
- The AFM conducts thematic reviews to establish that the business operations of licensees are ethical and controlled as defined in the Financial Supervision Act (for financial enterprises) and the Audit Firms (Supervision) Act (for audit firms). Control of integrity risks such as fraud and corruption will remain an item of attention. The AFM takes enforcement action if necessary.
- In cases where there are reasonable grounds for doing so, the AFM will retest the properness of key officers at financial enterprises and audit firms.
- The AFM will continue its cooperation with both national partners, such as DNB, OM, FIOD and the Tax & Customs Administration, and international partners such as ESMA.



## Supervision of the capital markets

### A robust infrastructure and ethical trading

It is important that the capital markets operate fairly and efficiently. Among other things, this means that the infrastructure enables supply and demand to meet in a transparent manner and that investors can rely on prices being formed fairly.

Problems in the capital market will affect consumers through their pensions, insurances and investments. The increasing automation of trading is a longer term trend that sets higher demands on the controlled and ethical business conduct of market parties. In addition, a number of very large and global institutions are moving from the United Kingdom to the Netherlands as a result of Brexit. This will entail an expansion of the Dutch capital market and lead to increased trade on platforms established in the Netherlands. This will require more supervision.

The AFM supervises the institutions that are part of the infrastructure of the capital markets: trading platforms, issuing institutions, payment and settlement institutions, proprietary traders, benchmark parties and data reporting service providers.

A properly functioning capital market needs a robust infrastructure with ethical trading, among other things. New European rules that capital market institutions have to comply with, in MiFID II, EMIR and BMR for example, contribute to the efficient operation of the capital markets. To achieve its objective in the supervision of the capital markets – a robust infrastructure and ethical trading – in the coming years, the AFM will apply the following supervisory priorities with related activities.

### Supervisory priority: institution-focused and data driven capital markets supervision

As a result of new European regulation, growing markets and an increase in the number of parties subject to supervision, the AFM possesses large

quantities of data on transactions in the capital markets. The AFM will further develop and professionalise its data driven supervision. Good data quality is therefore very important. With more complete, better quality and more detailed data, we can conduct our supervision more effectively at market level and also at institution and individual investor level. The focus of our capital markets supervision will be increasingly conducted at institutional level. This means that the AFM will check more frequently that capital markets institutions have structured their business processes in accordance with the applicable requirements. Among other things, this will involve the use of data analysis.

### Key activities in 2020

- Supervision of capital markets institutions with attention to operational and IT risks, with the AFM looking at how and to what extent institutions are in control of their processes. Examples are reviews focusing on internal controls at institutions, risk and risk management in chains and the extent to which institutions are resistant against cyber criminality.
- Continuous data driven monitoring of transactions and orders on trading platforms on the basis of institutional categories.
- Structural cooperation with European supervisors in the construction of systems enabling the collection, processing and exchange data and facilitating the detection of market abuse. Signals and notifications will also be investigated with useful information obtained from foreign supervisors. This will enable more effective supervision of institutions active in multiple countries.

### Supervisory priority: reliable information for the market

For all types of financial instruments subject to AFM supervision and from order through to settlement, the parties concerned have to meet their responsibilities to ensure that trading is conducted fairly. Transaction prices must be established correctly and parties must have confidence in the market. For this, it is important that parties trade ethically and ensure that information in the market is reliable.



Our supervisory tasks are intensifying as a result of the increase in the diversity of products being traded on trading platforms and by other market parties, and due to the increase of the number of capital markets institutions subject to supervision. In the coming years, this will lead to more supervisory activities to combat unethical trading practices such as market abuse. For this, we will cooperate more closely with other supervisors in our investigations and we will adapt our supervisory methodologies. This will give us better understanding of risks and developments in the most important sub-markets, products and institutions and therefore also trading behaviour.

#### Key activities in 2020

- Strengthening the cooperation with foreign fellow supervisors in investigations of market abuse through the exchange of professional knowledge and conducting collective investigations at European (ESMA) level.
- More intensive supervision of the timely and correct delivery of required information and data by market parties. We will do this with thematic reviews and audits, dialogue with market parties, automation of processes and better use of data. Formal and informal enforcement will thus be intensified. The aim here is to increase the quality of the data and thereby the relevance and usefulness for supervision.

#### Supervisory priority: internationally influential

Capital markets institutions operate internationally. This means that supervisors need to cooperate more closely and harmonise their activities. Policy decisions at international level have national consequences (and vice versa). Moreover, market parties have similar questions for supervisors in various countries. A consistent response will provide clarity for anyone involved in the capital markets.

The additional capacity in 2020 will be used to increase our influence in the international supervisory organs that supervise both the new and the already licensed trading platforms. We will also take a more decisive

role in the international forums, among other things by devoting more attention to answering policy issues.

#### Key activities in 2020

- Publications such as position papers and insights from the market that can be shared with a wider public or a specific group, in order to provide insight into developments in the capital markets and clearly state what is desirable behaviour and where problems and concerns exist.
- Participation in supervisory organs established for supervision of trading platforms, recovery and resolution institutions and benchmark managers. Our insights, partly derived from the position papers, can be used to influence decision-making.
- Participation in ESMA policy groups in the field of the capital markets: SMSC, MISC and PTSC and their related working groups. This will enable us to exercise influence internationally on issues that are important to the capital markets. Among other things, this presents the opportunity (collectively or otherwise) to intervene at an early stage when undesirable products appear in the market. This means we will be able to work together on combating undesirable developments.

#### Ongoing supervision of the capital markets

The AFM will also continue to devote a significant portion of its capacity to ongoing duties with respect to the supervision of the capital markets in 2020. The AFM remains alert to new risks that may materialise as a result of changing market conditions.

- Ongoing supervision of licensed market parties that have relocated to the Netherlands as a result of the (imminent) departure of the United Kingdom from the European Union.
- Supervision of transparency (in prospectuses, notifications and public offerings) in order to ensure the quality and usefulness of information provided to investors and advertisements. Without losing attention to the interests of market parties submitting applications or notifications, who benefit from well-structured AFM processes that contribute to short



processing times for the assessment and processing of information.

- Supervision of compliance with the requirements for recovery and resolution parties, with a focus on minimising transactions in financial instruments that are not recovered and resolved.
- Supervision of new and existing capital markets institutions, trading platforms, bond markets, securitisation and an increasing population of benchmark managers.
- Structuring our supervision of new important data sources such as SFTR, that provide insight into developments in the shadow banking system.

#### **AFM-wide supervisory priority: financial stability**

Together with other supervisors in the financial sector, the AFM strives to achieve a sound, properly functioning financial system. A system in which payments traffic proceeds smoothly, financial institutions are sound and subject to good supervision and prices are stable. The Netherlands is becoming an increasingly important part of the European capital market. This is partly due to Brexit, as a result of which a substantial portion of the European equity and bond markets is expected to move from the United Kingdom to the Netherlands. The European capital market will have to restructure itself post-Brexit, which will involve uncertainty as regards market liquidity, counterparty risk and therefore the chance of volatility and market manipulation.

In addition, due its large pension funds, the Netherlands has a very large asset management sector that is undergoing structural changes. The rise of passive investing, the concentration of market infrastructure and the transition to new interest-rate benchmarks poses risks in relation to stability. Furthermore, the low interest-rate environment has the potential to encourage high-risk behaviour and bubble formation in both professional and retail markets, including the housing market. Against this background,

the stability of the system as a whole is an important focus of attention for the AFM as well as the continuity of individual enterprises.

#### **Key activities in 2020**

- Contributing to adequately addressing stability-related issues through analyses and obtaining insights into markets. Important themes include the IBOR transition and the risks in the capital markets, such as risks and effects on liquidity of an interest-rate shock and the risks associated with ETFs and the housing market.
- Influencing national and international policy debates on the development and application of macroprudential instruments in the field of asset management, for instance in relation to leverage and liquidity.
- Structuring the role of the AFM (in cooperation with DNB) if certain financial institutions get into financial difficulties and there is a threat that they will fail. In cooperation with DNB, we oversee the recovery or resolution of these banks, investment firms, insurers and CCPs.
- Participation in the Financial Stability Committee (FSC), in which we and representatives of De Nederlandsche Bank and the Ministry of Finance discuss developments relating to financial stability in the Netherlands.



## Supervision of asset management

### A sustainable business model for asset managers and due care in the treatment of clients

The asset management market is changing significantly, due to political developments such as Brexit, European regulation and the shift towards more financing from the capital markets. The market for asset management in the Netherlands is growing. The role of this market in the Dutch capital market is therefore also growing.

Asset managers and depositories are also increasingly using chain parties, not only for financial and other administration, but also for core tasks such as risk management and back office operations as well as systems (data systems or otherwise), partly as a result of the national and international specialisation of service provision. This increases the risks associated with outsourcing, control and concentration.

The AFM expects market parties to have adequate control in this fragmented market to ensure a controlled and ethical business operation throughout the chain. Sustainability, knowing your customer and financial stability are also important aspects. The AFM expects market parties to have a business model that is sufficiently future-proof for them to be able to adequately respond to technological and other developments. Market parties accordingly need to be able to respond to the changing demands arising from social and economic changes, such as changes to the pension system, and be able to quickly respond to changes in European regulation.

To achieve its objective in the supervision of asset management – a sustainable business model for asset managers and treatment of clients with due care – in the coming years, the AFM will apply the following supervisory priorities with related activities.

### Supervisory priority: a properly functioning chain of asset management parties

The AFM strives to achieve a properly functioning market for asset management in which the interests of clients are safeguarded. The AFM looks at both the role of the asset management market in the allocation of capital and its role in enabling the future needs of investors and clients to be realised (such as pensions).

To ensure that the asset management market functions properly, is future-proof and that the interests of clients are safeguarded, institutions have to structure their risk management, separation of assets, investment processes and client processes in accordance with the size, complexity and risk profile of their activities. Costs charged need to be in proportion and transparent.

#### Key activities in 2020

- Identifying the major risks that arise in the chain as a result of outsourcing or the use of external staff by market parties. These risks will then be mitigated through influence or enforcement.
- Through reviews, obtaining insight into the way depositories fulfil their role in order to improve the gathering of information on the conduct of asset managers.
- Review of the cost structures used by institutions.
- A review to establish the effect of sustainability issues on the business operation of asset managers.



### Ongoing supervision of asset management

The AFM will also continue to devote a significant portion of its capacity to ongoing duties with respect to the supervision of asset management in 2020. The AFM continues to be alert to new risks, since current developments co-determine the nature of our supervisory activities.

- Checking that licence applications and new fund offerings meet the applicable statutory requirements.
- Ending identified violations by means of influence and/or formal or informal enforcement.
- Using data and exploratory reviews to identify potential problems at an early stage and taking action when necessary.
- Supervision of compliance with the requirements relating to a controlled and ethical business operation.
- Developing and improving data analysis tools and automating reiterative processes.
- Combating and preventing serious violations by conducting investigations, with enforcement action or the retesting of policymakers if necessary. The AFM works with organs including DNB, FIOD and the Tax & Customs Administration in this respect.

The AFM will in 2020 continue to spend an important share of its capacity into the supervision of property management



### **AFM-wide supervisory priority: attention to sustainability in the financial sector**

The financial sector has an important role to play in the sustainability transition. Market parties (investment funds and institutional investors in the Netherlands) contribute to businesses becoming more sustainable by encouraging them to take account of Environmental, Social and Governance (ESG) aspects in their business operations. These parties also play an important part in mobilising capital for sustainable investments. Obtaining insight into the risks relating to the business operation is of paramount importance in this respect. Better and relevant non-financial information is needed to identify risks and demonstrate whether businesses are managing these risks. It is essential that the information available is comprehensive and accurate.

In addition, both supply of and demand for products and services with a sustainable nature are increasing rapidly and investors are increasingly considering sustainability aspects in their investment decisions. Here too, the main focus of the AFM is the availability and quality of information throughout the chain, from prospectuses to integrated reporting, also to mitigate risks relating to activities such as 'greenwashing'. The AFM accordingly encourages integrated reporting with explicit attention to transparent sustainability reporting. Furthermore, the integration of sustainability factors in financial products and services must not be at the expense of responsible and careful service provision to consumers in

financial situations. The AFM endorses the importance of sustainability, but this must not be allowed to lead to excessive lending to vulnerable consumers.

#### *Key activities in 2020*

- The AFM maintains a critical supervision of the increasingly common claims made with respect to sustainable investing.
- Dealing with national and international sustainability issues that affect the asset management and capital markets, for example with respect to stranded assets.
- Monitoring the impact of sustainability issues on financial stability+.
- A review of the application of integrated reporting.
- We will review the information provided on sustainable investment products and will take enforcement action if this information turns out to be incorrect, unclear or misleading.
- Initiating a dialogue with international benchmark parties and influencing future legislation and regulation in relation to sustainability in this market segment. Large money flows into sustainable investments come through ESG benchmarks and mandates at asset managers who then use certain ESG benchmarks.



## Supervision of audit

### Higher quality of audits and contribution to effective incentives for auditors and audit firms

Around the world, and thus in the Netherlands as well, the audit sector faces a continuous challenge to permanently ensure that statutory audits are of high quality. The AFM's supervision will therefore continue to focus on the permanent improvement of quality. To ensure that the sector achieves a permanent improvement in quality, the AFM will continue to review the quality of statutory audits and the realisation of a quality-oriented culture.

To achieve its objective in the coming years, the AFM will apply the following supervisory priorities with related activities. The activities relating to the supervision of financial reporting are also described below.

### Supervisory priority: review of the efforts to increase quality at PIE audit firms

The AFM's supervision in 2020 will continue to focus on the PIE audit firms and on increasing quality. The sector announced improvements in 2014 and audit firms started a process of change. The AFM expects the audit sector to ensure that the changes that will be implemented in 2020 have the desired effect and that they will have permanently ensured that their statutory audits are of high quality. From 2020 onwards therefore, the AFM will conduct reviews of the progress made in the efforts to increase quality and will renew its review methodology in this context. The data driven supervision of audit firms will also be further developed.

#### Key activities in 2020

- Conduct of a review into the achievements of the efforts to increase quality at the PIE audit firms (to continue in 2021) and renewal of the supervisory methodology for this purpose.
- Development of data driven supervision of audit firms.

### Supervisory priority: strengthening the role of audit committees

Audit committees have an important part to play with respect to the quality of reporting and the quality of statutory audits. Among other things, in 2020 the AFM will focus on influencing audit committees to take a critical attitude in the exercise of their role.

#### Key activities in 2020

- Conduct of a further exploratory review into how audit committees fulfil their roles in the process of selection and evaluation of audit firms.
- The AFM aims to intensify the dialogue with investors, audit committees and auditors regarding the potential introduction of more permanent safeguards and the various responsibilities with respect to the selection and evaluation of the quality of the external auditor.

### Supervisory priority: influence in national and international discussions

The debate on potential changes to be introduced in the audit sector is an issue at both national and international level. The Committee on the Future of the Audit Sector (Commissie Toekomst Accountancysector, or 'CTA') was appointed in the Netherlands in 2019. At international level, the debate regarding the sector is an agenda item for both IFIAR and CEAOB, among others. The AFM wishes to draw attention among other things to potentially perverse incentives in the structure of the audit sector that are an obstacle to a permanent assurance of high quality.

Regarding the supervision of reporting, the AFM works together with foreign supervisors and participates in international forums such as ESMA and IOSCO.

#### Key activities in 2020

- Contributing to discussions on adequately addressing vulnerabilities in the structure of the audit sector so that these continue to be



appropriate in a potentially reformed structure. Preparing for recommendations from the CTA and participating in the continued development of supervision and supervisory methodologies where relevant.

- Cooperation with other supervisors in European organs or regulators for the Big 4 audit firms. The European supervisors monitor the networks of the Big 4 audit firms via the European organs, partly on the basis of analysis of supervisory findings and discussion of developments in areas such as root cause analysis and the use of data analytics in the audit.
- Participating in international debates in IFIAR and CEAOB among others and leading the IFIAR Task Force on Internationally Relevant Developments in Audit Markets (IRDAM).
- Participating in international debates in ESMA and IOSCO, among others. Through ESMA and IOSCO, the AFM actively contributes to the formulation and implementation of guidelines, recommendations and Q&As to ensure consistent application of regulation.

#### **Supervisory priority: improving integrated reporting and developing data driven supervision of reporting**

The non-financial performance of enterprises, on sustainability and diversity for instance, is becoming increasingly important: enterprises need to include this in their reporting and auditors need to devote attention to this in their audits. The AFM supports the reporting of relevant financial and non-financial information in the annual (integrated) reporting of listed companies. The AFM will also continue to develop its data driven supervision of reporting in 2020, with the application of new techniques such as text mining. The AFM is also preparing for the European Single Electronic Format (ESEF), a new digital format for financial statements that will be mandatory for listed companies with effect from the 2020 financial year.

#### **Key activities in 2020**

- A review of the application of aspects of integrated reporting.
- The development of data driven supervision of reporting, including improvement of the model for quantitative risk analysis.
- Preparation for the introduction of the ESEF, including informing companies regarding the new requirements. It is important that listed companies become familiar with and prepare for these new rules in good time.

#### **Ongoing supervisory activities for audit firms and reporting**

The AFM will also continue to devote a portion of its capacity to ongoing duties with respect to the supervision of audit firms and reporting in 2020.

- Testing the quality of reporting.
- Following up on signals and incidents regarding issues such as continuity, fraud and corruption at audit clients and concurrence of audit and advisory services.
- Following up on the duties transferred from our covenant partners, the NBA and the SRA, regarding situations where audit firms have had negative test results on two occasions.
- Performance of the activities involved in testing directors and members of supervisory boards for properness and suitability.
- Performance of the activities involved in licensing and registration.
- Requesting data from audit firms for the purpose of the Market Monitor and possible publication of trend analyses.
- In cooperation with key stakeholders, studying how supervision of non-PIE audit firms can be structured in the future.

05

## Finances in 2020



**This section explains the cost framework, the expenses specified by type, the investment budget and the manner in which the AFM is funded.**

### **Cost framework**

The budget of the AFM is arranged in the Financial Supervision (Funding) Act (Wet bekostiging financieel toezicht, or 'Wbft'). The supervisory budget of the AFM is approved by the Ministers of Finance and Social Affairs and Employment each year on the basis of this Act. The Minister of Finance has established a cost framework for 2017-2020 (Table 5.1).

Including adjustment for salaries and prices, the cost framework for 2020 comes to € 106.2 million.





External cost framework	2016	2017	2018	2019	2020
Starting point = budget for 2016	92,2	92,2	92,2	92,2	92,2
Remit (-1.75% per year)		-1,6	-3,2	-4,8	-6,5
Flexible budget (including expansion of remit)		5,0	6,0	14,7	13,2
<i>Known expansion of remit</i>		4,0	4,0	4,0	4,0
<i>Budget for unforeseen tasks</i>		-	2,0	3,0	4,0
<i>Budget room in 2016 with surplus to 2017</i>		1,0	-	-	-
<i>Brexit</i>		-	-	7,7	5,2
Intensification (incl. organisational development)		1,8	1,3	0,8	0,3
Adjustment for salaries and prices		1,1	2,4	4,8	7,0
<b>Multi-year framework incl. adjustment for salaries and prices</b>		<b>98,4</b>	<b>98,6</b>	<b>107,6</b>	<b>106,2</b>

Tabel 5.1 - Cost Framework (EUR MLN)



The cost framework includes the remit established by the Ministry of Finance, which in 2020 will increase to € 6.5 million (7%).

The flexible budget for new tasks rises from € 4.0 million in 2017 to € 8.0 million in 2020 ('known expansion of the remit' and 'provision for unforeseen tasks') and will be used for the structuring and permanent implementation of new supervisory duties that have been entrusted to the AFM since 2017. These include activities resulting from MiFID II (Market in Financial Instruments Directive II), PRIIPs (Packaged Retail and Investment-based Insurance Products), the Premium Schemes (Improvements) Act (Wet verbeterde premieregeling), the obligation to notify an exemption from the obligation to publish a prospectus, the General Data Protection Regulation (GDPR), the testing of suitability for the Audit Firms (Supervision) Act (Wet toezicht accountantsorganisaties, or 'Wta'), the Benchmark Regulation (BMR), the Securities Financing Transaction Regulation (SFTR), the Securitisation Regulation and the Act implementing the Prospectus Regulation. In 2020, the flexible budget will also be used for additional

activities resulting from the Act on Open Government (Wet open overheid) and preparation for the obligation to obtain a licence for investment objects and bonds.

In 2018, the Minister of Finance made additions to the flexible budget for 2019 and 2020 for additional activities arising from preparations for Brexit. These concerned € 7.7 million for 2019 and € 5.2 million for 2020. The Minister stated that a no-deal or another unexpected outcome, and the reaction of market parties to that, could mean that this increase to the cost framework may not be sufficient.

**The lengthy and uncertain progress of Brexit may lead to substantially different assumptions than those made in 2018. The AFM is consulting with the Ministry of Finance on the impact on the activities of the AFM and the funding of these activities.**

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<sup>1</sup> Parliamentary Letter 2018-0000209468



### Budget

The budgeted total expenses for 2020 are equal to the 2020 cost framework and 1% lower than the budgeted expenses in 2019 (Table 5.2).

Expenses per type	Budget 2019	Budget 2020	Difference compared to B2019	Actual 2018
<i>Salary expenses</i>	54,5	55,2	1%	51,8
<i>Social insurance contributions</i>	7,3	7,3	1%	6,7
<i>Pension expenses</i>	11,5	11,6	1%	10,1
<i>External staff</i>	8,3	6,6	-20%	3,3
<i>Other employee expenses</i>	3,9	4,1	6%	2,8
Employee expenses	85,4	84,8	-1%	74,6
Premises costs	4,5	4,7	5%	4,1
Consultancy expenses	5,0	3,9	-22%	5,4
Incidental expenses change of pension provider	0,0	0,0		-0,2
IT expenses	7,6	8,2	8%	6,7
General expenses*	3,8	3,3	-13%	3,0
Depreciation	1,2	1,2	-3%	1,2
Financial income and expense	0,0	0,0	-1,0	-0,1
<b>Total expense</b>	<b>107,6</b>	<b>106,2</b>	<b>-1%</b>	<b>94,6</b>

\*Of which contribution to ESMA

0,7

0,8

Tabel 5.2 - Expenses by type (EUR MLN)



The decline in expenses is mainly because the budgeted expenses for Brexit in 2020 are lower than in the budget for 2019 (-€ 2.5 million). This is due to lower advisory expenses and costs of external hires. There is also a shift from the use of external hires for Brexit-related activities to the use of in-house staff.

The decline in employee expenses is also due to the outsourcing of IT in 2020, which will lead to a movement from employee expenses to information technology expenses.

A specification of the FTEs involved in the four supervisory areas is shown in Table 5.3.

Deployment of FTEs	Budget 2019	Budget 2020	Difference compared to B2019	Actual 2018
Financial services	177	180	2%	179
Capital markets	77	89	15%	69
Asset management	40	44	9%	38
Auditing	48	48	-1%	45
<b>Sub-total 4 supervisory areas</b>	<b>342</b>	<b>361</b>	<b>6%</b>	<b>332</b>
Direct supervision support	157	184	17%	162
Other departments	179	160	-11%	164
Brexit	36			
<b>Total</b>	<b>714</b>	<b>704</b>	<b>-1%</b>	<b>657</b>

Tabel 5.3 - Specification of FTEs



On balance, the number of FTEs in the 2020 budget declines to 704. This is mainly due to the above-mentioned outsourcing of much of the ICT activities. The increase in FTEs in Capital Markets and Asset Management is because the additional FTEs for the Brexit activities are included in the relevant supervisory areas. The increase in the number of FTEs at 'Direct Supervision Support' is due to the further development of data driven supervision.

The total investment budget for 2020 amounts to € 1.4 million and is virtually the same as the investment budget for 2019 (€ 1.5 million; Table 5.4). The standard depreciation term for buildings is the same as the remaining term of the lease contract. The depreciation term for inventory is five years, and for computer equipment and software it is three years.

Investments	Budget 2019	Budget 2020	Difference compared to B2019	Actual 2018
Rebuilding	0,5	0,6	7%	0,4
Inventory	0,6	0,6	1%	0,2
Computer equipment & standard software	0,4	0,3	-31%	0,3
Customised software	-	-		
<b>Total investment</b>	<b>1,5</b>	<b>1,4</b>	<b>-4%</b>	<b>0,9</b>

Tabel 5.4 - Investments (EUR MLN)



### From budget to levies

The AFM's total costs are funded on the basis of the Financial Supervision (Funding) Act (Wet bekostiging financieel toezicht, or 'Wbft') and the Financial Supervision (Funding) Decree (Besluit bekostiging financieel toezicht or 'Bbft').

Under the Wbft, the costs of supervision on the BES Islands (Bonaire, Sint Eustatius and Saba) pursuant to the Financial Markets (BES Islands) Act (Wet financiële markten BES, or 'Wfm BES') and the Money Laundering and Terrorism Financing (BES Islands) Act (Wet ter voorkoming van witwassen en financieren van terrorisme BES, or 'Wwft BES') have to be reported separately. As a result of this, a distinction is made between the income and expenses on the basis of the Wbft (Table 5.5) and the income and expenses for supervision of the BES Islands (Table 5.6).

Operating difference Wbft	Budget 2019	Budget 2020	Difference compared to B2019	Actual 2018
Expenses Wbft	107,2	105,8	-1%	94,2
<i>Market contribution for non-recurring services</i>	8,8	8,8	0%	7,2
<i>Market contribution to ongoing supervision</i>	90,7	97,0	7%	90,6
<i>Market contribution for Brexit</i>	7,7			-
<i>Other income</i>	-	-		-
<i>Fines and penalties to be settled with market parties</i>	-	-		1,8
<i>Fines and penalties due to the government</i>	-	-		-
Income	107,2	105,8	-1%	99,6
<b>Operating difference</b>	<b>0,0</b>	<b>0,0</b>		<b>5,4</b>

Tabel 5.5 - Operating difference Wbft (EUR MLN)



The government contribution lapsed as of the start of 2015 and the AFM's expenses under the Wbft are fully paid by the market. The AFM recoups these costs from the market in two ways: through annual levies for its ongoing supervision expenses and through a fee per activity.

The fees for non-recurring activities, such as licence applications and testing of directors, are set by ministerial order and are in principle fixed for five years. The total budgeted expenses in 2020 amount to EUR 8.8 million, and are equal to the budget for 2019.

The market contribution for ongoing supervision consists of the budgeted expenses under the Wbft less the budgeted fees for non-recurring activities. Since the fees for non-recurring activities are in principle cost-effective, the budgeted expenses are equal to the budgeted income from non-recurring activities. The expenses charged to market parties through an annual levy amount to € 97.0 million in 2020, including the expenses due to Brexit. This contribution from the market is € 1.4 million lower than the market

Operating difference BES	Budget 2019	Budget 2020	Difference compared to B2019	Actual 2018
Expenses	0,4	0,4	6%	0,4
<i>Market contribution to ongoing supervision</i>	0,0	0,0	-8%	0,0
<i>Market contribution for non-recurring services</i>	0,0	0,0	21%	0,0
<i>Government contribution</i>	0,4	0,4	6%	0,4
Income	0,4	0,4	6%	0,4
<b>Operating difference</b>	<b>0,0</b>	<b>0,0</b>		<b>0,0</b>

Tabel 5.6 - Operating difference BES (EUR MLN)

contribution for ongoing supervision (€ 90.7 million) and Brexit (€ 7.7 million) in the budget for 2019. This contribution from the market for ongoing supervision excludes amounts carried forward from previous years. The amount to be levied is allocated across 16 categories of institutions subject to supervision according to fixed percentages. These percentages are in principle fixed for a period of five years, and are included in appendix 1A to the Bbft.

Income from penalties and incremental penalties is not estimated, however up to a maximum of € 2.5 million this is passed on to the overall market through the operating difference. The surplus is transferred to the government.

Operating differences occur every year as a result of differences between budgeted and actual expenses and income. Operating differences are settled with the market in the year after they arise on the basis of the fixed percentages that applied in the previous year (appendix 1A to the Bbft). The funding of the supervision of the BES Islands is arranged in the BES Islands Financial Markets Act (Wet financiële markten BES, or 'Wfm BES') and the Money Laundering and Terrorism Financing (BES Islands) Act (Wet ter voorkoming van witwassen en financieren van terrorisme BES, or 'Wwft BES'). The fees for non-recurring supervisory duties and for ongoing supervision are stated in the underlying Regulation for the BES Islands Financial Markets (Regeling financiële markten BES). The fees are not set on a cost-effective basis. The government therefore reimburses expenses to the extent that this contribution from the market is not sufficient. The budgeted market contribution is very limited, and rounded to the nearest million is nil.

06

# Appendices



## Appendix 1 – External KPIs

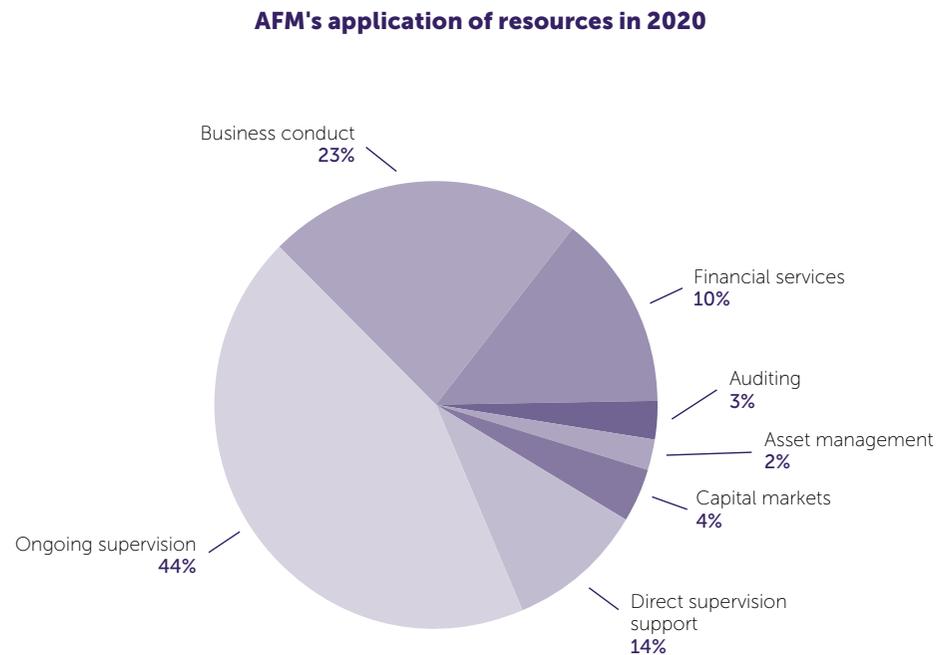
Performance management at the AFM is based on our objectives with the use of dashboards to provide information on progress and prospects on the basis of Key Performance Indicators (KPIs). Our dashboards are structured on the basis of performance agreements with managers, division heads and directors. Teams and departments discuss performance on a weekly basis at the beginning of each week in order to keep up to date with progress on achieving performance targets and updating these when necessary. Division heads and directors discuss performance in relation to the key performance targets for the AFM on a monthly basis. This approach contributes to a balanced and predictable management cycle.





This Agenda sets out the activities we will carry out on the basis of the four targets defined in the context of our new AFM strategy. We have attached a number of Key Performance Indicators (KPIs) to our targets that are explained in this appendix. A calculation has been made for the deployment of people and resources for each priority/target for these themes. We will

report on this in our annual report for 2020. The use of resources reflects our priorities and is in line with the AFM's strategy. There is also a good balance between our supervisory duties and the support for this, as shown in the table below:



Application of resources	Fte's 2020	EUR 2020	Verdeling 2020
Financial services*	180	27,2	26%
Capital markets*	89	13,4	13%
Asset management*	44	6,6	6%
Auditing*	48	7,2	7%
<b>Sub-total 4 supervisory areas*</b>	<b>361</b>	<b>54</b>	<b>51%</b>
Direct supervision support*	184	27,7	26%
Other departments	160	24,2	23%
<b>Total</b>	<b>704</b>	<b>106</b>	<b>100%</b>

\* Ongoing supervision included



Supervisory areas	Priorities	Activities
<p data-bbox="152 368 192 408">1</p> <p data-bbox="147 437 286 504"><b>Financial services</b></p> <p data-bbox="147 536 259 560"><b>Objective:</b></p> <p data-bbox="147 571 416 628">Protection of consumers in vulnerable situations</p>	<p data-bbox="501 328 539 352"><b>1.1</b></p> <p data-bbox="501 363 658 628">The sustainable contribution from products and services with material long-term effects</p>	<ul data-bbox="779 328 2074 804" style="list-style-type: none"><li>- Providers of consumer credit ensure that consumers are given loans that are appropriate to their situation by applying and implementing the accepted standards for consumer loans. The AFM tests whether credit providers are observing these standards by entering into a dialogue regarding a provider's business operation and policy and may initiate a file investigation. Compliance will be enforced where necessary by the conduct of investigations.</li><li>- Through the System Change Steering Group, the group engaged in preparation and the technical operational connections, the AFM is directly contributing to the formulation of the new pension system, thus safeguarding the interests of individual participants.</li><li>- Instituting data driven supervision of insurance products, among other things through cooperation with the Centre for Insurance Statistics.</li><li>- Developing methodologies for investigation and enforcement of serious violations in the digital domain.</li><li>- Mortgage providers apply the AFM strategy for dealing with interest-only mortgages.</li><li>- Based on risk prioritisation on the basis of product criteria, complete at least one integral product governance review as a result of which companies make changes to products and/or distribution to bring them in line with the customer's interests.</li></ul>
	<p data-bbox="501 852 539 876"><b>1.2</b></p> <p data-bbox="501 887 636 1043">An efficient organisation at financial services providers</p>	<ul data-bbox="779 852 2074 1043" style="list-style-type: none"><li>- Completed reviews of professional competence, remuneration and culture. - Quantification of risks in the consumer market.</li><li>- Completed review of investor protection at investment firms in their business operations and processes.</li><li>- Supervision of the operation of Compliance and Audit that leads to the quality of Compliance and Audit being at a level that the institution is 'self-auditing'. A maturity card and benchmark will be applied, followed by a test based on selected criteria.</li></ul>
	<p data-bbox="501 1094 539 1118"><b>1.3</b></p> <p data-bbox="501 1129 667 1286">A position of influence in the supervision of financial services</p>	<ul data-bbox="779 1094 2074 1362" style="list-style-type: none"><li>- The AFM will intensify its cooperation with foreign supervisors: By accumulating a data position and in order to address common supervisory problems. For its supervision of European passport holders. To share knowledge with respect to reviews, influence and enforcement on a permanent basis. To contribute to a Common Supervisory Action.</li><li>- The AFM will continue its cooperation within EIOPA and IAIS in order to address common supervisory problems. The AFM has an active role both nationally and internationally through its participation in working groups, so that we direct our efforts in a timely and proactive fashion to bring European priorities in line with the priorities of the AFM.</li><li>- The AFM contributes to a Common Supervisory Action (CSA) by conducting a supervisory review in which the subject of the review is prioritised and determined by ESMA. The findings will be reported to ESMA.</li></ul>



Supervisory areas	Priorities	Activities
<p data-bbox="152 295 197 335">2</p> <p data-bbox="145 368 394 400"><b>Capital markets</b></p> <p data-bbox="145 432 264 456"><b>Objective:</b></p> <p data-bbox="145 467 439 528">A robust infrastructure and ethical trading</p>	<p data-bbox="613 256 651 280"><b>2.1</b></p> <p data-bbox="613 292 815 456">Institution-oriented and data-driven supervision of the capital markets</p>	<ul data-bbox="909 256 2063 528" style="list-style-type: none"><li>- Conduct of two reviews and evaluation of whether capital markets are in control of their operational and IT (OPIT) risks, and that their defences against cyberattacks are adequate.</li><li>- Development of data dashboards to enable monitoring of current transactions and orders on trading platforms in each institutional category.</li><li>- Strengthening European cooperation with fellow supervisors by exchanging data on capital markets institutions on a regular basis. Signals and notifications will be investigated with useful information obtained from foreign supervisors. This will enable more effective supervision of institutions active in multiple countries.</li></ul>
	<p data-bbox="613 571 651 595"><b>2.2</b></p> <p data-bbox="613 606 779 699">Reliable information for the market</p>	<ul data-bbox="909 571 2078 772" style="list-style-type: none"><li>- Closer cooperation with foreign fellow supervisors in investigations of market abuse. With a focus on commodities and commodity derivatives and bonds. This will be with respect to professional competence and the conduct of collective reviews at European (ESMA) level, including reviews of the dissemination of price-sensitive information through news and market sources, and of market manipulation.</li><li>- Intensifying the supervision on the timely and correct provision of required information and data by market parties with the use of data driven signals and the conduct of investigations of market abuse.</li></ul>
	<p data-bbox="613 815 651 839"><b>2.3</b></p> <p data-bbox="613 850 752 911">International influence</p>	<p data-bbox="909 815 1384 839">The AFM has international influence due to:</p> <ul data-bbox="909 850 2033 1015" style="list-style-type: none"><li>- its publications, such as at least four position papers on issues relating to the capital markets.</li><li>- participation in supervisory organs established for supervision of trading platforms, recovery and resolution institutions and benchmark managers.</li><li>- participation in ESMA policy groups in the field of the capital markets: SMSC, MISC and PTSC and their related working groups.</li></ul>
<p data-bbox="152 1067 197 1107">3</p> <p data-bbox="145 1125 443 1157"><b>Asset Management</b></p> <p data-bbox="145 1168 264 1192"><b>Objective:</b></p> <p data-bbox="145 1203 533 1295">A sustainable business model for asset managers and due care in the treatment of clients</p>	<p data-bbox="613 1061 651 1085"><b>3.1</b></p> <p data-bbox="613 1096 766 1260">A properly functioning chain of asset management parties</p>	<ul data-bbox="909 1061 2024 1192" style="list-style-type: none"><li>- Identifying the major risks in the chain as a result of outsourcing or the use of external staff by market parties in the asset management chain. These risks will then be mitigated through influence and/or enforcement.</li><li>- Conduct of a review of the cost structures used by asset management parties.</li></ul>



Supervisory areas	Priorities	Activities
<p data-bbox="152 368 197 408">4</p> <h2 data-bbox="143 432 282 464">Auditing</h2> <p data-bbox="143 539 259 563"><b>Objective:</b></p> <p data-bbox="143 571 450 699">Higher quality of audits and contribution to effective incentives for auditors and audit firms</p>	<p data-bbox="546 328 591 352"><b>4.1</b></p> <p data-bbox="546 360 808 456">Review of the efforts to increase quality at PIE audit firms</p>	<ul data-bbox="927 328 2029 424" style="list-style-type: none"><li>- Conduct of a review into the achievements of the efforts to increase quality at the PIE audit firms (to continue in 2021) and renewal of the supervisory methodology for this purpose.</li><li>- Development of a new supervisory approach to audit firms based on new (data driven) techniques.</li></ul>
	<p data-bbox="546 504 591 528"><b>4.2</b></p> <p data-bbox="546 536 797 600">Strengthening the role of audit committees</p>	<ul data-bbox="927 504 2051 632" style="list-style-type: none"><li>- Conduct of an exploratory review into how audit committees fulfil their roles in the process of selection and evaluation of audit firms.</li><li>- Organising meetings between the AFM and audit committee members in order to strengthen the dialogue.</li></ul>
	<p data-bbox="546 679 591 703"><b>4.3</b></p> <p data-bbox="546 711 775 807">Influence in national and international discussions</p>	<ul data-bbox="927 679 2051 903" style="list-style-type: none"><li>- Contributing to discussions relating to how to adequately address vulnerabilities in the structure of the audit sector. Preparing for recommendations from the CTA and participating in the development of supervision and supervisory methodologies where relevant.</li><li>- Cooperation with other supervisors in European organs or regulators for the Big 4 audit firms.</li><li>- Participating in international debates in IFIAR and CEAOB among others and leading the IFIAR Task Force on Internationally Relevant Developments in Audit Markets (IRDAM).</li><li>- Participating in international debates in ESMA and IOSCO, among others.</li></ul>
	<p data-bbox="546 959 591 983"><b>4.4</b></p> <p data-bbox="546 991 815 1118">Improving integrated reporting and developing data driven supervision of reporting</p>	<ul data-bbox="927 959 1883 1054" style="list-style-type: none"><li>- Conduct of a review of the application of aspects of integrated reporting.</li><li>- Development of a supervisory approach to reporting based on data driven techniques.</li><li>- Preparation for the introduction of the ESEF.</li></ul>



Supervisory areas	Priorities	Activities
<p><b>5</b></p> <p><b>General</b></p> <p><b>Objective:</b> Professional organisation</p>	<p><b>5.1</b> Promotion of quick and careful admission of market parties and persons</p>	<p>Decisions with respect to licence applications or the testing of persons are made within the statutory allotted time period in 90% of cases. With a management target of dealing with 100% of applications within the statutory time period.</p>
	<p><b>5.2</b> A datadriven supervisor</p>	<p>Data driven supervision will be embedded in the organisation by:</p> <ul style="list-style-type: none"><li>- pilot studies with reference to data driven supervision;</li><li>- automation of supervisory processes;</li><li>- structural design of the central data management function and of data management;</li><li>- making the data infrastructure robust;</li><li>- attracting the necessary new skills and expertise.</li></ul>
	<p><b>5.3</b> Continuous improvement of supervisory and other processes</p>	<ul style="list-style-type: none"><li>- The AFM regularly evaluates its own work and works with other supervisors in this respect. The findings form the basis for continuous improvement and are shared with employees by means of seminars and targeted training.</li><li>- The AFM ensures that its methodology, which is focused on the short-term adjustments needed to achieve its objectives and introduce improvements in its supervisory and other processes, is embedded and continually developed.</li></ul>
	<p><b>5.4</b> Generally positive opinion of the professional stakeholders regarding the effectiveness, knowledge and competences of the AFM supervisors, on the basis of a stakeholder survey</p>	<p>The AFM regularly evaluates its supervision and conducts stakeholder surveys. The AFM makes improvements to its supervision on the basis of both evaluations and stakeholder surveys.</p>
	<p><b>5.5</b> Continuous development of own staff</p>	<p>We develop our staff through (i) training them in the necessary competences, (ii) promoting cooperation, (iii) making use of resources such as the AFM Methodology and standardised processes.</p>
	<p><b>5.6</b> Effective cost control throughout the AFM</p>	<p>The AFM ensures that its costs remain within the established cost framework.</p>



## Appendice 2 – Abbreviations

### ACM

The Netherlands Authority for Consumers & Markets (Autoriteit Consument & Markt)

### ADR

The National Audit Service (Auditdienst Rijk)

### AIFM

Alternative Investment Fund Managers

### AIFMD

Alternative Investment Fund Managers Directive

### ASIC

Australian Securities and Investments Commission

### AMF

The French financial markets conduct authority (Autorité des Marchés Financiers)

### AMLD4

Anti Money Laundering Directive 4

### AOV

Occupational Disability Insurance (Arbeidsongeschiktheidsverzekering)

### AQTF

Audit Quality Task Force

### Awb

General Administrative Law Act (Algemene wet bestuursrecht)

### BaFin

The German financial markets conduct authority (Bundesanstalt für Finanzdienstleistungsaufsicht)

### Big 4

KPMG, PWC, EY, Deloitte

### BMR

Benchmarks Regulation

### BO

Investment firm (Beleggingonderneming)

### CEAOB

Committee of European Auditing Oversight Bodies

### CER

Committee on Emerging Risks

### CFTC

Commodity Futures Trading Commission

### CMU-initiatief

The European Capital Markets Union initiative

### COO

Chief Operations Officer

### CSDR

Central Securities Depositories Regulation

### CTA

Committee on the Future of the Audit Sector (Commissie Toekomst Accountancysector)

**DNB**

The Dutch Central Bank (De Nederlandsche Bank)

**EBA**

European Banking Authority

**EECS**

European Enforcement Coordination Sessions

**EIOPA**

European Insurance and Occupational Pensions Authority

**ELTIF**

European Long Term Investment Funds

**EMIR**

European Market Infrastructure Regulation

**ESEF**

European Single Electronic Format

**ESMA**

European Securities and Markets Authority

**ESRB**

European Systemic Risk Board

**FCA**

Financial Conduct Authority (the UK financial markets conduct supervisor)

**FEC**

Financial Expertise Centre

**FinCoNet**

International Financial Consumer Protection Organisation

**FINRA**

Financial Industry Regulatory Authority (USA)

**FIOD**

Fiscal Intelligence and Investigation Service (Fiscale Inlichtingen en Opsporingsdienst)

**FISMA**

Federal Information Security Management Act

**FIU**

Financial Intelligence Unit

**FSC**

Financial Stability Committee

**HFT**

High Frequency Trading

**IAASB**

International Auditing and Assurance Standards Board

**IAIS**

International Association of Insurance Supervisors

**IFIAR**

International Forum of Independent Audit Regulators

**IRDAM**

International Relevant Developments in Audit Markets

**IOSCO**

International Organisation of Securities Commissions

**KBC**

Giving Central Priority to the Customers' Interests (Klantbelang Centraal)

**KFD**

Quality of Financial Services (Kwaliteit Financiële Dienstverlening)

**KGI**

Price-sensitive information (Koersgevoelige informatie)

**KID**

Key Investor Document

**LTV**

Loan-to-value

**MAR**

Market Abuse Regulation

**MiFID II**

Markets in Financial Instruments Directive II

**NBA**

The Netherlands Institute of Chartered Accountants (Nederlandse Beroepsorganisatie van Accountants)

**NRVT**

The Netherlands Register of Property Valuers (Nederlands Register Vastgoed Taxateurs)

**NVB**

The Dutch Banking Association (Nederlandse Vereniging van Banken)

**NVGA**

The Dutch Association of Authorised Insurance Companies (Nederlandse Vereniging van Gevolmachtigde Assurantiebedrijven)

**OECD**

Organisation for Economic Cooperation and Development

**OM**

Public Prosecution Service (Openbaar Ministerie)

**PIE**

Public Interest Entity

**PCAOB**

Public Company Accounting Oversight Board

**PRIIPS**

Packaged Retail and Insurance based Investment Products

**PUO**

Pension Provider Organisation

**SA**

Self-assessment

**SEC**

Securities and Exchange Commission (USA)

**SFTR**

Securities Financing Transactions Regulation

**SRA**

The Dutch Association of Chartered Accountants (Samenwerkende Registeraccountants en Accountants-Administratieconsulenten)

**STORS**

Suspicious Transaction and Order Reports

**TRS**

Transaction Reporting System

**UCITS**

Undertakings for Collective Investment in Transferable Securities

**VKM**

Total Cost of Ownership (Vergelijkende Kosten Maatstaf)

**VO-raad**

Secondary Education Council (Voortgezet Onderwijs raad)

**Wta**

The Dutch Audit Firms (Supervision) Act (Wet toezicht accountantsorganisaties)

**Wft**

The Dutch Financial Supervision Act (Wet op het financieel toezicht)

**WNT**

The Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (Wet normering topinkomens)

**Wtfov**

Financial Reporting (Supervision) Act (Wet toezicht financiële verslaggeving)

**Wwft**

Money Laundering and Terrorist Financing (Prevention) Act (Wet ter voorkoming van witwassen en financieren van terrorisme)

**ZBO**

Non-Departmental Public Body (Zelfstandig bestuursorgaan)



**Do you have questions or remarks about this publication?**

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