



AFM Agenda 2021



[Read more](#)



Foreword

A lighthouse-keeper in the mist

 [Read more](#)

01 Key developments

 [Read more](#)

02 Strategy for 2020-2022

 [Read more](#)



03 Priorities and key activities in 2021

 [Read more](#)



04 Finances in 2021

 [Read more](#)



05 Appendices

 [Read more](#)

Foreword

A lighthouse-keeper in the mist



In our continually changing world, the AFM strives to be a predictable conduct supervisor for the financial sector. This enables the sector to make sensible policy decisions and set a definite direction. The predictability of our supervision also enables us to identify potential risks at an early stage and take appropriate action. But the situation today is far from predictable and uncertainty reigns. We need to be especially alert in conditions of poor visibility.





In addition to personal suffering, corona is causing an economic contraction, Brexit is causing uncertainty in the capital markets and the combination of these two factors is accelerating trends such as digitalisation, continuing low interest rates and deglobalisation. These developments and their effects may sound obvious, but they also raise many questions. For example: will the economic downturn mean consumers take on more debt? Are all the trading platforms and proprietary traders fully aware of our supervisory rules? And if trends reinforce each other, will already known risks suddenly have more serious consequences?

This Agenda describes how the AFM deals with risks arising from predictable trends, and how we take action from events that are less predictable. Across the entire financial sector, we explain where attention is needed and how we take action.

One of the focus items is the growing social awareness of improving sustainability. The financial sector has an important role to play in this transition. There is a great deal of European regulation in progress that aims to ensure that this transition proceeds smoothly. Market parties are given advice as to how they should report and include sustainability risks in their policy deliberations. There will also be a requirement of transparency regarding the features and aims of 'sustainable' products. Greenwashing and other false claims of sustainability need to be prevented.

In the Netherlands, another item of attention is the upcoming reform of our pensions system. This is a complex and wide-ranging exercise, for both the sector and pension scheme participants. The new system will involve greater responsibility for the scheme participants. This requires thorough communication on the transition, but also on the end state. The sector will have to prepare for this in the coming period.

Combating financial and economic criminality is another important priority for the AFM. During this period dominated by corona, we are seeing an increase in digital money flows, including criminal money. Financial-economic criminality is complex and sophisticated. We aim to reduce these flows,

in cooperation with our international partners and private partners as well. With the aim of achieving integrity in the financial sector.

Finally, there is Brexit. The full impact of this is still difficult to assess. But it is certain that Brexit will mean an expansion of our remit. The number of parties subject to supervision is increasing, and there is also a marked increase in order and transaction data. Our supervision here is increasingly based on data driven techniques. Because the capital markets operate cross borders, international cooperation is required to deal with harmful trading behaviour.

Corona is not only affecting the financial sector, it is affecting the AFM as well. The AFM has also adjusted its working practices to ensure proper supervision during these times: e-working is now the norm, the monitoring of market developments has been greatly increased and the international dialogue has intensified.

The AFM has set itself the goal of contributing to sustainable financial well-being in the Netherlands. This Agenda describes how we will execute our supervision in 2021, and the risks that can be quickly addressed or indeed require more perseverance. Let there be no misunderstanding: we intend to be a clear and predictable lighthouse-keeper, especially in conditions of poor visibility.

Amsterdam, 14 januari 2021

Laura van Geest
voorzitter

Hanzo van Beusekom

Jos Heuvelman

Frans van den Hurk
COO a.i.

01 Key developments



The outbreak of the coronavirus crisis has had a serious impact on Dutch society. Each year, the AFM conducts an analysis of external developments that affect our strategy and our Agenda. We describe these developments briefly in this section. For more detail, please refer to our publication [Trend Monitor](#).





Impact of the coronavirus (COVID-19) on the economy

The coronavirus pandemic and the resulting lockdown measures have caused a severe economic contraction of the global economy. The Dutch economy was also hit hard. According to Statistics Netherlands (CBS), the gross domestic product (GDP) fell 8.5 per cent in the second quarter of 2020 compared to the previous quarter.

How the pandemic develops will determine the prospects for economic recovery and the development of unemployment. In its Macro Economic Outlook 2021, CPB Netherlands Bureau for Economic Policy Analysis (CPB) notes that the economic outlook is subject to considerable uncertainty. Its mild base scenario assumes an economic contraction of 5 per cent in 2020, followed by growth of 3 per cent in 2021. Unemployment in 2021 will rise towards 6 per cent. In one scenario assuming a resumption of large-scale contact restrictions, the economy will contract in 2021 as well, and unemployment will rise to 10 per cent.

It is very likely that the coronavirus crisis will cause lasting damage to the economy and have a long-term effect on the labour market. CPB believes that GDP will be lower than previously expected for a long period, or even permanently, with less educated people at greater risk of losing their jobs. This group is more likely to have flexible contracts and jobs that are less suited to working from home.

In addition, demand for labour may change, as the various sectors may be impacted very differently. Some trends, such as the growth in international trade, may slow down. Other trends, such as automation, robotisation and digitalisation, may accelerate.

Impact of the coronavirus crisis on the financial sector and households

The coronavirus crisis is putting severe pressure on the financial resilience of households and financial institutions. The recession, the potentially very modest recovery of economic growth and rising unemployment will put pressure on the underlying structural weaknesses in the economy. These weaknesses are to a significant extent due to the long-lasting low interest rate environment.

The infrastructure of the capital market has so far continued to operate efficiently and has proved to be robust. Asset prices in the financial markets fell sharply in the first phase of the crisis, and volatility increased markedly. Since then, the stock market has shown strong recovery, and volatility in the financial markets has subsided, partly due to the EU agreement on a sizeable support package agreed in July 2020. Looking ahead, there is still a risk that negative developments relating to the pandemic will put renewed pressure on the operation of the markets.

The Dutch asset management sector has come through the unrest in good shape, despite being faced with a number of risks, such as write-downs of corporate bonds and declines in value of real estate and other illiquid assets. The coronavirus crisis is putting further pressure on the financial position of pension funds and insurers. The write-downs on financial assets due to the coronavirus crisis in combination with continuing low interest rates is putting further pressure on pension fund coverage ratios and the ability of insurers to generate earnings. The pension funds need to clearly inform their participants regarding the consequences.



Households may have problems meeting payment obligations due to loss of income. Thanks to the large-scale support from the government, problems for households in making the payments on their loans have so far been relatively limited. However, the affordability of mortgages could be negatively affected due to the coronavirus recession, although there are as yet no visible effects as a result of the crisis. This may be due to structural factors such as low interest rates and a shortage of homes. DNB is nonetheless forecasting a fall in house prices in 2021 and 2022 of 2.1 and 3.7 per cent respectively (DNB, [EOV](#) 8 June).

There is a greater possibility that households will get into payment difficulties, as the current crisis situation is giving mortgage providers an incentive to increase rates (by imposing a larger risk surcharge). The debt restructuring system needs to be prepared for an increase in debt issues. Specifically, lenders need to be prepared to work with their customers in searching a sustainable solution. For new mortgages and consumer credit, lenders need to devote extra attention to the robustness of household income. We need to avoid a situation in which today's solutions become tomorrow's problems.

The self-employed and workers on flexible employment contracts form a vulnerable group. Flexible workers appear to have been hit especially hard by the coronavirus crisis. On the basis of research, this group would appear to have a relatively limited ability to last through a long-lasting fall in income. See the study published by the AFM and the CPB collectively in September: '[Financiële weerbaarheid om de coronacrisis te doorstaan](#)' (Financial resilience to make it through the coronavirus crisis).

Geopolitical developments

At the time of writing this agenda, a hard Brexit presents a risk to the stability of the markets. As a result of the way that Brexit is developing, it is difficult to assess which part of the trade in financial instruments will eventually relocate to the Netherlands.

At the global level, multilateral cooperation between countries is under pressure, with more nationally oriented and protectionist policies coming into favour. For example, this can be seen in long-lasting trade conflicts. The coronavirus crisis, which has focused attention on the vulnerability of global supply chains, could prompt a more regional organisation of production chains.

Developments in national and European legislation and regulations

As a result of the pension agreement reached in 2020, all schemes in the new system will be defined contribution schemes. This will give participants more options, but the results will also be less certain. The AFM is pleased that an agreement has been reached that will make pensions more personal and easier to explain. Since investments will be made for the participants' account and risk, it is important that a pension scheme reflects the participant population and that participants receive adequate protection and information. After all, participants do not have a choice as to which scheme they will join.

The agenda for European legislation and regulations devotes close attention to new policy and regulations on digitalisation and sustainability.



Digitalisation of the financial sector

Partly due to regulations, we are seeing a growth in available data in the financial sector. New earnings models are appearing in the market, now that these data are being linked to artificial intelligence and other technology. The policy-driven move towards open banking, and open finance in future, is also contributing to this development. These developments are bringing more non-traditional entrants into the financial sector. Another global trend is that both established and new market participants are investing in blockchain technology. This is a technology that offers potential for smarter and more efficient ways of processing transactions and data storage.

Transition to a sustainable economy and society

The market for sustainable financial products and investments is growing. The main challenge is the availability and quality of the information provided on sustainability risks and performance. After all, this is the information on which investors have to base their investment decisions. New national and European legislation is in preparation that will set requirements for this provision of information. This is expected to greatly improve the availability, reliability and comparability of sustainability information.

The self-employed
and workers on
flexible employment
contracts form a
vulnerable group



02

Strategy for 2020-2022



The AFM revised its strategy in 2019, and 2021 will be the second year in our [Strategy for 2020-2022](#). This strategy is summarised in the figure on the next page.





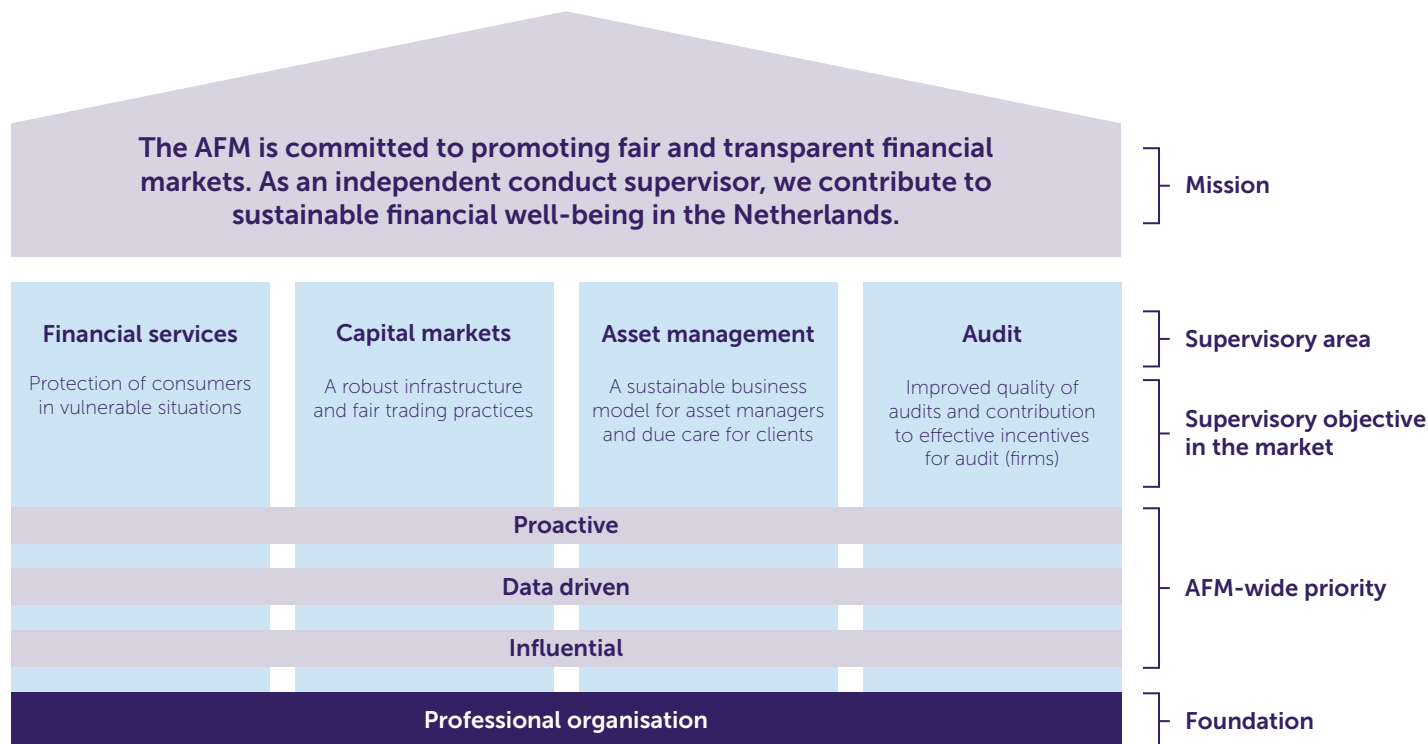
The AFM realises its statutory duties through its mission and its supervisory goals.

The AFM's mission reads: 'The AFM is committed to promoting fair and transparent financial markets. As an independent conduct supervisor, we contribute to sustainable financial well-being in the Netherlands.'

The mission and external developments are translated into four multi-year supervisory goals for these four areas of our supervision. To this end, in

the coming years, we will use three AFM-wide priorities in our supervisory approach and provides a professional organisation a strong basis for achieving our supervisory goals and mission.

The AFM considered whether it needed to adjust its strategy after the beginning of the coronavirus crisis, but this turned out not to be necessary. The underlying risks and implementation do change, however. This is reflected in the priorities and activities for supervision in section 3.





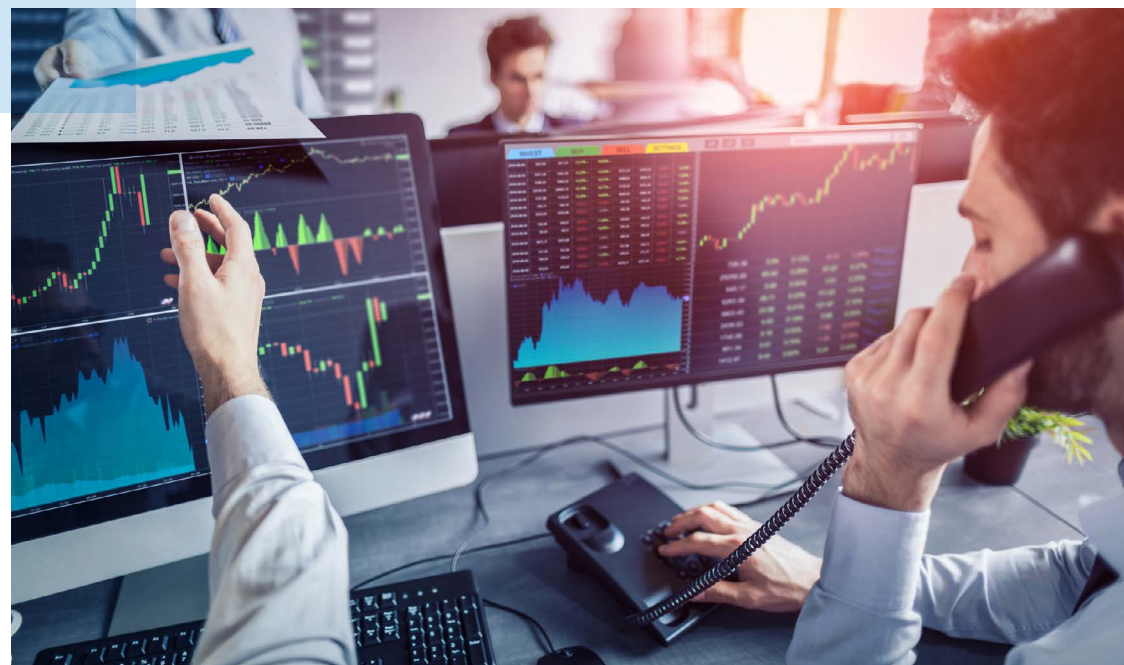
03

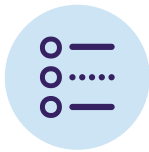
Priorities and key activities in 2021



This section describes the four objectives of the AFM in its supervision of 'financial services', 'capital markets', 'asset management' and 'audit firms and reporting'. Three AFM-wide issues are also addressed. These are 'sustainability', 'combating money laundering and other financial or economic criminality' and 'professional organisation'.

These supervisory objectives have been translated into priorities and ongoing activities in 2021.





3.1. Supervision of financial services

The main objective of the supervision of financial services is::

Goal for 2020-2022: Protection of consumers in vulnerable situations

Financial products and services play an important part in the everyday lives of consumers. For consumers, financial products are a necessity or provide opportunities. But financial products also involve risks. In our supervision of financial services, we strive to prevent problems arising for consumers. Our focus is on situations in which consumers are vulnerable: complex products, consumers that are less able to protect themselves and situations that involve serious long-term consequences.

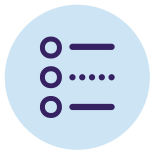
The world of financial services is also changing as a result of the increasing digitalisation of our economy. More and more products can be purchased online or with apps, for example. It is vital that the processes around product sales and advice be clear and customer-oriented in a digital environment as well.

Digitalisation is also making an increasing amount of data available to the AFM. This enables us to improve our assessment of the risks for consumers. We collaborate with other supervisors and parties on this issue. A strong data position and good data analysis enable us to identify vulnerable situations more quickly and undertake proactive supervision. We have formulated the following priorities and activities to ensure that consumers in vulnerable situations are properly protected:

Priority: Sustainable contribution from products and services with material long-term effects

Mortgage or consumer credit enables consumers to fund the purchase of a house or other large acquisitions. At the same time, these loans involve long-term repayment obligations. It is important that the amount and conditions of a loan are appropriate to the consumer's position. If not, this can lead to problematic debt. The AFM supports responsible lending standards to prevent excessive borrowing.

We increasingly perceive a political desire to achieve other objectives through the lending standards, such as improving access to the housing market for first-time buyers and improving the sustainability of the housing stock. For the AFM, the financial well-being of households is a precondition. Borrowing must be responsible and affordable. In addition, there must be sufficient financial flexibility to be able to deal with other future financial challenges. In this context, we are looking in particular at the effects of the economic recession as a result of the coronavirus crisis. If incomes fall, consumers can get into trouble. There is also the risk of increased borrowing by consumers just to keep up with fixed costs. This can make their financial position even worse. If a consumer is unable to meet their repayment obligations, it is important that they are treated with care in the management of their arrears.

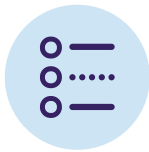


Products may be appropriate at the time they are purchased, but a consumer's position can of course change during the life of the product, possibly due to foreseeable events such as reaching retirement age. There may also be unforeseen events in a consumer's family or the loss of certain income. As a result, consumers can unexpectedly get into trouble. The AFM believes in the importance of giving central priority to the customers' interests, and accordingly looks in particular at the duty of care obligations of producers and advisers. Not only at the time of the sale of the product, but also subsequently during the product's management phase.

The long-term effects of products can perhaps be seen most clearly with pensions. Much will change for participants as the result of the revision of the pensions system. We are moving to a system based on contributions rather than benefits. Participants will take on more risk but will also have more freedom of choice. It is important that participants have a clear understanding of their pension income in good time. Sudden financial disappointments should be avoided. Good advice and clear information will become even more important. Although the final form of the new system is not yet entirely clear, both the AFM and other institutions need to prepare for this change. The AFM has therefore set itself the goal of ensuring that the transition will occur in a manner that is comprehensible for participants and that institutions fulfil their duty of care under the new system as well.

Key activities in 2021:

- In 2020, the AFM revised its vision on the duty of care obligations over the duration of a financial product. We will apply this vision to producers, advisers and intermediaries in 2021.
- We will contribute to policies and regulations for financial services, including with respect to the amount and conditions of loans.
- We will continue the activities to deal with interest-only mortgages, as a result of which customers at high risk of not being able to afford repayment in future are enabled to mitigate their risk.
- We will carry out research into the policy and treatment of payment arrears (also due to the coronavirus crisis) by consumer and mortgage credit providers.
- We will review products and product development processes. This will include studies of the underlying causes of deficiencies in the implementation of Product Approval & Review Processes (PARP).
- We will carry out research into the structure and operation of distributions channels and products, focusing in particular on the customer experience in a digital environment, so that products and sales decision and advice processes are clear and take account of the customer's interests in a digital environment as well.
- In translating the pensions agreement into legislation, we will work to achieve a transparent and explainable pensions system that evokes realistic expectations among participants. The adjustment of our conduct-of-business supervision of the pensions sector will accordingly focus on a secure and comprehensible transition to the new system. We will concentrate on the information and advice provided in relation to the transition of the pensions sector. We will consult with pension providers and advisers, among others, in this respect.



Priority: Organisation and culture of financial companies

It is essential that market participants have the fundamentals of their organisation in proper shape. Only then can careful service provision be ensured. Senior managers set the tone for the culture of an organisation by the way they behave. The right culture and related conduct serve the customer's interests. Competencies relating to conduct and culture are just as important as the knowledge and expertise available. We therefore review topics such as reward and recognition and the example set by senior management in organisations (the 'tone at the top'). We also take note of the assessments of policymakers.

The basis of an organisation should also include technology that meets social standards, especially if the service is often conducted through digital channels. The product development process at organisations needs to be designed with this in mind.

Key activities in 2021:

- Strengthening our process of testing policymakers. This will involve greater emphasis on behaviour that sets a good example and the influence from the 'tone at the top' on the culture of financial institutions.
- In interviews and additional reviews of 'reward and recognition', we urge market parties to adopt a more customer-oriented culture; see also our report '*Bewust belonen en waarderen*' (Rethinking rewards and recognition) published in June 2020.
- Follow-up review of the structure of the compliance function. We check whether companies that were previously reviewed have made progress on the development of the role of their compliance function in the identification and mitigation of risks to customers.
- Research to establish the extent to which the internal audit function at banks and insurers contributes to our supervisory objectives. The findings are used to encourage improvements in the audit function.

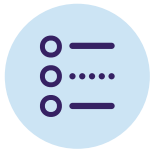
Priority: A position of international influence in the supervision of financial services

The financial services market is becoming increasingly international, supported by a growing internal market within the European Economic Area. This also enables services to be provided remotely from across borders. However, supervision of financial services in Europe is not yet uniform in all respects. There is therefore a risk that use of a European Passport will encourage financial enterprises to locate themselves in countries where they think that supervision is the least intensive. This poses risks for Dutch consumers. We want to see a situation in which all service providers serving customers in the Netherlands are subject to the same rules, even if they are located in other countries.

We therefore actively participate in forums of European supervisory authorities and maintain bilateral contacts with supervisors in other countries. The exchange of knowledge and experiences plays an important role in these contacts.

Key activities in 2021:

- International cooperation and cross-border exchange of information, which are necessary for good supervision of cross-border service provision. The AFM promotes this in international forums and in its bilateral contacts.
- Contributing to international policy processes regarding product development and information.



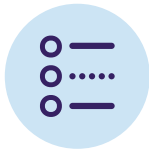
Ongoing activities in the supervision of financial services

Besides its focus on its supervisory objective and priorities, the AFM will devote significant attention and capacity to its ongoing duties in its supervision of financial services in 2021.

Key activities in 2021:

- Timely identification and prevention of harmful products and service concepts in the distribution chain.
- Dealing with signals and requests for exemption and enforcement.
- Supervision to ensure that the information provided by financial service providers is correct, clear and not misleading.
- Granting licences to financial service providers so that they can commence their activities.
- Testing of the suitability and reliability of policymakers at financial institutions.
- Influencing policy and national and international regulations with respect to the provision of financial services through active participation in consultations in ESMA, EIOPA, EBA, the Joint Committee, the OECD, FinCoNet, IOSCO and IAIS and consultation with the relevant ministries.

We want to see a situation in which all service providers serving customers in the Netherlands are subject to the same rules, even if they are located in other countries.



3.2. Supervision of the capital markets

The strategic objective in the capital market is:

Goal for 2020-2022: Robust infrastructure and ethical trading

Among other things, a well-functioning capital market needs a robust infrastructure and a market that operates fairly. This requires an infrastructure that can withstand technical breakdowns and enables trading and settlement at all times, as well as financial markets that are free from market abuse. In this way, we aim to prevent financial problems for investors and therefore also indirectly for consumers. Much new European regulation has been introduced in recent years in order to achieve this.

Timely and complete reporting of various transactions is also important. These data, which originate from financial institutions, enable us to identify and address trends and risks in the capital markets more effectively.

This more intensive supervision is also possible because the AFM carries out its supervision of the capital markets in a more targeted manner. As of 2020, we have a separate department tasked with supervision of the infrastructure, prospectuses & issues and public offerings. There is another department within our supervision of the capital markets with responsibility for supervising the various transaction reporting and notification requirements (financial reporting, issued capital, publication of inside information, substantial interests, short positions and transactions by senior managers). The AFM will further operationalise and intensify this supervision in 2021.

Due to Brexit, additional benchmark managers, trading platforms and proprietary traders will come to the Netherlands. We need to have the relevant supervisory data in order to exercise proper supervision here as well. International cooperation is necessary to deal with harmful trading behaviour.

Priority: Guarding a robust infrastructure

The arrival of trading platforms and proprietary traders will expand the financial infrastructure in the Netherlands. Brexit will also bring more capacity for trading and settlement of instruments such as shares, bonds and derivatives.

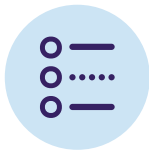
This will involve extra work for those tasked with the supervision of transaction reporting and market abuse. Due to Brexit, new financial institutions such as benchmark managers are relocating to the Netherlands to ensure they have access to the European market. We have made preparations with respect to granting licences and ongoing supervision.

To ensure that the financial infrastructure does not suffer any major shocks, the AFM is closely monitoring the risks involved in the increase in the number of market parties. The emphasis is on operational and ICT-related risks.

The capital market is very much a European market. The arrival of trading platforms and proprietary traders in the Netherlands means that the AFM will have a more prominent role in the convergence of supervision of European financial infrastructure. The international sharing and analysis of supervisory data will be hugely important here.

Key activities in 2021:

- Supervision focusing on operational processes, IT systems and cyber resilience. This will be more fully integrated into our daily supervision.
- Expanding our supervision of multiple, complex instruments, institutions and systems. This expansion is due to the arrival of new platforms for equity and bond trading in the Netherlands, partly as a result of Brexit.
- Lastly, the review of MiFID II, which is an important issue for next year. The European Commission and ESMA are expected to put forward a proposal for amending the MiFID II rules with respect to equity,



commodities and investor protection and the bond and derivatives market. This will involve much work for the AFM in the form of contributing to and co-authoring new European rules and ensuring that our national legislation and regulations are amended accordingly.

Priority: Increasing the effectiveness of detection, investigation and enforcement in the supervision of market abuse

Ethical trading is essential for confidence in the market. Adequate supervision and combating market abuse encourages ethical trading. Our supervision is increasingly based on data-driven techniques. Because the capital markets cross borders, international cooperation is needed to deal with harmful trading behaviour.

Key activities in 2021:

- Detection and enforcement in cases of market abuse on the various trading platforms, with the main focus of our supervision placed on platforms on which equities are traded.
- Besides the detection of market abuse in the equities market, a greater focus on detecting market abuse in the bond and derivatives markets.

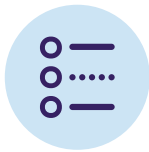
Compliance by issuing institutions with the obligation to publish inside information will be given greater attention in 2021.

BRRD: closer cooperation with non-EU supervisors

The European Banking Resolution and Recovery Directive, or BRRD, has been in force since 2014. This regulation outlines how an orderly settlement for financial institutions that get into difficulties can be achieved.

The BRRD also covers cooperation between the various supervisors involved where this is necessary. One of the consequences of this for the AFM is that one of our duties, the suspension of trading in certain listed securities, will be further formalised.

In more practical terms, the AFM has contacts and agreements in place with foreign non-EU market supervisors for those markets in which Dutch financial instruments are listed as well. These agreements mean that trading in financial instruments can be suspended quickly if a bank or payment institution gets into financial difficulties.



Priority: Supervision of prospectuses and public offerings

We are introducing new methods for our supervision of prospectuses and public offerings in order to optimise the processing times of our approval procedures.

Key activities in 2021:

- In order to ensure that issuing institutions can access the capital markets more quickly, further automation of the assessment process for new prospectuses and offering memorandums.
- To protect investors against misinformation, take stricter action by the AFM against harmful advertising and violations of the rules governing public offerings and prospectuses, partly by engaging in closer contact with the market. In some cases, advertisements will also be assessed by the AFM, on the basis of a risk assessment.

Priority: Operationalising and intensifying supervision of transaction reporting and notifications

The AFM will further optimise and intensify its supervision of notifications and transaction reporting in 2021:

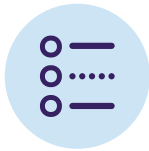
- More intensive supervision of MiFIR transaction reporting (NTRS), supervision of FIRDS and EMIR transaction reporting, including enforcement.
- Operationalising supervision of SFTR, Securitisation and FITRS reporting in close cooperation with ESMA.
- Supervision of notification obligations for issuing institutions in areas such as financial reporting, issued capital, publication of inside information, substantial interests, short positions and transactions by senior managers.

Ongoing activities in the supervision of capital markets

The AFM will also continue to devote a significant portion of its capacity to ongoing duties with respect to the supervision of capital markets in 2021.

Key activities in 2021:

- Dealing with signals, requests for exemptions and enforcement and responding to questions from consumers and market parties.
- Reviewing the degree of transparency in prospectuses, notifications and public offerings with the aim of improving the quality and usefulness of information provided to investors and in advertisements.
- Supervision of notification obligations for issuing institutions in areas such as financial reporting, issued capital, publication of inside information, substantial interests, short positions and transactions by senior managers.
- Supervision, including the granting of licences, of current and new capital markets institutions, trading platforms, bond markets, securitisation parties and benchmark managers. This includes the platforms that have obtained a registration in the Netherlands as a result of Brexit.
- Further optimisation of supervision of notifications and transaction reporting.
- Intensified supervision with respect to MiFID transaction reporting;
- Supervision of transaction reporting obligations under MiFID II and EMIR, for example.
- Working with our fellow supervisors at the national and international level to detect and penalise harmful trading behaviour. We will furthermore raise this item in European supervisory authority committees.



Data-driven supervision

The structural or other use of data helps to make our supervision more focused, more effective and more efficient. Digitalisation and more European regulations (such as MiFID II) have led to more data becoming available. We can now better process these data as well, due to our own progress in automation and hiring specialists in the field.

One example of data-driven supervision is the application of a risk model to indicate the probability of errors in the annual reports that we assess. This helps us to work in a more targeted way. This form of decision support increases our effectiveness.

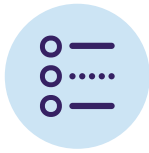
Another practical example is the proactive processing of signals relating to companies raising capital in the market. We process and enrich these data automatically and apply a classification so that potential risks are prioritised. This process allows our supervisors to further investigate

risks more specifically and more quickly and to provide feedback to the algorithm in order to further improve the classification of risks.

We will continue to expand our data-driven supervision in the years to come. Key structural activities in 2021:

- Building and processing the necessary data position.
- Continued recruitment and training of data experts.
- Identifying the supervisory processes that can be strengthened with a data-driven approach.

It is important to acknowledge here that conduct-of-business supervision can never become an entirely automated process. Data-driven supervision makes it possible to achieve our supervisory objectives more effectively, and in many cases more efficiently as well. It supports human assessment but can not replace it.



3.3. Supervision of asset management

The main objective of the supervision of asset management is:

Goal for 2020-2022: A sustainable business model for asset managers and due care in the treatment of clients

Our supervision of asset management contributes to the proper operation of the market and the protection of the interests of investors or consumers who directly or indirectly have placed their money with asset managers: we supervise the market for both collective and individual investors and its players (managers of collective investment schemes (AIF and UCITS), depositaries and investment firms).

The asset management market continues to change. The total amount of capital invested continues to grow, with a continual inflow of new money. Big changes have occurred as a result of European regulation, the long-term trend towards more capital market funding and Brexit. In addition, the uncertainty related to the coronavirus crisis (regarding both the development of investments and the business conduct of the institutions concerned) requires much attention.

In recent years, we have seen asset managers increasingly delegate certain tasks, for instance in relation to IT and administration, to what are known as chain parties. This can involve control and concentration risks. For instance, delegation may mean that the responsibilities of each part of the chain with respect to each task are no longer clearly understood. Such lack of clarity can undermine the entire business operation and ultimately the customer's interests. Monitoring and addressing these risks continues to be a priority in our supervision. Market parties are responsible for maintaining a controlled and ethical business operation throughout their chains.

The ability of the asset management market to cope with future developments is another priority, in which sustainability and an adequate business structure – including risk management – are important issues.

The asset management market is also facing a lot of new national and European regulations, also with respect to sustainability. The AFM aims to further increase its influence in the EU policy-making process to ensure that European regulations are also appropriate for the asset management market in the Netherlands.

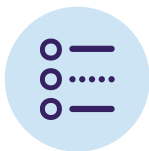
To achieve its supervisory objective with respect to asset management, the AFM will apply the following supervisory priorities with related activities.

Priority: An adequately 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 providing for the future needs of investors and clients with respect to capital (such as pensions). To ensure that the market functions properly, that it is future-proof and that the interests of clients are safeguarded, institutions have to structure their risk and liquidity management, separation of assets, investment processes and client processes in accordance with the size, complexity and risk profile of their activities.

Key activities in 2021:

- Monitoring and improving quality at asset management parties where necessary. To this end, we will assess the key risks in the business operation of asset managers, looking at reports from depositaries and data analysis. We will share our findings with the market.
- Enabling a structural overview of delegation (and the control thereof) within the asset management chain. Correct and timely notifications are essential for this. The AFM supervises this and also makes this easier for market parties, with more possibilities for digital notifications. We also contribute to this by placing the issue of delegation on the European agenda.



- Identifying the extent to which asset management parties fulfil the frameworks arising from the sustainability transition, such as the Sustainable Finance Disclosure Regulation, which covers the financial markets in general, and the integration of sustainability risks in the business operation. The findings of this review will be shared in a sector letter and discussed with organisations in the sector in 2021.
- Participating in reviews at ESMA level to encourage supervisory convergence in Europe together with our fellow EU supervisors.

Ongoing activities in the 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 2021.

Key activities in 2021:

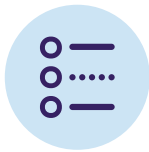
- Assessing licence applications, changes, fund and other notifications and registrations.
- Dealing with signals, exemption and enforcement requests and other legally mandatory notifications.
- Assessing assurance reports and annual reports.
- Formulating policy in concert with other EU supervisors, including the formulation of a macro-prudential framework for portfolio managers and influencing new EU regulations (such as the AIFMD review).
- Preparing market parties and our own supervision for new legislation and regulations (for instance, for Cross Border Distribution, the Investment Firms Directive and Pan-European Personal Pension Products).
- Attention to a controlled and ethical business operation at asset management parties, focusing mainly on the control of business processes and risks and ethical conduct by all those concerned.
- Detection of and combating violations in this sector; cooperation with DNB, FIOD and/or the Tax & Customs Administration where necessary.
- Expanding the data position that feeds the dynamic dashboards (used in supervision for the localisation of risks) and enables rapid analysis.

Financial stability

The AFM has a duty to ensure financial stability as part of its conduct-of-business supervision. This is a requirement under the Financial Supervision Act (Wft) and also under the IOSCO standards. Risks to stability in the capital markets and the asset management market must be identified in good time. It is also important that we know when financial institutions are getting into difficulties and when their clients could be affected. The AFM is therefore a member of the Financial Stability Committee (FSC), which is chaired by DNB and also includes the CPB and the Ministry of Finance.

Key action items for 2021:

1. Identifying the key risks to stability within the AFM domain. This overview is supplemented with data-driven risk dashboards with input from system-relevant markets. The total overview serves as the basis of the policy and analysis agenda.
2. Follow-up research into liquidity risks in asset management, with particular attention to margin obligations on outstanding derivatives.
3. In connection with the ESRB, we will analyse the systemic risks of exchange traded funds.
4. An analysis of how the new pensions system is affecting the asset management sector in the Netherlands.
5. An analysis of derivatives clearing in the capital markets.



3.4. Supervision of the audit sector

The main objective in the supervision of auditing is:

Goal for 2020-2022: Higher quality of audits and contribution to effective incentives for auditors and audit firms.

In our supervision of audit firms, we contribute to the reliability and relevance of financial and non-financial reporting. This is important for investors and other users of financial information.

The AFM's supervision will therefore continue to focus on the permanent improvement of the quality of statutory audits. The report of the Committee on the Future of the Audit Sector (CTA) published in 2020 and the government's response to this report stress the necessity of this and the associated challenges. The Minister of Finance has appointed two quartermasters who will monitor the follow-up to the CTA's recommendations.

Based on the CTA report, the Minister of Finance has decided to strengthen the current system of supervision. As a result, with effect from 2022, the supervision of compliance with the Audit Firms (Supervision) Ac (Wta), including the quality control and the quality of statutory audits by firms auditing non-Public Interest Organisations (non-PIE audit firms), will no longer be provided by the Royal Netherlands Institute of Chartered Accountants (NBA) and SRA (*Samenwerkende Registeraccountants en Accountants-Administratieconsulenten*). During 2021, in cooperation with these organisations, the AFM will prepare to take over this supervision with effect from 2022.

In addition to assuming responsibility for the supervision of the non-PIE audit firms, the AFM's supervision will continue to focus on a permanent improvement in quality at the PIE audit firms. To ensure that the sector achieves a sustainable quality change, the AFM will continue to inspect the quality of statutory audits and the realisation of permanent embedding

of the conditions needed for quality. The government response to the final report from the CTA indicates a wish for more intensive supervision through more frequent reviews involving more statutory audits. The AFM is discussing how to finance this more intensive approach with the Ministry of Finance.

To achieve its objective in the coming years, the AFM will apply the following supervisory priorities with related activities.

Priority: Review of the quality change at PIE audit firms

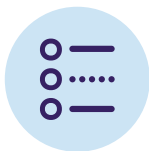
In 2021, the AFM's supervision will continue to focus on improving the quality of statutory audits at the PIE audit firms. The sector announced improvements in 2014, and audit firms started an improvement programme. The AFM expects the audit sector to ensure that the changes have the desired effect in 2020/2021 and that the sector has sustainably ensured that statutory audits are of high quality.

Key activities in 2021:

- Continuation of the review started in 2020 of the quality change at PIE audit firms. We will inspect the quality of statutory audits, the quality safeguards and aspects of a quality-oriented culture.

Priority: Supervision of non-PIE audit firms

The NBA and the SRA are currently conducting assessments of the non-PIE audit firms in the statutory audit domain. All this supervision will become the responsibility of the AFM with effect from 2022. In 2021, the AFM will prepare its risk-driven supervision of non-PIE audit firms. This will include consultations with the facilities coordinators. The expansion of its supervisory responsibilities will affect the capacity and resources needed by the AFM.



Key activities in 2021:

- The development and implementation of a data-driven supervisory approach for non-PIE audit firms.
- The supervisory methodology developed will be trialled in 2021, in cooperation with the NBA and the SRA.
- Development of a risk-driven approach for the executive supervision of non-PIE audit firms with effect from 2022 based on risk indicators and a risk analysis.

Priority: Influence in national and international discussions

The AFM aims to combat undesirable incentives in the structure of the audit sector. We will therefore promote this theme in the discussions with national and international organisations.

We also strongly support adequate regulation with respect to non-financial information, so that companies include an account of their non-financial performance, on sustainability and diversity, for instance, and auditors devote attention to these aspects in their audits.

Key activities in 2021:

- Drawing attention to the quality of financial and non-financial reporting and the necessary regulation at international level, including with the European Securities and Markets Authority (ESMA) and the International Organization of Securities Commissions (IOSCO).
- Contributing to discussions on ways to address weaknesses in the structure of the audit sector with, among others, the Committee of European Auditing Oversight Bodies (CEAOB) and the International Forum of Independent Audit Regulators (IFIAR).
- Consultation with the Ministry of Finance on the policy preconditions for optimising the effectiveness of the supervision of audit firms.

Priority: Improving integrated reporting and data-driven supervision of reporting

The AFM supervises and supports the reporting of relevant and reliable financial and non-financial information in the annual integrated and other reporting of listed companies, including a focus on honest and transparent reporting on sustainability.

Reporting is becoming increasingly influenced by technological developments. In response to these developments, the AFM will look for more far-reaching solutions for more effective risk-driven supervision of reporting.

Key activities in 2021:

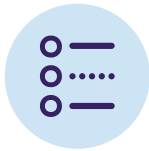
- A review of the extent to which aspects of integrated reporting are applied.
- Further development of the data-driven supervisory approach on the basis of new techniques such as text mining and quantitative risk analysis.

Ongoing activities in the supervision of auditing

The AFM will also continue to devote a significant portion of its capacity to ongoing duties with respect to the supervision of auditing in 2021.

The key activities are:

- Granting licences to audit firms; tests for reliability and suitability;
- Continuous dialogue with audit committees with the aim of strengthening their role with respect to the quality of the reporting and the statutory audit.
- Ongoing supervision of compliance with the Audit Firms (Supervision) Act and following up on signals and incidents.
- Ongoing supervision of the quality of the reporting of institutions issuing securities.



3.5. AFM-wide issues

In addition to the priorities and activities in the four areas of supervision, we list three AFM-wide issues below.

3.5.1. Sustainability

The financial sector has a significant contribution to make in the transition to a sustainable society. Investments and lending are needed to fund this transition. A large amount of regulations are on the way to guide the financial sector in a positive direction in this respect, especially at the European level. The Sustainable Finance Disclosure Regulation (SFDR) is an important element in these new European regulations. The objective is that every financial institution will have implemented part of these rules in its business operation with effect from 10 March 2021.

From this date, market participants will have to report on matters including their consideration of sustainability risks in their investment policy. There will also be a transparency requirement regarding the features and aims of the 'sustainable' products they offer. This is intended in part to combat what is known as 'greenwashing' – the presentation of 'grey' investments as 'green' – and enable end investors to make a better comparison between 'sustainable' products. The AFM will check whether promises of sustainability are transparent and are met.

We will also take stock of how the transition to sustainability in the sector is progressing. To this end, we will also look at how the sector is dealing with the new sustainability regulations.

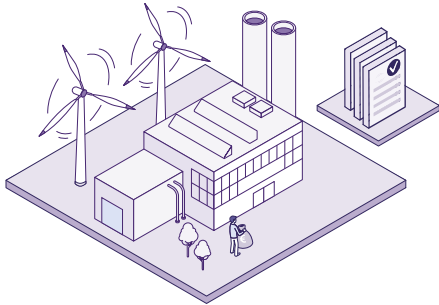
Our supervision in relation to sustainability is based on three central principles:

- Companies provide reliable and accessible information on sustainability factors in their business operations.
- Financial institutions include sustainability aspects in their business conduct, product development, risk management and investment decisions and are transparent in this respect.
- Consumers and other purchasers are properly informed and advised with respect to sustainability factors to support their financial decisions, and they obtain a product that is appropriate to their needs.

Key activities in 2021:

- A review of the extent to which asset managers, insurers and pension funds meet the requirements of the SFDR and their progress on the integration of sustainability risks in their business operation.
- A review of the application of aspects of integrated reporting, including sustainability aspects.
- A review of the potential risks of financial products that are offered and feature sustainability.
- The AFM will also contribute to the formulation of new regulations at national and international level. Internationally, the AFM is, among other things, involved in the further development of several packages of regulation, including the SFDR.

Our vision of sustainability at a glance



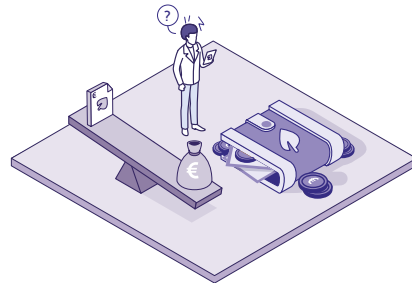
Important role for the financial sector



The **transition** to a sustainable society is one of the most important challenges of our time, and the financial sector has an important role to play



A lot of **regulations** to encourage the sustainability transition in the financial sector and put this on the right course is on the way



Market failures of sustainable and other finance as a source of supervisory risk



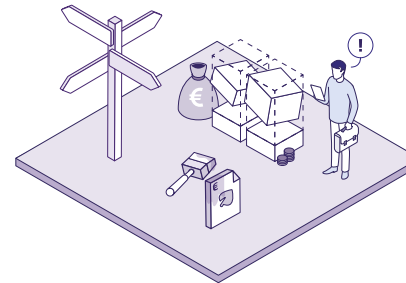
External effects:
The impact of a financial product on sustainability goals is not sufficiently measurable



Information imperfections:
There is not enough information to determine how sustainable a financial product is



Irrational behaviour and bias:
The acceptance of a different risk-return ratio can contribute to greenwashing



Risks prioritised in the AFM's supervision of sustainability



Shocks in the valuation of financial instruments



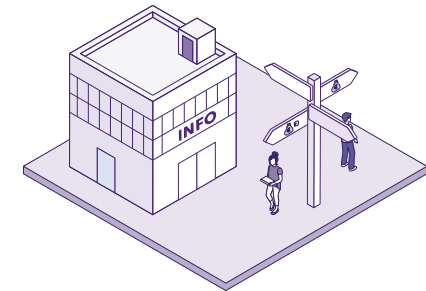
Lack of information



Information is **not reliable**, standardised and comparable



Greenwashing



Principles of the AFM's supervision of sustainability



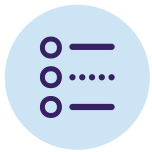
Companies provide **reliable and accessible** information on sustainability factors in their business operations



Institutions subject to supervision **integrate sustainability aspects** in their business operations, product development, risk management and investment decisions and are transparent in this respect



Consumers and other purchasers are adequately informed and advised with regard to sustainability factors to support their financial decisions and obtain a product that is appropriate to their needs



3.5.2. Combating money laundering and other financial and economic criminality

Financial enterprises have an important role in preventing money laundering, financing of terrorism and other forms of financial or economic criminality. Audit firms also have a role in signalling financial criminality.

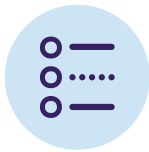
As gatekeepers, the responsibilities of these institutions include the following:

1. Preventing criminals from 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.

Companies involved in such activities, whether intentionally or not, damage confidence in the financial sector. The AFM strives to achieve a financial sector that is not misused for financial or economic criminality or the financing of terrorism. It supervises compliance with the obligations under the Money Laundering and Terrorist Financing (Prevention) Act (Wwft) and the Sanctions Act 1977 (Sw) by investment firms, collective investment schemes and their managers and intermediaries in life insurance. National and international cooperation is increasingly important for this supervision.

Key activities in 2021:

- Data-driven formulation of risk profiles of parties subject to supervision under the Wwft (investment firms, collective investment schemes and their managers and intermediaries in life insurance) based on information from regular questionnaires. These risk profiles provide the AFM with an impression of the current status of the market with respect to the risks of money laundering and the financing of terrorism, as well as the extent to which these risks are controlled. We also use these risk profiles when making choices with regard to our supervisory strategy.
- Conducting on-site investigations, as part of the risk-based supervision of compliance with the Wwft and the Sw. The AFM takes enforcement action if necessary.
- Thematic and other reviews to establish that the business operations of licensees are ethical and controlled, especially in the investment segment, 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 special attention. The AFM takes enforcement action if necessary.
- Assessing and reassessing the suitability and reliability of policymakers and co-policymakers at financial enterprises and audit firms.
- Intensifying the cooperation between the national European supervisors with respect to the combating of money laundering, corruption and the financing of terrorism, including through the creation of supervisory colleges for financial enterprises operating in two or more Member States and by participation in the EBA Anti Money Laundering Standing Committee.
- Strengthening cooperation with our other Financial Expertise Centre (FEC) partners, DNB, the national police, the Public Prosecution Service, the Fiscal Intelligence and Investigation service, the Tax & Customs Administration and FIU-Netherlands, through collective reviews and projects. With regard to the FEC, we will also explore the possibilities for a public-private partnership in the fight against money laundering and the financing of terrorism.



3.5.3. Professional organisation

The retention and further development of a professional organisation is essential in order to be able to implement our strategy for the coming years. We will continue the course of renewing our supervision in 2021. We need well qualified people in order to perform our duties effectively, and the AFM has to position itself as an attractive employer in the labour market. We accordingly devote much time and attention to the training and development of our employees, in order to prepare them for a changing environment. For example, the development of the AFM into a data-driven supervisor is supported by data analysis training for virtually all employees, among other things. Many courses are provided internally through our Supervision Academy, our internal training and development centre. Besides the basic supervision training for new employees, the Supervision Academy offers training modules for current supervisors ranging from open source intelligence research to a master class on influencing skills.

Our Future Leadership Program (FLP) offers management talent the opportunity to further develop managerial skills. This enables us to fill key positions with good people quickly and more effectively when they become available. Working with a single programme based on the same principles strengthens the culture of the AFM.

More professional supervision

We will continue the renewal and professionalisation of our supervision that was carried out in recent years. We will increasingly work on a data-driven basis. A solid infrastructure for this is provided by the delegation of our entire IT service to an external provider. The aim of this outsourcing is to strengthen continuity and accelerate the time-to-market of new ICT products. It also reflects our wish to be able to scale up or reduce our IT capacity more quickly.

We are constantly looking for connectivity with stakeholders in order to improve the quality of our supervision. They offer us deeper insight into market developments and allow us to form better-informed opinions. We also devote attention to a careful exchange of information with financial service providers, and we ensure that our conduct in contacts with institutions subject to supervision and other stakeholders is as consistent as possible.

Impact of the coronavirus on the AFM

The outbreak of the coronavirus pandemic caused the AFM to make certain changes to its operational organisation and how it executes its supervision:

- Adapting the focus of our supervision as a result of the changed risks (see Sections 1 and 3).
- Adapting the AFM's organisation to allow working from home. The most important actions in this respect have been the expansion and improvement of the capacity for e-working, increasing the possibilities for video conferencing and facilitating improvements to workstations at home.

04

Finances in 2021



The financing of the AFM is arranged in the Financial Supervision (Funding) Act 2019 (Wbft 2019). The AFM's budget is approved by the Ministers of Finance and Social Affairs and Employment each year on the basis of this Act. The AFM is bound by the ceiling in this cost framework when setting its budget. The costs incurred by the AFM under the Wbft are fully passed on to the market in the form of levies.

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





Cost framework

For administrative reasons, the Minister of Finance has established a new cost framework for the period from 2021 to 2024 (Table 4.1). This clearly sets out the maximum costs of supervision in general

terms during this period and the development of these costs. The cost framework contributes to the frugality and efficiency of the AFM, as any intensifications or in-house priorities have to be catered for within the cost framework.

AFM cost framework 2021-2024 (in millions)	2020	2021	2022	2023	2024
Basic amount (based on budget for 2020)	106.2	105.9	105.9	105.9	105.9
Known expansion of remit		3.0	4.6	6.1	7.1
Strengthening data-driven supervision		3.5	3.5	3.5	3.0
Savings		1.7-	3.1-	3.4-	3.7-
New base amount	106.2	110.7	110.9	112.1	112.3
Budget for unforeseen tasks		0.4-	0.8-	1.2-	1.6-
Salary adjustment*		0.8	1.9	3.0	4.0
Price adjustment*		0.6	1.1	1.6	2.1
Budgetary framework	106.2	111.7	113.1	115.5	116.8
Contingencies		1.5	2.0	3.0	4.0
Multi-year framework	106.2	113.2	115.1	118.5	120.8

* The salary and price adjustments for 2022-2024 are estimated at 1.5%

Table 4.1 - Cost framework (EUR x million)



New regulation will come into effect in the period from 2021 to 2024, and the AFM will be responsible for the associated supervision, covering the audit sector, financial and economic criminality, the capital markets and pensions. The cost framework also provides additional funds for strengthening data-driven supervision.

Besides these additions, the cost framework also includes savings and targets. These will be funded by savings in IT, human resources and organisational and efficiency improvements.

Including adjustment for salaries and prices, the cost framework for 2021 comes to €111.7 million, excluding an item for contingencies of €1.5 million. This contingencies item gives the AFM the flexibility to defray costs of unforeseen events without exceeding its multi-year budget. The contingency item can only be used if the impact of the unforeseen and non-recurring event cannot be dealt with within the regular budget. The AFM Executive Board must prepare a substantiated request for this that requires the approval of the Supervisory Council and has to be shared with the Minister of Finance. If this leads to a change in the budget, this will again have to be approved by the Ministers of Finance and Social Affairs and Employment.



Budget

The budgeted total expenses for 2021 are equal to the 2021 cost framework and 5% higher than the budgeted expenses in 2020 (Table 4.2).

Expenses per type	Budget for 2020	Budget for 2021	Difference compared to B2020	Actual result for 2019
<i>Salary expenses</i>	55.2	57.0	3%	53.4
<i>Social security costs</i>	7.3	7.5	2%	7.1
<i>Pension expenses</i>	11.6	11.9	3%	11.1
<i>Temporary hires</i>	6.6	8.0	21%	8.0
<i>Other employee expenses</i>	4.1	4.5	8%	4.5
Employee expenses	84.8	88.9	5%	84.1
Premises costs	4.7	4.6	-2%	4.1
Consultancy expenses	3.9	2.6	-33%	5.6
One-off expenses for change of pension provider	0.0	0.0		0.2
IT expenses	8.2	11.6	40%	6.9
General expenses*	3.3	2.7	-19%	3.4
Amortisation	1.2	1.4	12%	1.0
Total expenses	106.2	111.7	5%	105.5
<i>*of which contribution to ESMA</i>	<i>0.8</i>	<i>1.0</i>		

Table 4.2 - Expenses by type (EUR x million)



Total expenses will increase by €5.5 million. The vast majority of this increase is due to an increase in employee expenses.

Employee expenses will increase by €4.1 million following a higher number of FTEs and an increase in the average cost per FTE due to salary changes. The increase in the number of FTEs is due to the expansion of the AFM's responsibilities and the strengthening of our data-driven supervision, which includes temporary hires for IT and other change capacity.

The outsourcing of IT since September 2020 has reduced the number of FTEs in employment and the associated employee expenses. In the 2021 budget, all these costs have moved to computerisation expenses. The increase in computerisation expenses is also due to a movement from consultancy costs and temporary transition costs due to the outsourcing.

Deployment of FTEs	Budget for 2020	Budget for 2021	Difference compared to B2020	Actual result for 2019
Financial services	180	178	-2%	175
Capital markets	89	86	-3%	77
Asset management	44	42	-5%	38
Audits	48	56	19%	48
Subtotal for four areas of supervision	361	361	0%	339
Direct supervision support*	184	184	0%	168
Other divisions**	160	173	8%	189
Total	704	718	2%	695

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

**These are the executive divisions.

Table 4.3 - Specification of FTEs



The number of FTEs will increase by a net 2 per cent to 718 FTEs in the 2021 budget.

The FTEs for new duties are fully included in the four supervisory areas and direct supervisory support. The increase in the number of FTEs in the audit supervision division is due to the additional responsibility for supervision of non-PIE audits. There is no visible net difference in the table as a result of the increase due to new responsibilities in the areas of financial services, capital markets and asset management. This is due to reprioritisation and

a shift of capacity to the other divisions in relation to the renewal of IT, especially for the areas of supervision.

The rise in the number of FTEs at the other divisions is also partly due to the additional room in the cost framework for investments in data-driven supervision.

Investments will increase in 2021-2022 compared to the 2020 budget due to potential investments in the renewal of the AFM's workstation concept.

Investments	Budget for 2020	Budget for 2021	Difference compared to B2020	Actual result for 2019
Renovations	0.6	2.1	255%	0.9
Inventory	0.6	0.7	12%	0.4
Computer equipment & standard software	0.3	-	-100%	1.1
Total investment	1.4	2.7	92%	2.4

Table 4.4 - Investments (EUR x million)



From budget to levies

The AFM's total costs are funded on the basis of the Financial Supervision (Funding) Act (Wbft) and the Financial Supervision (Funding) Decree (Bbft).

Under the Wbft, the costs of supervision on the BES Islands (Bonaire, St. Eustace and Saba) pursuant to the Financial Markets (BES Islands) Act (Wfm BES) and the Money Laundering and Terrorism Financing (BES Islands) Act (Wwft BES) have to be reported separately. As a result, a distinction is made between the income and expenses on the basis of the Wbft (Table 4-5) and the income and expenses for supervision of the BES Islands (Table 4-6).

Wbft operating difference	Budget for 2020	Budget for 2021	Difference compared to B2020	Actual result for 2019
To be settled with market parties from previous years	unknown	unknown		5.8
Wbft expenses	105.8	111.2	5%	104.9
<i>Market contribution for non-recurring services</i>	8.8	8.7	-1%	8.8
<i>Market contribution to ongoing supervision</i>	97.0	102.5	6%	87.3
<i>Fines and penalties to be settled with market parties</i>	-	-		2.5
<i>Fines and penalties due to the government</i>	-	-		0.7
Income	105.8	111.2	5%	99.3
Operating difference	0.0	0.0		-5.6
To be set off next year	0.0	0.0		0.2
<i>Of which to be settled with the market in following year</i>	0.0	0.0		-0.5
<i>Of which due to the government</i>	0.0	0.0		0.7

Table 4.5 - Wbft operating difference (EUR x million)



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 assessments of management board members, are set by ministerial regulation and are in principle fixed for five years. The budgeted income in 2021 amounts to €8.7 million, which is slightly lower than in the budget for 2020.

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 covered by an annual levy charged to market parties in 2021 will amount to €102.5 million. This contribution from the market is €5.5 million more than the market contribution for ongoing supervision

BES operating difference	Budget for 2020	Budget for 2021	Difference compared to B2020	Actual result for 2019
Expenses	0.4	0.6	34%	0.6
<i>Market contribution to ongoing supervision</i>	0.0	0.0	-22%	0.0
<i>Market contribution for non-recurring services</i>	0.0	0.0	77%	0.0
<i>Government contribution</i>	0.4	0.6	35%	0.6
Income	0.4	0.6	34%	0.6
Operating difference	0.0	0.0		0.0

Table 4.6 - BES operating difference (EUR x million)

in the 2020 budget (€97.0 million) due to the increase in costs. 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 fines and penalties is not estimated but is passed on to the overall market through the operating difference up to a maximum of €2.5 million. 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 more intensive supervision of the BES Islands leads to an increase in costs of €0.6 million in the 2021 budget. This equals the actual figure in 2019. The funding of the supervision of the BES Islands is arranged in the Financial Markets (BES Islands) Act (Wfm BES) and the Money Laundering and Terrorism Financing (BES Islands) Act (Wwft BES). The fees for non-recurring supervisory duties and for ongoing supervision are stated in the underlying Financial Markets (BES Islands) Regulation. 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 is equal to zero when rounded to the nearest million.

05

Appendices



Appendix 1 – External KPIs

The AFM uses a control cycle for internal control and external reporting. This cycle concerns the processes of planning (including strategic planning), implementation, direction and reporting within the financial preconditions. The issue of whether the AFM is 'on track' is assessed based on various interim measurements. Our drive to achieve our objectives by means of dashboards that provide information on progress and prospects is based partly on Key Performance Indicators (KPIs). External interested parties are informed as to progress. The AFM gives account of the results and effects of its efforts in its annual report.





This Agenda sets out the activities we will carry out. This will be done on the basis of the four supervisory areas and the three AFM-wide priorities (proactive, influential and data-driven) defined in the framework of our renewed AFM strategy for 2020-2022. We have attached a number of key performance indicators (KPIs) to our targets that are explained in this appendix.

The list of KPIs has been reduced to the essence of the most important themes and results, with the addition of certain AFM-wide objectives, partly based on the vision of a professional organisation; the activities stated in the Agenda must be reflected here.

Lastly, the people and resources needed for each strategic priority or objective are shown.

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 corresponding support, as shown in the table to the right:

Use of resources	FTEs 2021	EUR 2021	Allocation in 2021
Financial services	178	27.6	25%
Capital markets	86	13.4	12%
Asset management	42	6.5	6%
Audits	56	8.8	8%
Subtotal for four areas of supervision	361	56.3	50%
Direct supervision support*	184	28.6	26%
Other divisions**	173	26.9	24%
Total	718	111.7	100%

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

**These are the executive divisions.

Table 5.1 - Application of resources in 2021

Pillars	Priorities	Activities
<p data-bbox="152 331 197 368">1</p> <p data-bbox="147 403 286 472">Financial services</p> <p data-bbox="147 539 353 667">Objectives: Bescherming van consumenten in kwetsbare situaties</p>	<p data-bbox="501 296 539 320">1.1</p> <p data-bbox="501 331 696 528">Sustainable contribution from products and services with material long-term effects</p>	<ul data-bbox="781 296 2051 459" style="list-style-type: none"> - Application of the revised vision regarding the duty of care requirements for the various parties in the distribution chain during the term of a financial product; - mortgage providers apply the AFM strategy for dealing with interest-only mortgages; - development of the pensions system (legislative process, implementation): the AFM's vision is included in three key elements of the transition to a new pensions system: freedom of choice, communication and new contracts.
	<p data-bbox="501 576 539 600">1.2</p> <p data-bbox="501 611 696 703">Organisation and culture of financial companies</p>	<ul data-bbox="781 576 2051 600" style="list-style-type: none"> - Carry out Tone at the Top self-assessment using the VICA methodology developed with the help of the EC in 2020.
	<p data-bbox="501 751 539 775">1.3</p> <p data-bbox="501 786 696 911">A position of influence in the supervision of financial services</p>	<ul data-bbox="781 751 2051 807" style="list-style-type: none"> - In policy discussions, the AFM promotes lending within the lending standards, including issues relating to improving the sustainability of homes and private leases.

Pillars	Priorities	Activities
<p data-bbox="152 300 197 338">2</p> <p data-bbox="147 368 394 400">Capital markets</p> <p data-bbox="147 469 273 494">Objectives:</p> <p data-bbox="147 502 439 563">A robust infrastructure and ethical trading</p>	<p data-bbox="613 256 658 282">2.1</p> <p data-bbox="613 293 815 354">Guarding a robust infrastructure</p>	<ul data-bbox="909 256 2083 528" style="list-style-type: none"> - Supervision focusing on operational processes, IT systems and cyber resilience. This will be more integrated in our daily supervision; - expanding our supervision of multiple, complex instruments, institutions and systems. This expansion is due to the arrival of new platforms for equity and bond trading in the Netherlands, partly as a result of Brexit; - the review of MiFID II, which is an important issue for next year. The European Commission and ESMA are expected to put forward a proposal for amending the MiFID II rules with respect to equity, commodities and investor protection and the bond and derivatives market.
	<p data-bbox="613 571 658 596">2.2</p> <p data-bbox="613 608 837 805">Increasing the effectiveness of detection, investigation and enforcement in the supervision of market abuse</p>	<ul data-bbox="909 571 2083 703" style="list-style-type: none"> - We work with our fellow supervisors at the national and international level to detect and penalise harmful trading behaviour. We furthermore raise this item in European supervisory committees. - Besides the detection of market abuse in the equities market, we will now also concentrate more on detecting market abuse in the bond and derivatives markets.
	<p data-bbox="613 850 658 876">2.3</p> <p data-bbox="613 887 770 948">Supervision of prospectuses</p>	<ul data-bbox="909 850 2083 1016" style="list-style-type: none"> - The notification processes will be further automated, and the efficiency of the portal function for prospectuses will be improved. This will speed up the assessment of prospectuses and tender offers. - To protect investors against misinformation, the AFM will take stricter action against harmful advertising and violations of the rules governing public offerings and prospectuses, partly by engaging in closer contact with the market and, for instance, assessing advertisements in advance.
<p data-bbox="152 1129 197 1168">3</p> <p data-bbox="147 1198 443 1230">Asset management</p> <p data-bbox="147 1299 273 1324">Objectives:</p> <p data-bbox="147 1332 533 1431">A sustainable business model for asset managers and due care in the treatment of clients</p>	<p data-bbox="613 1129 658 1155">3.1</p> <p data-bbox="613 1166 808 1294">An adequately functioning chain of asset management parties</p>	<ul data-bbox="909 1129 2083 1224" style="list-style-type: none"> - Monitoring and improving quality at asset management parties. To this end, we will assess the key risks in the business operation of asset managers, looking at reports from depositaries and data analysis. We will also review the extent of compliance with applicable regulations.

Pillars	Priorities	Activities
<p data-bbox="152 325 197 357">4</p> <p data-bbox="143 395 248 427">Audits</p> <p data-bbox="143 501 275 528">Objectives:</p> <p data-bbox="143 536 448 667">Higher quality of audits and contribution to effective incentives for auditors and audit firms</p>	<p data-bbox="546 293 591 320">4.1</p> <p data-bbox="546 328 779 424">Review of the quality change at PIE audit firms</p>	<ul data-bbox="927 293 2056 424" style="list-style-type: none"> - Review of the progress of the quality change at PIE audit firms. We will inspect the quality of statutory audits, the quality safeguards and aspects of a quality-oriented culture; - development of data-driven supervision of audit firms. We are investigating ways in which we can use data to make our supervision of audit firms more risk-driven.
	<p data-bbox="546 469 591 496">4.2</p> <p data-bbox="546 504 801 564">Supervision of non-PIE audit firms</p>	<ul data-bbox="927 469 1957 564" style="list-style-type: none"> - Based on risk indicators and a risk analysis, we aim to formulate a risk-driven approach for the executive supervision of non-PIE audit firms by year-end 2021 for use from 2022 onwards. - The AFM is developing a data-driven supervisory approach for the non-PIE audit firms.
	<p data-bbox="546 609 591 636">4.3</p> <p data-bbox="546 644 779 740">Influence in national and international discussions</p>	<ul data-bbox="927 609 2056 740" style="list-style-type: none"> - Drawing attention to the quality of financial and non-financial reporting and the regulation needed for this at international level in forums such as ESMA and IOSCO; - drawing attention to the quality of statutory audits at international level in forums such as CEAOB and IFIAR.
	<p data-bbox="546 785 591 812">4.4</p> <p data-bbox="546 820 815 916">Improving integrated reporting and data-driven supervision of reporting</p>	<ul data-bbox="927 785 2033 880" style="list-style-type: none"> - A review of the application of aspects of integrated reporting; - further development of the data-driven supervisory approach on the basis of new techniques such as text mining and quantitative risk analysis.
<p data-bbox="152 987 197 1019">5</p> <p data-bbox="143 1058 271 1090">General</p> <p data-bbox="143 1163 275 1190">Objectives:</p> <p data-bbox="143 1198 389 1262">AFM-wide supervisory priorities</p>	<p data-bbox="546 957 591 984">5.1</p> <p data-bbox="546 992 689 1021">Sustainability</p>	<ul data-bbox="927 957 2047 1088" style="list-style-type: none"> - Assessing the extent to which asset management parties comply with the frameworks arising from the sustainability transition, such as the Sustainable Finance Disclosure Regulation and the integration of sustainability risks in business operations; - a review of the application of aspects of integrated reporting, including sustainability aspects.
	<p data-bbox="546 1131 591 1158">5.2</p> <p data-bbox="546 1166 808 1297">Combating money laundering and other financial and economic criminality</p>	<ul data-bbox="927 1131 2024 1195" style="list-style-type: none"> - Risk-based supervision of compliance with the Money Laundering and Counter-Terrorist Financing (Prevention) Act and the Sanctions Act 1977. The AFM takes enforcement action if necessary.

Pillars	Priorities	Activities
<p data-bbox="152 248 197 288">6</p> <p data-bbox="147 328 271 357">General</p> <p data-bbox="147 435 271 459">Objectives:</p> <p data-bbox="147 469 421 494">Professional organisation</p>	<p data-bbox="551 220 589 240">6.1</p> <p data-bbox="551 253 853 347">Achieving quick and careful admission of market participants and persons</p>	<p data-bbox="987 220 2022 276">- The aim is to deal with 100% of licence applications and personal testing within the statutory term.</p>
	<p data-bbox="551 387 589 408">6.2</p> <p data-bbox="551 421 815 446">A data-driven supervisor</p>	<p data-bbox="987 387 2011 446">The transformation of the AFM into a data-driven supervisor will be further formulated, developed and embedded in the organisation in 2021 by:</p> <ul data-bbox="987 459 1906 587" style="list-style-type: none"> - designing, redesigning and further expanding data-driven supervisory processes; - structural design of a central data management function and of data management; - designing the underlying data infrastructure accordingly and making this robust; - attracting the necessary skills and expertise.
	<p data-bbox="551 627 589 647">6.3</p> <p data-bbox="551 660 835 754">Continuous improvement of supervisory and other processes</p>	<ul data-bbox="987 627 2056 826" style="list-style-type: none"> - 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 courses. - 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.
	<p data-bbox="551 866 589 887">6.4</p> <p data-bbox="551 900 869 1058">Generally positive opinion of the professional stakeholders regarding the effectiveness, knowledge and competencies of the AFM supervisors,</p>	<p data-bbox="987 866 2045 960">The AFM regularly evaluates its supervision and consults on this with stakeholders (including through the advisory panel). The AFM improves its supervision on the basis of these consultations and other feedback from the market it may receive.</p>
	<p data-bbox="551 1106 589 1126">6.5</p> <p data-bbox="551 1139 860 1198">Continuous development of own staff</p>	<p data-bbox="987 1106 2033 1200">We need high-quality people in order to perform our duties effectively, and the AFM has to position itself as an attractive employer in the labour market. We accordingly devote much time and attention to the training and development of our employees by:</p> <ul data-bbox="987 1211 1883 1305" style="list-style-type: none"> - training for the necessary skills; - promoting cooperation; - using resources such as the AFM's working practices and standardised processes.
	<p data-bbox="551 1345 589 1366">6.6</p> <p data-bbox="551 1378 781 1404">Effective cost control</p>	<p data-bbox="987 1345 1951 1401">The AFM ensures that its costs remain within the established cost framework/budget or sub-budget.</p>



Appendix 2 – Abbreviations

ACM

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

ADR

National Audit Service (*Auditdienst Rijk*)

AIFM

Alternative Investment Fund Managers

AIFMD

Alternative Investment Fund Managers Directive

ASIC

Australian Securities and Investments Commission

AMF

Autorité des Marchés Financiers

AMLD4

Anti Money Laundering Directive 4

AOV

Invalidity insurance
(*Arbeidsongeschiktheidsverzekering*)

AQTF

Audit Quality Task Force

Awb

General Administrative Law Act (*Algemene wet bestuursrecht*)

BaFin

The German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*)

Big-4

KPMG, PWC, EY, Deloitte

BMR

Benchmarks Regulation

BO

Investment Firm (*BeleggingsOnderneming*)

CEAOB

Committee of European Auditing Oversight Bodies

CER

Committee on Emerging Risks

CFTC

Commodity Futures Trading Commission

CMU initiative

The European Capital Markets Union initiative

COO

Chief Operations Officer

CPB

Bureau for Economic Policy Analysis

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

FEC

Financial Expertise Centre

FinCoNet

International Financial Consumer Protection Organisation

FINRA

Financial Industry Regulatory Authority (US)

FIOD

Fiscal Intelligence and Investigation Service
(*Fiscale Inlichtingen en Opsporingsdienst*)

FISMA

Federal Information Security Management Act

FIU

Financial Intelligence Unit

FSC

Financial Stability Committee (*Financieel Stabiliteitscomité*)

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

Internationally Relevant Developments in Audit Markets

IOSCO

International Organization of Securities Commissions

CIF

Customer's Interests First

QFS

Quality of Financial Services

PSI

Price-Sensitive Information

KID

Key Investor Document

MAR

Market Abuse Regulation

Mifid II

Markets in Financial Instruments Directive II

NBA

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

NRVT

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

NVB

The Netherlands' Bankers' Association
(*Nederlandse Vereniging van Banken*)

NVGA

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

OECD

Organisation for Economic Cooperation and Development

**OM**

Public Prosecution Service (*Openbaar Ministerie*)

PIE

Public-Interest Entity

PARP

Product Approval and Review Process

PCAOB

Public Company Accounting Oversight Board

PRIIPS

Packaged Retail and Insurance based Investment Products

PPO

Pension Provider Organisation

SA

Self-Assessment

SEC

Securities and Exchange Commission (US)

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

TCO

Total Cost of Ownership

VO-raad

Secondary Education Council

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*)

Wtfv

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*)

NDPB

Nondepartmental Public Body



Do you have questions or remarks about this publication?

Please send an email to redactie@afm.nl



The Dutch Authority for the Financial Markets (AFM)

Vijzelgracht 50, 1017 HS Amsterdam

Telephone

020 797 2000

www.afm.nl →

Follow us:



Publication: January 2021