



The Dutch Authority for the Financial Markets Annual report 2019

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The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands. We continue to innovate and put our innovations at the heart of our supervision. This requires our organisation to be proactive, data-driven and influential. Proactive, because the most effective way to deal with problems is to prevent them occurring. Data-driven, for more detailed analysis, a more nuanced understanding of the market and better substantiation for our interventions. Influential, because national and international cooperation is becoming ever more important in the attainment of our supervisory goals.





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Foreword

This annual report is appearing at a time when the coronavirus is dominating our thoughts and our actions. This publication is therefore clearly a report from a different time. Combating the virus and limiting the economic effects of the outbreak are now the central issues for policymakers, the financial sector and supervisors. Of course, the most important considerations now are the health of people and limiting the spread of the virus.

Many financial institutions now have an important responsibility. With investments and lenient repayment arrangements, they can help businesses, self-employed people and consumers to survive. Fortunately, many institutions are showing willingness to empathise with customers who are in difficulty as a result of the corona crisis. This is significantly different from the situation in 2008, when the crisis began in the financial sector and then spread to the real economy.

But we should not forget that large financial institutions are in the firing line. The economic uncertainty we are currently experiencing is causing volatility in the stock markets and the postponement of shareholder meetings. So far, capital markets parties and stock exchanges have managed to cope well with the volatility.

Especially at a time like this, it is important not to ignore the plight of consumers. An economic downturn and the loss of jobs may lead to difficulties in the repayment of mortgages or other loans. It is and remains an important part of our mission to protect consumers who are financially vulnerable at this time.

This is also a time in which we face new social challenges. Institutions have managed to continue their services by literally taking their work home, thanks to modern digital technology. The AFM has also adjusted its working practices: e-working is now the norm, the monitoring of market developments has been greatly increased and the international dialogue has intensified. In consultation with international supervisors, leniency has been offered with respect to reporting and requests to institutions subject to supervision have been put on hold where possible.

It is still too soon to have any detailed picture of the implications of the corona crisis for the AFM's supervisory duties in the future, although it is clear that there will be implications. New phenomena to study, and new issues to address.

This will enable us to strengthen the financial sector in the effort to improve service provision and maintain stability, so that financial consumers, businesses and the government in the Netherlands can have and retain confidence in the financial markets.

Amsterdam, 16 april 2020

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Priority 1:

Reducing undesirable risks in the financial markets through regular and thematic supervision

The financial world is becoming increasingly complex. This is creating opportunities for improved service provision to consumers, but also new risks. In its Agenda 2019, the AFM listed the key risks and explained how it intends to mitigate and anticipate problems within three stated priorities.

1. Reducing undesirable risks in the financial markets through regular and thematic supervision.
2. Strengthening and renewing supervision through focused investment in technology and methodologies.
3. Increasing the effectiveness, efficiency and adaptability of the AFM's organisation.

Seven focus areas have been identified for the first priority.

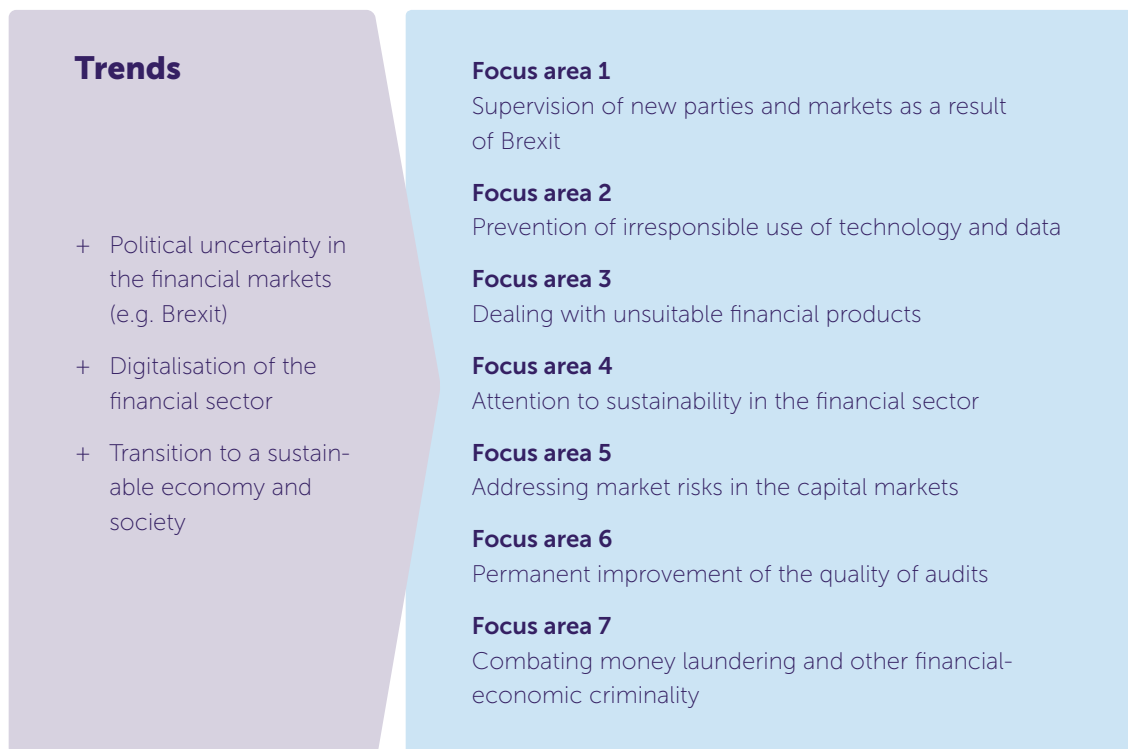


Figure 1.



Focus area 1:

Supervision of new parties and markets as a result of Brexit

The AFM has prepared as thoroughly as possible for the departure of the United Kingdom (UK) from the European Union (EU). The starting point here was that the AFM also had to be well prepared for a negative scenario, such as a no-deal Brexit. For this reason, the investment needed for this in personnel and ICT was made more quickly than later proved to be necessary. We urged companies subject to our supervision to prepare for Brexit and assisted them in this respect.

Brexit, and in particular the related uncertainty, received much attention from the AFM in 2019. The potential departure of the UK without any agreement regarding future relations could have had serious consequences for the functioning of the financial markets. British market parties responded to this uncertainty by applying for licences in the Netherlands and other countries. For the AFM, this potential arrival of new parties means a significant increase in the number of institutions subject to its supervision, and an increase in the effort required for preparation and supervision.

The continuing uncertainty regarding the form and actual date of Brexit has forced the AFM to set priorities in its Brexit-related activities. The question was, and still is, whether Brexit would lead to a shift of financial activities and it is therefore still not certain how much trading volume will move to the Netherlands and when exactly this will take place. In its decisions with respect to preparation, the AFM has made it a priority to as far as possible complete the activities necessary to deal with a no-deal scenario.

The key activities for this focus area according to the 2019 Agenda are:

1.1 The AFM is assessing licence applications from various Brexit parties, including trading platforms, proprietary traders and benchmark providers.

1.2 The AFM is investing in IT in order to be able to process the volume of data.

1.3 The AFM is accumulating knowledge and expertise on the new (or future) licensees, including trading platforms and trading parties, in order to assess the risks for its supervision involved with these parties. The AFM is also engaging staff for both IT and its supervision.

1.4 The AFM is cooperating with ESMA and our fellow European supervisors to prevent supervisory arbitrage and fragmentation as far as possible.

1.5 The AFM is identifying and analysing the consequences and impact of Brexit for its supervisory duties and its organisational strategy.

1.6 The AFM is providing information to companies subject to its supervision and consumers regarding the consequences of Brexit.

1.1 Assessment of licence applications from Brexit parties

Dozens of financial parties have applied to us for a licence because they are looking to relocate to the Netherlands as a result of Brexit. We have dealt with these applications properly and efficiently. We have also amassed sufficient knowledge and expertise regarding new or prospective licensees.

Much of the AFM's effort relating to Brexit in 2019 was made in the first three months of the year. The United Kingdom was actually supposed to leave on 29 March 2019. In 2018, the AFM made a commitment to financial parties looking to relocate to the Netherlands due to Brexit that we would complete the assessment of their licence applications by 29 March 2019, as long as they applied by 1 July 2018. We fulfilled this commitment. Ultimately 73 parties



submitted a licence application to the AFM as a result of Brexit, including 8 applications for an exemption. We granted a licence in 51 cases, and 7 applications were still pending on 31 December 2019. 15 licence applications were subsequently withdrawn.

It takes several months in each case for the AFM to process and grant a licence, due among other things to the fact that on average, we have to revert three or four times to the applicant with additional questions. One important point in this process is that we need to ensure that an applicant will not become a letterbox company. We made at least 10 FTEs available to deal with these applications by reprioritising our activities. Besides these 73 Brexit licence applications, we had to deal with a large number of other non-Brexit-related licence applications in 2019 (as is usual every year).

The Brexit licensees include several large institutions such as BlackRock and the Chicago Board Options Exchange (CBOE), the largest stock market in Europe. A total of 8 trading platforms and 13 proprietary traders have come to the Netherlands as a result of Brexit. This potentially involves a huge increase in the volume of securities transactions that will be subject to the AFM's supervision, since a significant portion of the European capital market could migrate from London to Amsterdam. The extent to which this will actually happen depends on the nature of the trade agreement ultimately concluded between the EU and the United Kingdom.

The relocation of the CBOE to Amsterdam means it is likely that part of the trading in shares of companies in continental Europe (or more precisely, companies in the European Economic Area) will come to Amsterdam. Even though the CBOE now holds a licence, the actual relocation, and thus the roll-out of its activities from the Netherlands, still depends on the date on which the current Brexit transition period expires.

Much of the platform trading in government bonds and bonds issued by companies in the European Economic Area (EEA) will move from London to Amsterdam. This will transform the Netherlands from a minor to by far the largest player in the EU once Brexit has actually happened.

In addition to the assessment and granting of licences, 195 parties applied for an exemption in 2019. With an exemption, they can continue to conduct their business in the Netherlands. But unlike a licence, an exemption does not allow them to operate in the rest of the EU. Many of the parties applying for an exemption did so to ensure that they could continue to operate in the Netherlands if their application for a licence elsewhere in the EU could not be approved in time. After a brief investigation, we granted an exemption to all the parties who applied for this. The exemption will only come into effect if there is a hard Brexit, and it is a temporary exemption.

Only some of the companies who applied for a licence due to Brexit were already operating out of the Netherlands at the end of 2019. For example, a number of proprietary traders and trading platforms have already relocated, but other parties are waiting to relocate until it becomes clear whether, how and when Brexit will materialise.

1.2 Investment in IT for more data processing

The financial institutions and companies coming under our supervision for the first time as a result of Brexit will increase the scale of our ongoing supervision and require additional investment in IT. However, it will only become fully clear how much the scale of the AFM's duties will increase and how much we need to adjust and expand our IT capacity once Brexit actually happens.

We have already had to increase our IT capacity in the past two years. Besides Brexit, this was due to the coming into effect of MiFID II (see also section 5 of this annual report) on 3 January 2018, as a result of which the volume and quality of the data becoming available to us increased significantly. This was the reason for our development of the Nordic Transaction Reporting System (NTRS) in cooperation with the supervisors in Scandinavia. Since the announcement of Brexit means that the volume of transactions effected through the Netherlands will increase substantially - also from many other EU countries - the hardware capacity required for the NTRS has increased.



We have also updated our equity transaction monitoring system SMARTS due to the huge increase in data. In addition, a new system has been constructed for supervision of bond trading. We intend to continue improving this system and to use it for surveillance.

1.3 Building expertise and additional specialists

We have engaged 30 new colleagues specifically for Brexit. We have for instance engaged specialists for the supervision of capital markets in which we had little involvement prior to the Brexit decision. A substantial proportion of European bond trading will move to the Netherlands.

The number of institutions subject to supervision that are engaged in financial activities that previously were effected in the Netherlands to only a very limited extent has thus risen considerably. This potentially very substantial increase in trading in financial instruments that are relatively new to the AFM will affect our monitoring activities.

In 2019, Brexit caused us to improve our understanding of the population of new (and existing) licensees to ensure that our ongoing supervision of these parties is adequate. Between October 2018 and May 2019, we requested some 300 investment firms, managers of collective investment schemes and UCITS managers to complete a digital questionnaire. The survey provides us with insight into the business operations of these companies.

We also analysed the services that financial parties delegate to third parties, and whether the parties have adequate oversight with respect to these activities. The [survey](#) shows that companies sometimes have difficulty in assessing which activities are actually outsourced.

We found that many activities are outsourced, ranging from human resource management to compliance and risk management. Moreover, we established that the control measures relating to these outsourced activities are not adequate in all cases. In some cases for instance, there is no formal agreement or service level agreement (SLA) in place.

In a [letter to the sector of 8 November 2019](#), we shared our findings with the parties concerned and reminded them of the statutory requirements in relation to outsourcing. We then organised a round table meeting for the sector on 9 December 2019, at which we provided information to more than 30 people from the sector.

1.4 Neutralisation of potential Brexit problems and closer cooperation within ESMA

With our fellow supervisors in the European Securities and Markets Authority (ESMA), we have addressed and largely neutralised potential problems in relation to Brexit-related licence applications. There was a possibility that British companies relocating to the European Union would look for the Member States with the most lenient supervision, in an attempt at supervisory arbitrage. To prevent this occurring, ESMA has created a Supervisory Coordination Network (SCN) whereby every Member State is obliged to discuss the Brexit-related licence applications it has received.

The European Commission has moreover taken measures to temporarily avert serious problems in the event of a no-deal Brexit. For example, the major Central Counter Parties (CCPs) for the clearing (or settlement) of securities transactions are located in the United Kingdom. These would no longer be available in the event of a hard Brexit, which could pose a problem for financial markets in the EU. The European Commission has decided that EU parties can continue to use British CCPs in the event of a no-deal Brexit until 31 March 2020, and has already announced that this period can be extended if necessary.

1.5 Impact of Brexit on our supervisory duties and organisational strategy

The British Financial Conduct Authority (FCA) is one of the largest and most important market conduct authorities in the EU. Once the FCA leaves ESMA as a result of Brexit, the AFM will lose an important and reliable European partner that generally endorses a similar supervisory philosophy.



At the same time the AFM will have to take on a more important role, since a large part of the European capital market will relocate to the Netherlands once Brexit is a reality. This means that ESMA will depend on our expertise and vision to a greater extent. We need to further develop this expertise in some areas, for example in relation to the supervision of bonds and swaps.

We engaged a number of experts for this in 2019, and will continue to do so in 2020. In the event of an orderly Brexit, the expansion of our supervisory responsibilities will be gradual. Although some parties have already actually relocated from the United Kingdom to the Netherlands, most of them (including the larger parties) will only do this once Brexit actually happens. Only then will we have a true understanding of the additional capacity that we need, such as specialists for testing directors or new hardware that can cope with much larger data flows.

Closer cooperation with the FCA

We signed an agreement with the British supervisor the FCA on 3 June 2019 for closer cooperation in the protection and improvement of the integrity and stability of the financial system in both countries. Close cooperation and exchange of information is essential for the development of international financial markets and for effective supervision of companies and the capital markets.

1.6 Provision of information with respect to a hard Brexit

We informed the market of the threat of a no-deal Brexit and the consequences of this on several occasions in 2018 and 2019 by means of letters and press releases, including through the Financial Stability Committee (FSC). The AFM is represented on the Financial Stability Committee, along with De Nederlandsche Bank (DNB) and the Ministry of Finance; the Netherlands Bureau for Economic Policy Analysis (Centraal Planbureau, or CPB) participates as an external expert. The last occasion on which we informed the market in 2019 via a newsletter was in October, when there was a substantial risk of an imminent no-deal Brexit. Based on our own analysis and information exchanged with parties including our British colleagues, we outlined the market risks and potential ways of dealing with these risks.

We were in contact with representatives of the pension funds to discuss their preparation for a hard Brexit and to assure ourselves that they were adequately prepared.

We believe that the financial world in the Netherlands is prepared for Brexit and that solutions have been found for foreseeable problems. The most serious risk, for which we still have some concerns, especially in case of a no-deal Brexit, are event risks: unpredictable and significant volatility in the financial markets once Brexit happens, for instance in the exchange rates of the British pound or the euro. The interest-rate derivatives market may also encounter unexpected shocks. We are trying as far as possible to make market parties aware of this risk.





Focus area 2:

Prevention of irresponsible use of technology and data

The digitalisation of society is also changing the financial sector. New forms of service provision (such as semi or fully automated advice) now exist, and investment and payment services are changing as well. The increasing usage of new technology and data offers opportunities for financial enterprises and benefits for consumers, but it also involves risks.

Consumers now have ever-increasing possibilities for purchasing complex or straightforward financial products with a few mouse clicks online. Here we see a risk that financial enterprises will offer products in a way that does not give central priority to the customer's interests. New techniques are being deployed to influence behaviour, with potentially harmful or undesirable side-effects. Financial enterprises must ensure that they observe the statutory requirements (including the requirements relating to the duty of care) also in their provision of services online.

The key activities for this focus area according to the 2019 Agenda are:

2.1 The AFM is studying the online decision-making environments of various providers of investment products, in which digital influence is an important element. The AFM is also studying automated advice provided on other products, such as mortgages, pension products and occupational disability insurances.

2.2 The AFM is developing its approach to crypto currencies and ICOs, and is evaluating the legislation needed in consultation with the Dutch Central Bank (DNB) and supervisory authorities in other countries.

2.3 The AFM is studying the increasing use of (customer) data and the risks for solidarity in the insurance sector by means of an exploratory review, which will clarify the risks with respect to consumers being undesirably uninsurable.

2.4 Market parties looking to link new payment services to financial services in the context of PSD2 will be reminded of financial regulation and their obligations under their licences by the AFM.

2.5 In 2019, the AFM developed norms that must be met with regard to the knowledge and experience test for significant financial products such as mortgages, pensions and occupational disability insurances.

2.1 Study of online decision-making environments and automated advice

Studies of online decision-making environments

We have analysed existing behavioural studies relating to the processing of information with the Australian Securities & Investments Commission (ASIC). These concern various studies of how consumers deal with statutory required information in prospectuses, information on pensions and the familiar warning attached to offers of credit.

With the ASIC, our conclusion is that while provision of correct information is certainly an important precondition for consumers being able to take appropriate financial decisions, in many cases this is not enough. Warnings for example are not always effective. And the form in which mandatory information is presented also plays a part. We advise financial parties to further study which form of presentation of mandatory information is most effective for various groups, and to look for an alternative approach if it emerges that the information provided is not adequately effective.

In a cooperation with the consumer credit provider Freo in 2019, we studied the effects of changes to the online application form on the types of loan and repayment schedules that people choose. Our conclusion: the way in which a loan is offered online can have unexpected effects on the choices made by consumers during the purchase process. If for example no monthly



repayment is shown, people chose a repayment amount that was 8.5% higher than if an amount of 2% of the loan is pre-entered.

We also formulated principles for the design of financial decision-making environments for consumers. Further information on the studies of online decision-making environments and the principles is provided on [page 44](#) of this annual report.

Review of online presentation of high-risk investment products

We have reviewed the execution-only environments at large investment firms. This included an assessment of whether complex and high-risk investment products end up with customers for whom these products are not intended. We also reviewed the apps provided by several parties. We note that there is room for improvement in the way in which parties design their online execution-only environments and the online guidance they provide to consumers when choosing complex and often unfamiliar products.

We have consulted with the parties concerned and agreed that they will implement improvements.

Supervision of digital marketing

The AFM continually reviews the advertising of financial products. Advertisements appearing in the traditional media (newspapers, radio, TV et cetera) are clearly visible to us. Digital advertising is becoming increasingly fragmented (targeted at specific groups) or even occasionally personalised and aimed at a specific person. This makes our supervision more complicated.

We conducted an exploratory review of digital marketing for financial products and services in 2019. This also involved discussions with marketeers, experts, market parties and supervisors in other countries. How do our fellow supervisors target their supervision of digital marketing? In addition, we chair a working group in IOSCO (the International Organisation of Securities Commissions) that deals with this issue.

Automated advice

With automated advice, consumers are given fully automated advice on financial products such as mortgages, occupational disability insurance and pension products. We [published](#) our views with respect to automated advice in 2018. Automated advice can increase the availability and quality of financial advice. But this also involves risks, especially with respect to the duty of care, since compliance with this in a digital environment presents specific challenges, such as the ability of an automated system to identify contradictory answers.

Through the InnovationHub, we held consultations with developers of automated advice, a market that is still relatively small, in 2019. The InnovationHub is a portal of the AFM and DNB for questions on the application of legislation and regulation for financial enterprises in relation to the development of innovative financial products, services or business models.

We expect the use of automated advice to increase in the coming years. We will continue to monitor developments through our ongoing supervision. Our mandate in this respect concerns ensuring that the requirements relating to the duty of care are observed, among other things.

Principles for Information Security

In 2019, we formulated 11 principles for information security at financial enterprises and audit firms, that offer guidance on how to meet the statutory requirements for information security. We published these principles in May 2019, with a request for responses, including from market parties. After processing the responses, we published the [definitive principles](#) on our website at the end of December 2019.



2.2 Regulation of cryptocurrencies

In January 2019, the AFM and DNB submitted advice to the Minister of Finance with respect to the regulation of cryptocurrencies. In [Cryptos. Recommendations for a regulatory framework](#) we propose a national licensing system for crypto exchange services and providers of crypto wallets. Such a system would be a first step in more effective prevention of money laundering and the financing of terrorism. Our collective recommendation was to broaden the definition of 'securities' to include investment cryptos, so that these would then become subject to supervision by the AFM. This would also follow the broader definition of 'securities' in MiFID II.

The AFM and DNB have issued frequent warnings with respect to cryptos and ICOs (initial coin offerings, in other words new cryptos), because of the risk of deception, fraud, cyber crime and manipulation. These risks are still present. We accordingly urge the Minister to work for international harmonisation to provide effective protection to Dutch consumers.

In 2019, the Ministry of Finance made preparations for the implementation of the fifth European Anti-Money Laundering Directive AMLD5. The Ministry consulted us and DNB on this issue, and we made preparations for the related supervision. The basis of AMLD5 is to strengthen the gate-keeping role of the financial sector with respect to money laundering by crypto service providers. The European directive is expected to be implemented in the Netherlands in early 2020.

Analysis of crypto instruments

We carried out an analysis of crypto instruments in 2019. These are instruments including trackers, futures and CFDs (or contracts for difference) based on cryptos. Unlike most cryptos, financial instruments with crypto as the underlying security are subject to supervision by the AFM.

Based on various sources (including a request to several investment firms), we investigated the volume of trading in crypto instruments by retail investors, as well as the risks associated with these instruments. We also looked at the quality of the information provided. This analysis is continuing in 2020.

2.3 Review of risks of artificial intelligence in the insurance sector

Together with DNB, the AFM carried out an exploratory review of the use of artificial intelligence (AI) in the insurance sector in 2019 and on 25 July published a report titled [Artificial intelligence in the insurance sector: An exploratory review](#).

We identified ten items of attention in the review that the insurance sector needs to be aware of in the use of artificial intelligence. The review also describes the effect of artificial intelligence on solidarity (the principle of collective sharing of the consequences of individual misfortune). The technology may offer opportunities for individuals who are now unable to get insurance, as assumed risks may be negated by data analysis or put into context. At the same time, there is a risk that certain policyholders or groups of policyholders may be faced with exorbitant premiums. If they are not able to reduce their premiums by changing their behaviour for example, this could undermine solidarity in the sector. Data and algorithms will have an increasingly important role for insurers in the coming years. We will continue to monitor developments closely and engage in dialogue with the sector.

Exploration of risks of undesirable uninsurability

In 2019, the AFM analysed the danger that certain groups or individuals may be unable to obtain insurance because insurers consider the risk to be excessive.

The conclusion was that in the end, the market usually finds a solution for groups who previously were in danger of being uninsurable, such as jewellers at high risk of burglary, for example. And the market is looking for solutions together with other parties for groups that now have difficulty in obtaining insurance. Risks can in some cases still be insured through industry-wide agreements on preventive measures, for example. We are not able to compel insurers to accept certain risks, but we do consider this to be an important issue and accordingly will continue to monitor developments.



2.4 Introduction of PSD2 in the Netherlands

The European Payment Services Directive 2 (PSD2) came into effect in the Netherlands on 19 February 2019. Parties wishing to offer new payment services can as a result obtain access to the current accounts of consumers and businesses, subject to their having obtained express permission to do so. PSD2 is the revised version of the original Payment Services Directive from 2007.

In 2019, the AFM held discussions with parties offering or intending to offer these new payment services. We discussed their business models with them, and informed them of the conduct rules supervised by the AFM. We also explained to some of them that they would need different or additional licences in order to offer their services.

In its supervision, the AFM looks at issues such as complaints handling, information disclosure and the outsourcing of services. Other supervisors in this context are DNB, the Dutch Data Protection Authority (DPA) and the Netherlands Authority for Consumers and Markets (the ACM).

2.5 Knowledge and experience tests

Intermediaries and providers of significant financial products are obliged to first obtain information on a customer's knowledge and experience before providing execution-only services, and to assess whether a product or service is appropriate for a customer on this basis. Customers who do not have sufficient knowledge and experience are given a warning or are excluded from this service. The AFM notes that market parties employ different approaches to this in practice.

After studying the issue, in 2019 we identified certain elements that a proper knowledge and experience test should generally include. For example, consideration of the formulation and language used in the test: this will improve the reliability of the results. We are using these important elements we identified in our analysis of the existing knowledge and experience tests used in the mortgages, investment and insurance markets in 2019 and 2020.

Our follow-up review of the design of knowledge and experience tests (and the interpretation of the results) in the provision of investment services, conducted in cooperation with other European supervisors, was virtually complete at the end of 2019. We will send the results to ESMA in early 2020, which will publish them in due course.





Focus area 3:

Dealing with unsuitable financial products

The AFM supervises how financial enterprises develop and distribute products. It is important that enterprises develop financial products and services of good quality that meet the needs of the target market for which they are intended. Distributors must ensure that these financial products actually end up with the right target market.

We prioritise our supervision of product development, as this enables us to prevent harmful products and inappropriate distribution at an early stage. From experience, we know that supervisory intervention at a later stage can cause serious harm to consumers. Our focus in 2019 was mainly on investment products, non-life insurance, interest-only mortgages and loans in the consumer credit market.

The key activities for this focus area according to the 2019 Agenda are:

3.1 The AFM will urge mortgage providers to prompt consumers with an interest-only mortgage to take action to avoid potential financial problems in the future.

3.2 The AFM will take measures if it emerges that credit providers are not doing enough to prevent excessive borrowing. The AFM will also study whether loans are appropriate to consumers in terms of their form, maturity and size.

3.3 The AFM will review at least two types of investment product in 2019, and will intervene appropriately if these products are harmful for consumers, including the possibility of prohibiting certain products.

3.4 The AFM will review the product development process for investment products, and also review the distribution strategies used.

3.5 The information provided to consumers on Exchange Traded Funds (ETFs) must be correct, clear and not misleading. The AFM will review this in 2019 and will require that information is changed in case of violations.

3.6 The AFM will require changes to be made if it emerges that changes to the policy conditions for non-life insurance do not give central priority to the customer's interests.

3.1 Interest-only mortgages: pilot study with the major banks

Interest-only mortgages are popular in the Netherlands. Many of these mortgages were concluded in past years. Around half the mortgage debt in the Netherlands in 2019 consists of interest-only mortgages, with roughly 2.7 million households having a fully or partially interest-only mortgage. Many of these mortgages will mature in the next 10-15 years.

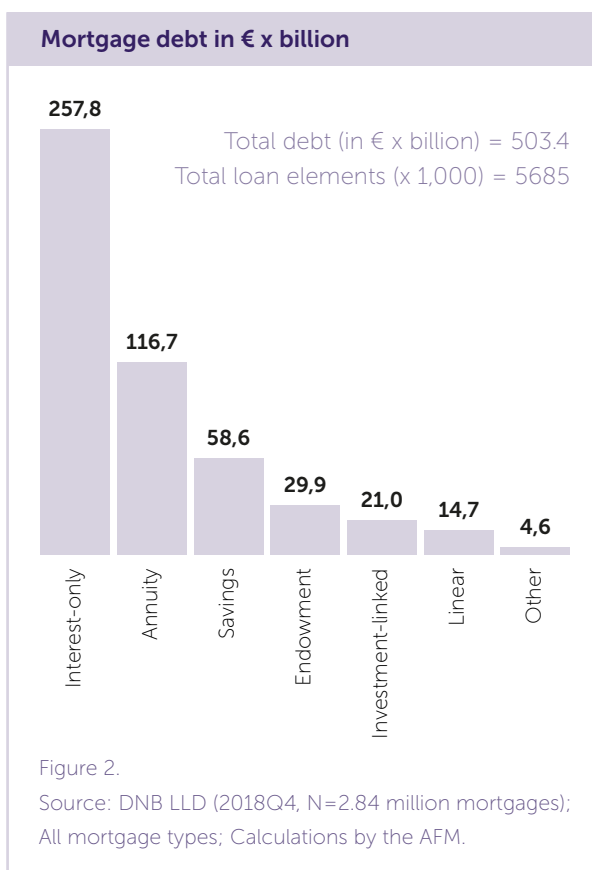
Since there is no periodic repayment on these loans, there may be problems when they mature. Homeowners with a wholly or partially interest-only mortgage may have a lower pension or other income and higher mortgage payments in the future. This may mean that they have difficulty in continuing to pay their mortgage or repay or refinance the mortgage when it matures. We included an analysis of the current situation and potential issues relating to interest-only mortgages in our [Trend Vision 2019](#). We shared our view with regard to an effective approach to interest-only mortgages with the sector at the end of 2018.

We carried out a pilot study at the four major banks (ABN AMRO, ING, Rabobank and de Volksbank) in 2019. We instructed the banks to prioritise mortgage customers with potentially very high risk. The banks held personal interviews with these customers to help them make a decision regarding their interest-only mortgage. The banks asked these customers to provide additional financial information and carried out an affordability test.



The four major banks have approached 34,000 customers at potentially very high risk in this way since 1 July 2019. The conclusion was that 55% of these customers could have difficulty making their payments. The banks discussed potential solutions with these customers, whereby they can take action in good time.

The aim of the pilot was to learn more about the size and nature of the potential problem associated with interest-only mortgages. This also provided us with greater insight into techniques for approaching customers, and we further developed our approach to supervision on this basis. We shared this with other providers of mortgage loans by letter in December 2019. Our ultimate aim is to get mortgage providers to implement a continuous management procedure for customers with interest-only mortgages.



3.2 Measures to combat excessive lending

The prevention of excessive lending is one of the priorities of the AFM. It is important that borrowers have enough money left after paying interest and repayments on a loan to pay their costs of living and other fixed expenses. Credit providers and advisers establish the maximum amount that can be lent on the basis of a customer's income and expenses.

We imposed a fine of € 1,125,000 for excessive lending on two parties in 2019: [Santander Consumer Finance Benelux](#) and [Nationale-Nederlanden Bank](#). In 2019, we also issued a warning to seven parties for irresponsible lending.

This was the result of our extensive review in 2018 of the ten largest credit providers in the Netherlands (including four banks). We requested complete customer files for this review, including all underlying documents and calculations. We found market-wide shortcomings with respect to the obtaining of information on customers' financial positions and the calculation of the maximum amount that could be lent to customers.

Change to the system of lending standards

We called on the industry organisations the Dutch Bankers' Association (Nederlandse Vereniging van Banken, or NVB) and the Dutch Finance Houses Association (Vereniging van Financieringsondernemingen in Nederland, or VFN) at the beginning of 2019 to evaluate and improve the lending standards they had formulated. These lending standards are based on the cost of living calculations of the National Institute for Family Finance Information (Nationaal Instituut voor Budgetvoorlichting, or 'Nibud'). The Nibud annually calculates the minimum amount needed for the cost of living (at social assistance benefit level).

Our argument is that credit providers should make the calculation of income and expenditure as carefully and realistically as possible if they take the minimum cost of living as their starting point. For many consumers, reducing their expenditure to this level is not realistic. The AFM sees this as an important step in preventing people getting into problems with debt.



Approach to continuous credit

A continuous credit is rarely in the customer's interest. Consumers with a continuous credit can be tempted not to repay what they have borrowed, and thus leave this outstanding for far longer than is necessary, in some cases on unfavourable conditions such as a relatively high rate of interest. If their financial situation gradually deteriorates, they become locked into the loan and are no longer able to move to another provider and reduce their costs (the locked-up issue).

We have been in an intensive dialogue with the credit sector in recent years for this reason. Much progress has been made, especially in 2019. Whereas a few years ago around 75% of consumer loans were continuous credits, in 2019 this percentage declined to less than 10% of new loans. At the end of 2019, most parties were no longer offering continuous credits with an unlimited withdrawal period.

Many credit providers have moreover converted existing continuous credits into personal loans or credits with a limited withdrawal period so that the debt is paid off. We are supervising the credit providers to ensure that they offer good guidance to their customers in this process and that customers in difficulties are being offered an appropriate solution. We are also supervising them to ensure that they monitor their customers during the term of their continuous credit.

3.3 Review of two types of investment product

The current low level of interest rates makes investing attractive for private citizens. They can also do this more easily due to digitalisation, as they have access to a wide range of investment products. But not all investment products are suitable for consumers. Since the introduction of MiFID II on 3 January 2018, the AFM has wider powers to intervene with respect to investment products that do not serve the customer's interests.

We focused particularly on two investment products (among others) in 2018 and 2019: binary options and CFDs (contracts for difference). This led to a [ban \(on binary options\) and strict restrictions on the sale of CFDs](#) to non-professional (or retail) investors. Our assessment of whether the product gives central priority to the customer's interests was based on the criteria of cost-effectiveness, usefulness, safety and comprehensibility.

Ban on binary options

Binary options are very similar to tossing a coin. The AFM has requested and analysed data on transactions in binary options. One of our findings is that the 'expectation value' (or average return) on this product is negative: if you trade a lot in binary options, ultimately you will lose money. Furthermore, we cannot see the usefulness of this product for consumers. This was reason for us to decide to ban this product: with effect from 19 April 2019 it is no longer permitted to market, distribute or sell binary options from the Netherlands to non-professional investors.

There was in fact already a temporary ban on the sale of binary options at European level before 19 April 2019, imposed by ESMA. The AFM's ban applies for an indefinite period.

Restrictions on CFDs (contracts for difference)

We decided to impose strict restrictions on CFDs. The leverage is capped, and sellers of CFDs must attach a risk warning. Despite our decision not to impose a ban, we are of the opinion that CFDs are not suitable for most private investors.

We also started an analysis of other speculative products, such as turbos, in 2019. Our findings are yet to be published.



3.4 Review of the product development process for investment products

In 2018 and 2019, we analysed the process of product development at a number of larger investment firms. First of all, we reviewed their official policy in this area: how is their product development process established? What do the policy documents say regarding the assessment of added value for customers, the target market for which the product is appropriate (and the market for which it is not), and the distribution policy: how does the firm ensure that its financial products actually end up with the intended target market?

We then looked in more detail at the product development process for two specific products in practice: turbos and ETPs (Exchange Traded Products, also known as trackers).

From our research, we conclude that investment firms have made good progress in meeting the requirements of the new legislation and regulation of MIFID II. But the appropriate target markets are often not defined clearly enough, as a result of which the products could end up with groups for which they are less suitable. The fact that the distribution strategy is not adequately developed in many cases increases the risk of this happening, and therefore financial products may end up with the wrong target markets. We intend to review the product development processes for other products in the coming years.

Securities-backed loans in the customer's interest

Securities-backed loans are loans collateralised by a securities portfolio. They can be used to invest with borrowed money, for example, thus creating leverage. This can produce additional return in the good times, but things can turn out less favourably when times are bad. The investor then will fail to achieve their objective, and/or be left with a residual debt.

We think it is important that providers ensure that investors are aware of the risks involved in taking out a securities-backed loan. Our review revealed that 10% to 12% of investors have a securities-backed loan. In 2019, we called on banks and investment firms to review whether their investment propositions met the requirements of legislation and regulation and offered sufficient added value for customers. If this was not the case, the products needed to be adjusted.

Unit-linked insurance policies

In 2017 and 2018, we published a [report](#) on activation by insurers of customers with a unit-linked insurance linked to a pension or mortgage. Activation here means encouraging the customer to make an informed choice regarding their unit-linked insurance (adjust, continue or cancel). In 2019, we also finalised the review of other unit-linked insurances such as savings plans or educational fees insurances. These insurances are commonly known in the Netherlands as 'woekerpolissen', meaning insurance policies with excessive charges.

The insurers have informed their customers with unit-linked insurances regarding ways to improve their financial situation. The statutory obligation for insurers to activate customers with unit-linked insurances is thus complete. This is the conclusion from our final check, and the Minister of Finance has written a [letter to the House of Representatives](#) on the matter. We continue to exercise ongoing supervision of matters such as the after-sales service offered by insurers to customers with respect to still existing unit-linked insurances (approximately 2 million).

Current results from activation, subdivided into:	100%
Unit-linked insurances bought out	40%
Unit-linked insurances adjusted/made paid-up	13%
Conscious decision for no change to unit-linked insurance	27%
Informed only (in accordance with legislation)	11%
Not reached despite effort to do so	9%

Table 1.



3.5. Provision of information on ETFs (index trackers)

The AFM continually monitors all the information provided in connection with financial products, from leaflets to prospectuses and advertisements. We review this information (ex-post) against the statutory requirements. The requirements for the provision of information have been tightened since 2018 as a result of new legislation and regulation. We communicate such changes in legislation to the market.

In some cases, we focus on one product in more detail. In 2019, ETFs (Exchange Traded Funds) were a subject of particular attention. ETFs are a sub-category of ETPs (see section 3.4) and track a basket of shares or bonds, usually a financial index such as the AEX. With an ETF, an investor can realise the average return on a particular market. ETFs are also known as trackers, or index trackers. We have carried out a market scan of the mandatory documentation for ETFs, including an assessment of whether the mandatory documentation is complete and accessible. In general, we are seeing a positive development in the provision of information. However, the information provided to consumers with more complex ETFs is difficult to understand in some cases. We therefore wish to emphasise the importance of comprehensible products and provision of information that is appropriate for the target market.

3.6 Review of changed policy conditions for non-life insurances

Non-life insurers may adjust their policy conditions from time to time. They are required to properly inform consumers when this happens. The AFM has had to take action in the past after receiving negative signals from customers. We implemented a significant improvement in automation in 2019 whereby we now can monitor changes in policy conditions more proactively.

Our IT system now gives us automatic signals of changes to non-life policy conditions on a quarterly basis. If the changes to the policy conditions are contrary to the customer's interests

or we consider that the communication (among other things, in the Insurance Product Information Document or IPID: the standard information document for non-life insurance policies) is not adequate, we will request that the insurer improves it. We have now followed this approach for a number of quarters in 2019 and are satisfied with the initial results.

Our monitoring of changes to policy conditions gives us insight into trends. We are seeing for instance that certain things are becoming less easy to insure, such as some of the effects of climate change. This early signalling of trends can be reason for us to engage in a dialogue with insurers and find solutions before negative social consequences occur.

New: request for all complaints in 2019

The AFM issued a first request in 2019 to all insurers to provide an overview of all the complaints they had received (in 2018). Collectively, insurers received 160,000 separate complaints with respect to private and business insurances in that year. Nearly half of the reported complaints concerned healthcare. The reporting of the complaints did not include any details of how complaints had been dealt with or whether the customer's complaint was found to be justified. The AFM will issue such a request to the insurers every year from now on. We hope this will help us identify trends, that we will then be able for instance to link to the changes in policy conditions we identify.



Focus area 4:

Attention to sustainability in the financial sector

The attention to sustainability has led to an increasing offering of financial products and services that are sustainable in nature. This is a positive development, but the AFM also sees a risk that consumers will be given incorrect, unclear or even misleading information. We want to prevent 'greenwashing', or the attempt to convey a false impression with respect to environmental impact. Norms for sustainability in the financial sector are still being developed.

The AFM is contributing to the rules being developed in the European Union on this issue. The importance of sustainability is also becoming ever more visible in asset management and the capital markets. The reporting of listed companies on what are known as ESG (environmental, social and governance) factors is becoming increasingly important. A lack of uniform reporting requirements increases the risk of information that is incomplete or that cannot be compared. Investors may therefore not be sufficiently able to understand the risks to which a company is exposed.

The key activities for this focus area according to the 2019 Agenda are:

4.1 The AFM will review a number of listed companies with respect to the application of integrated reporting.

4.2 We will review the information provided on sustainable investment products and will take enforcement action if this information turns out to be incorrect, unclear or misleading.

4.3 The AFM is aware of the fast-growing market for sustainable bonds, and is analysing the risks associated with the market developments.

4.1 Review of integrated reporting

With effect from the 2017 financial year, large public interest organisations (PIEs) with more than 500 employees are obliged to report on non-financial factors in their management reports (under the Decree on Disclosure of Non-Financial Information, or *Besluit bekendmaking niet-financiële informatie*). This is also known as integrated reporting: in addition to financial information, an annual report should contain information on sustainability and other non-financial aspects, including the company's strategy.

Follow-up of review of reporting of non-financial information

At the end of 2018 (on 13 December), we published a [review of reporting on non-financial information](#) by 89 companies (In Balance 2018). The vast majority of these companies did report on their policy with respect to various non-financial matters. But our conclusion was that most companies can and must improve their reporting on the various non-financial issues. There was also great variation in the quality of the information.

In 2019, we did a follow-up review of 33 companies that had failed to adequately comply with the Decree on the Disclosure of Non-Financial Information in our 2018 review.

The [follow-up](#) revealed that there had been an improvement in the disclosure of non-financial information in 16 of the 33 management reports assessed. The improvement was most visible among those companies that had fallen well short in the previous year and had been sent a letter by the AFM. The interviews with these companies revealed that they had recently started to report non-financial information externally, and that they needed time to achieve a degree of maturity in this reporting. The companies not sent a letter by the AFM showed no clear improvement. The shortcomings are largely the same as those identified in the 2018 review: the information reported is too general in nature in most cases.

Survey of value creation

In 2019, we also carried out a [survey of reporting on value creation](#) by 39 AEX and AMX companies. Value creation is a key element in good and informative reporting, as it gives a better impression of the risks and opportunities that a company faces. A current example of this concerns the effects of climate change, which may materially



affect a company's strategy, business model and results. The same applies to factors such as biodiversity, scarcity of materials and how companies deal with human rights.

The conclusion of the survey is that long-term value creation nowadays has a more central place in the reporting of companies listed on the AEX and AMX. 85% of the companies provided information on how value is created and 69% also reported the form in which this occurs. There is room for improvement in the quality of this reporting: it needs to be more specific and more detailed. There could also be more attention paid to any loss of value.

International attention to the importance of non-financial information

Within ESMA and IOSCO, we have been one of the proponents of more and better use of non-financial information in reporting for many years. We were therefore pleased to see that IOSCO issued a [statement](#) for the first time in 2019, the 'IOSCO statement on disclosure of ESG matters by issuers', on the importance of ESG criteria in the publication of important information for investors. According to IOSCO, this information can affect a company's results in the short and the long term.

4.2 Review of the provision of information for sustainable investment products

In 2019, the AFM carried out an exploratory review of the consumer market for sustainable investment products and the related provision of information. We used existing market data, carried out a consumer survey and held discussions with providers of sustainable investment products.

We concluded that the market for sustainable investment products is difficult to understand for consumers. For example, it is difficult for them to assess how sustainable a product is, and it is difficult to compare one sustainable product with another. This is partly because there is no uniform definition of sustainability in the market. Past performance in terms of sustainability are moreover difficult to access.

Work is proceeding at European level on creating clearer frameworks for the market for sustainable investments. For instance, on 18 June 2019 an EU group of experts on sustainable finance (the Technical Expert Group, or TEG) published a proposal for detailed criteria for determining at European level whether an investment is environmentally sustainable or not, known as the [taxonomy](#). This is part of a proposed taxonomy regulation that should lead to greater harmonisation within the EU regarding the term 'sustainability' and sustainable financial products. New European regulation will call on providers of sustainable investment products to offer greater transparency.

We want to see providers of sustainable investment products be more clear regarding their interpretation of the term 'sustainability'. We wish to prevent greenwashing: the presentation of products as sustainable or green when this is not or only barely the case. Sustainable features should also not distract attention from disadvantages or risks of a financial product. In our ongoing supervision therefore, we monitor all information provided to ensure that it is correct, clear and not misleading.



4.3 Survey of the fast-growing market for sustainable bonds

Sustainable bonds are rapidly becoming more popular. Sustainable bonds is a wider category than green bonds. Sustainable bonds for instance include also social bonds (projects for improving society), blue bonds (financing cleaner surface water, such as the removal of plastics from the oceans) or SDG bonds (financing progress towards one or more of the 17 United Nations sustainable development goals). In practice around 75% of sustainable bonds are green bonds, meaning targeted towards climate change. The one common feature of all types of sustainable bonds is that the market is rapidly growing.

Review of all market parties involved with sustainable bonds

We carried out a review of sustainable bonds in 2019. This involved discussions with around 20 relevant parties, focusing on questions such as: how exactly are sustainable bonds constructed, what are the issues with these bonds and what are the risks? Our discussions involved other parties besides issuers, such as investors, rating agencies and banks. We thus obtained a relatively complete impression of this market, and gained knowledge that we will use for our supervision. The review is actually not yet complete, and will be completed in early 2020.

Position paper on the prospectus

The AFM published a [position paper](#) together with the Autorité des marchés financiers (AMF), the supervisor in France, in April 2019. In this paper, we argued for additional information to be included in the prospectus for green bonds. An issuer of green bonds must for instance specify whether it intends to meet one of the standards for green bonds, whether it will report on how the proceeds are used and whether it will have this verified by a third party.





Focus area 5:

Addressing market risks in the capital markets

The introduction of MiFID II in 2018 has further improved fairness and efficiency in the operation of the capital markets. This EU Directive sets tighter rules for investor protection, in areas such as cost transparency, product governance and commissions. Partly as a result of MiFID II, our tools for detecting market abuse have improved.

At the same time, the capital markets are becoming more fragmented and more complex due to new technology and internationalisation, which means that dealing with ongoing market risks remains a challenge. In addition to the prevention of disruption to the capital markets due to Brexit, we also focused in 2019 on the transition to new interest-rate benchmarks that will replace the current Euribor and Eonia.

The key activities for this focus area according to the 2019 Agenda are:

- 5.1 *The AFM will use new supervisory data (partly due to MiFID II) to obtain further insight into the operation of the capital markets.*
- 5.2 *The AFM will review the risks involved in the transition to new interest-rate benchmarks.*
- 5.3 *The investigation of trading with inside information or market manipulation and enforcement in case of violations is an ongoing task.*
- 5.4 *When approving prospectuses, the AFM ensures that these are comprehensible for the target market. Advertisements containing an offer that are subject to the prospectus obligation must be honest with regard to the risks. This is tested using behavioural science research.*

5.1 MiFID II provides new and better supervisory data for the capital markets

The introduction of the *EU Markets in Financial Instruments Directive II* (MiFID II) on 3 January 2018 has brought significant changes to the AFM's supervision. MiFID II was a revision of MiFID I, introduced in 2007. Among other things, MiFID aims to protect investors and promote transparency and fairness in the financial markets. As a result of MiFID II, the AFM has access to a large amount of transaction data.

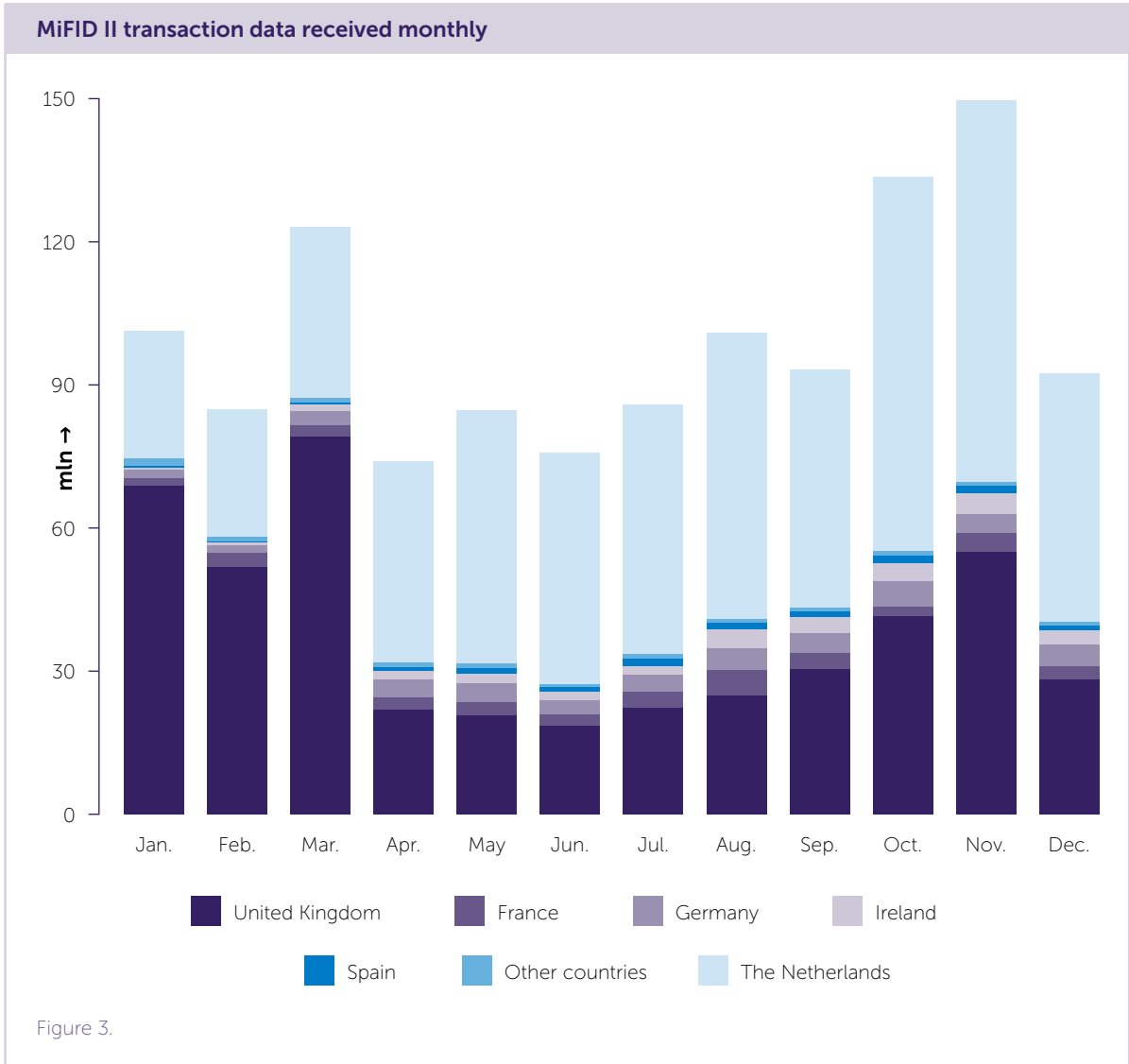
Investment firms now have to report all their transactions to the AFM by the following business day. We also receive large volumes of data from other countries and we transmit large volumes of data to the other EU countries. All these transfers are fully automated. The volume of transaction data we receive from Dutch companies has sharply increased as a result of MiFID II and Brexit, from approximately 8 million per month before the introduction of MiFID II to around 50 million a month now. And this volume will most likely increase substantially again once Brexit happens. Due to our development and updating of new and existing software (see also focus area 1), we have so far been able to process these extra data, with the data used to build dashboards and alerts with the use of algorithms for bond supervision. We expect that we will require double the originally estimated capacity for data storage in 2020.

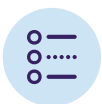
Since the introduction of MiFID II, we have a much better idea of what each investor is doing. This enables us to be more effective in detecting market manipulation and dealing with inside information (see section 5.3).



We streamlined incoming data, partly in connection with ESMA, in 2019. We note that financial institutions are still applying too much of their own interpretation as to how they deliver these data; the processing of the data by our own systems is also not yet optimal. The further stream-

lining of the data delivery process under MiFID II is expected to take another one or two years, after which we will have a more in-depth understanding of the operation of the capital markets. We are also continually working on the development of improved algorithms for data analysis.





MiFID II reviews

One year after the introduction of MiFID II, the AFM has reviewed the extent to which financial enterprises had properly implemented the new regulation. The implementation of the MiFID II norms in practice was still inadequate in a number of respects, primarily with regard to cost transparency and product development. Banks and brokers must provide greater transparency regarding investment costs and improve their testing of whether the purchase of high-risk and complicated investment products is appropriate for the customers concerned.

In addition to this review, we also checked compliance with the MiFID II requirements at ten investment firms that provide investment services exclusively to professional investors. We concentrated mainly on cost transparency, product governance and commissions. We sent our feedback to these ten parties shortly before the summer. On 10 December 2019, we published our [General findings with respect to MiFID II](#).

The review showed that full compliance with the new regulations still presents considerable challenges. In some cases, the investment firms were still applying previous MiFID I procedures and measures. We emphasised that the rules for investor protection in MiFID II have been tightened and extended in many areas, including with regard to services to professional investors. Our report also offers practical guidelines on improvements. We expect all investment firms to use these guidelines to test their practices and to implement improvements.

Demonstrable professional competence of advisers at investment firms

Since 1 April 2019, we require employees of investment firms that provide information and advice to clients to have demonstrable professional competence. This is one of the requirements of MiFID II. There were no accredited examinations for proof of professional competence when MiFID II was introduced on 3 January 2018, but these were introduced during 2018.

We have also made an agreement with the Education Executive Agency (Dienst Uitvoering Onderwijs, or DUO), enabling us to check directly whether financial services providers hold the diplomas required by law.

5.2 Risks relating to the transition to new interest-rate benchmarks

A properly functioning financial system needs interest-rate benchmarks, which are widely used as the basis for financial contracts such as derivative instruments, securitisation transactions, mortgages and business loans. The interest-rate benchmarks (also known as Interbank Offered Rates, or IBORs) most widely used in the eurozone are Eonia (Euro OverNight Index Average) for the overnight interest rate and Euribor (Euro Interbank Offered Rate) for terms from one week up to one year.

Both of these interest-rate benchmarks may be exposed to manipulation, as became clear with the Libor scandal in 2012 (Libor is the most widely used interest-rate benchmark outside the eurozone). Supervisors have accordingly set tighter requirements for aspects including governance, calculation methodology and transparency with respect to interest-rate benchmarks. For instance, crucial benchmarks in the EU must comply with the EU Benchmark Regulation (BMR) with effect from 1 January 2022.

This means that Eonia will be replaced by €STR (pronounced 'Ester'). And Euribor has been reformed. Both €STR and the reformed Euribor are more stable and less exposed to manipulation.

The transition to the new or amended interest-rate benchmarks involves financial, legal and operational challenges. This will be a major exercise in the Netherlands, due to its large market for interest-rate derivatives, including the sizeable pensions sector that uses interest-rate derivatives to hedge against declining interest rates. Contracts based on Eonia or Euribor will have to be amended.

Review of introduction of €STR and the reformed Euribor

In April 2019, the AFM conducted a review including major banks, insurers and pension funds to establish how these institutions are dealing with the transition to the new interest-rate benchmarks. Based on the results of this review, we provided detailed information on the changes in September 2019. Our main message was to make the transition to €STR in good time, timely apply fall-back options (or alternatives) for the



reformed Euribor and consider which of the new interest-rate benchmarks is most suitable for your organisation (also in the long term). We also ask market parties whether they have identified and listed the risks, made the necessary changes to their ICT systems, informed their customers adequately and amended their contracts (with a reasonable proposal to their customers).

5.3 2.3 Trading with inside information and market manipulation

The volume of data available for detecting market abuse has increased substantially as a result of MiFID II.

Market abuse in general involves two prohibited activities: market manipulation and trading with inside information (also known as insider trading). The exact definition of market manipulation [is given on the AFM-website](#) and in Article 12 of the European Market Abuse Regulation (MAR). This may involve misleading orders designed to move prices to an artificial level. It may also involve the dissemination of misleading signals. The AFM may call on a trader or broker to cease certain trading behaviour.

Market manipulation is a serious criminal offence. It damages the confidence of investors in the financial markets. Not only can other investors suffer direct financial losses as a result of market manipulation, ultimately every citizen can be affected through their indirect investments in insurances or pension funds. The AFM has the power to impose an order for incremental penalty payments or a fine in cases involving market manipulation. Serious cases will be referred to the Public Prosecution Service. Violation of the prohibition of market manipulation is an economic offence.

Trading with inside information is the use of information that has not been made publicly available when effecting orders and transactions in financial instruments.

Many more 'STORs'

The introduction of the MAR in 2016 tightened and refined the rules for preventing market manipulation and trading with insider information. Since that time, financial market parties such as banks and proprietary traders are obliged to report suspicious transactions using what is known as a Suspicious Transaction and Order Report, or STOR. The number of STORs has increased substantially in recent years. The introduction of MiFID II at the beginning of 2018 has enabled the AFM to check more effectively whether market parties are complying with this obligation.

The AFM received more than 700 reports in 2019 that were investigated for potential market abuse. This concerned approximately 450 STORs and 250 reports reaching us by other means, either from our own detection system or from private or professional investors. Some of these ultimately led to an investigation. Most of the STORs (75%) concerned potential trading with inside information. A couple of hundred of these STORs ultimately led to dozens of investigations and the imposition of informal measures. Regarding the reports of market manipulation, there were numerous informal contacts that led to the cessation of undesirable behaviour or the closing of positions. Several dozen informal measures were also imposed.

Number of STORs received

The number of STORs (Suspicious transaction and order reports) received by the AFM has increased substantially in 2019.

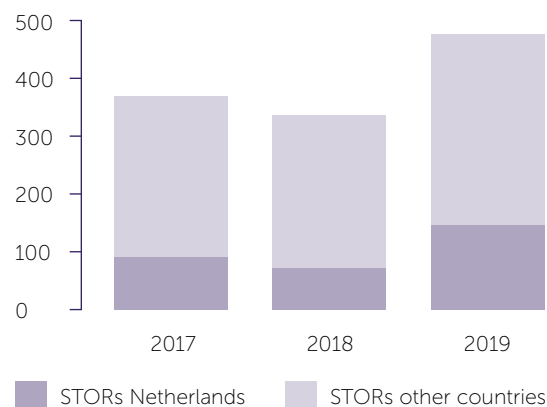


Figure 4.



To prevent trading with inside information from occurring, listed companies must publish inside information (previously referred to as 'price-sensitive information') as quickly as possible. This was an issue receiving much attention from the AFM in 2019, among other things through regular contact between our monitoring team and listed companies.

In immediate situations of failure to publish inside information in good time, we halt trading in the share concerned. This happened on two occasions in 2019 with the company [Esperite](#). In other cases, we impose a fine. We [imposed an administrative fine of €2 million on SBM Offshore](#) on 28 March because this company had on four occasions failed to publish inside information in good time during the period between March 2012 and November 2014. [We imposed an administrative fine of € 2 million on ABN AMRO](#) on 13 November because the bank failed to publish inside information in good time between 18 July and 13 September 2016.

5.4 Comprehensible prospectuses and honest advertising

The Prospectus Regulation (EU) 2017/1129 came into effect on 21 July 2019. All the requirements in this regulation for the formulation of prospectuses have applied since that date. The description of risks has to be more specific. There are also stricter requirements for comprehensibility and the prospectus summary. A prospectus contains detailed information on the company concerned and the securities to be offered or listed on a regulated market, and is an essential source of information for investors.

We prepared the market for the introduction of the new Prospectus Regulation, sending out several newsletters and publishing information on our website. We also held discussions with parties affected to a greater or lesser extent by the new regulation, including issuers, legal firms and financial advisers.

The AFM approved a total of 90 prospectuses in 2019, including two flotations with the shares listed on Euronext Amsterdam. Most prospectuses concern bond issues to professional investors. We assess prospectuses for completeness, comprehensibility and consistency. We do not check if information is correct.

Number of prospectuses approved

The number of prospectuses approved by the AFM on a yearly basis remains rather stable. It fluctuates around 100 per year.

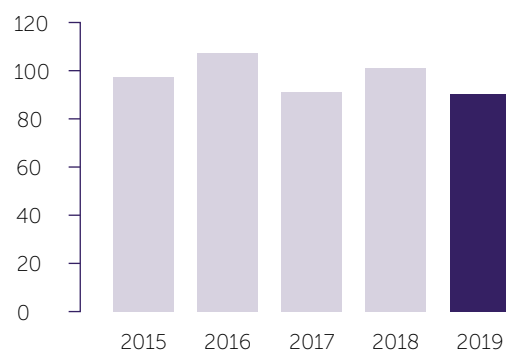


Figure 5.

Ex-ante assessment of advertising

The new Prospectus Regulation also contains requirements for advertisements relating to offers of securities. We welcome this, since our own research shows that [advertising plays an important part in investment decisions](#).

Since 2018, we have offered companies the opportunity to have their advertising assessed for compliance with the requirements prior to publication. A huge number of companies have made use of this opportunity. A total of 120 advertisements were assessed prior to publication in 2019, ranging from simple leaflets, banners and newsletters to video clips. We were able to point out shortcomings to parties in detail which they then corrected before publication.



Crowd-funding

The AFM grants exemptions or licences to crowd-funding platforms. These platforms allow investors to grant loans to certain projects, or invest in securities to finance certain projects. If a crowd-funding platform no longer meets the requirements for the exemption or licence, the AFM can withdraw it. This is an extreme measure that we have not so far had to use. Two new parties joined this market in 2019. This brought the total to 48 with 42 parties with exemptions and 6 with licences.

The AFM does not check the projects on crowd-funding platforms or the parties organising them. The platform is responsible for a comprehensible and correct qualification of the risk involved in a project. There is as yet no specific regulation of crowd-funding platforms in the Netherlands, apart from the provisions in the Market Conduct Supervision (Financial Institutions) Decree (Besluit Gedragstoezicht financiële ondernemingen, or 'Bgfo').

The crowd-funding market is still developing and operates across borders. It is therefore important that we have a uniform European framework and a level playing field for all parties. Agreement was reached in Brussels in December 2019 for a European Regulation that will provide this more robust framework. The Regulation is expected to come into effect in 2021. Crowd-funding platforms on which investors contribute money to good causes (donation based) or which offer a non-financial consideration (reward based) are not subject to supervision by the AFM.





Focus area 6:

Permanent improvement of the quality of audits

Reliable financial reporting, accompanied by an objective assessment by an auditor, is an essential precondition for an effectively operating financial system. This is becoming increasingly important, since the financial sector is rapidly innovating and becoming more international. PIE audit firms have taken the necessary measures in recent years, but the quality of statutory audits is still too often inadequate and the change of culture in the sector is still not far enough advanced to achieve the desired level of quality.

In 2019, the AFM again focused on the permanent improvement of the quality of statutory audits by the large audit firms. We also engaged in a dialogue at national and international level on the factors that can positively and negatively affect the quality of statutory audits.

The key activities for this focus area according to the 2019 Agenda are:

6.1 The AFM will review the progress of the change processes, quality safeguards and the quality of statutory audits in all or some PIE audit firms.

6.2 The AFM will engage in a dialogue with major stakeholders at national and international level on the factors that positively and negatively affect the quality of statutory audits.

6.1 Improving the quality of audits

In 2019, the AFM carried out three reviews of quality at audit firms with a PIE licence. These firms are licensed to perform statutory audits of PIEs, or 'Public Interest Organisations'. PIEs are organisations that affect the interests of large groups due to their size or social function. At the end of 2019, there were 725 PIEs in the Netherlands.

Review: 10 key factors for focus on quality

The AFM published the findings of a review of the Big 4 PIE audit firms (that started in 2018) on 9 May 2019: [The contribution of attitude, conduct and culture to the focus on quality of the audit team](#). The Big 4 audit firms are Deloitte, EY, KPMG and PwC. We considered the contribution of more than 20 factors to a focus on quality among audit teams.

We found that ten factors were important for a focus on quality. Some of the most important factors are: timely sharing of information within the audit team, calling each other critically to account, the setting of a good example by the management and taking the time needed for reflection.

AFM review of the 'Other PIE audit firms'

The AFM also carried out a review of the so-called 'other PIE audit firms' (of which there were five at the beginning of the year) in 2019. These are the PIE audit firms that are not part of the Big 4. A review of these firms took priority in 2019, as the report [Quality of PIE-audit firms reviewed in 2017](#) showed that the 'other PIE audit firms' were in general performing less satisfactorily. Our review [Quality of other PIE-audit firms reviewed in 2019](#) considered the extent to which a quality-oriented culture was given central priority, how the continuous process of improvement was progressing and how quality safeguards were embedded and applied. In other words, did these organisations have a culture and structure adequate to permanently ensure the quality of their statutory audits.

The extent to which measures were in place that had led to increased quality varied from one firm to another. The AFM reached a moderately positive opinion with respect to two of the five firms concerned.

The quality of a number of statutory audits by each audit firm was also reviewed. 12 of the 14 statutory audits reviewed were qualified as 'inadequate'.



AFM review of the 'Big 4'

In 2019, the AFM also started a review of the Big 4 audit firms, and the findings are expected in the first half of 2020. In our review of the Big 4 audit firms, we looked at the progress of change processes, the 'quality circle' and the quality safeguards. We did not review the quality of the statutory audits in our 'Big 4' review.

Call for stronger supervisory powers

In 2019, we requested the Ministry of Finance to implement measures that would give us further supervisory powers with respect to the audit sector. In some cases, our ability to apply effective enforcement is limited by the current legislation.

AFM response to the report of the Committee on the Future of the Audit Sector (Commissie Toekomst Accountancysector, or CTA)

The AFM published its report Vulnerabilities in the structure of the audit sector on 21 November 2018. The conclusion in this report was that the earnings and business model of audit firms can negatively affect the quality of statutory audits. The report contributed to the decision of Minister of Finance Hoekstra to appoint an independent Committee on the Future of the Audit Sector (hereinafter, the CTA).

Among other things, the CTA considered possible changes to the structure of the audit sector in 2019. The CTA presented its final report, with recommendations, to the Minister of Finance on 30 January 2020. The CTA had reviewed all the links in the chain that affect audit quality. These include the role of the company in the correct preparation of the financial statements, the audit by the auditor and the audit firm and the audit committee, as well as the role of the users of the financial statements. The committee also made several proposals for strengthening supervision. The AFM sees the committee's integrated approach as useful and adding significant value to the analysis of quality problems.

Suitability tests

After a change to the Audit Firms (Supervision) Act (Wet toezicht accountantsorganisaties, or Wta), with effect from 1 July 2018 directors and internal supervisors at audit firms with a PIE licence must, besides being proper persons, be suitable for the exercise of their duties. The AFM is responsible for carrying out these suitability tests. The AFM performed a total of 119 of these tests in 2018 and 2019, thus completing the testing of existing directors and supervisory directors. We do not publicly communicate the results of individual tests.

In general, we note among other things that the PIE audit firms are becoming increasingly aware of the importance of a balanced and diverse composition of their executive and supervisory boards, also due to the suitability requirements. A balanced and diverse group is better able to implement the changes in organisational culture and conduct that are needed.



6.2 Discussions with important national and international stakeholders

In 2019, the AFM engaged in discussions of the quality of statutory audits in various national and international forums.

The aim of our international activities is to apply influence on policy issues and to identify developments in legislation and regulation at an early stage. We also learn from best practices at other supervisors, and vice versa. At global level, we participate in the International Forum of Independent Audit Regulators (IFIAR). At European level, we are active in the Committee of European Auditing Oversight Bodies (CEAOB) and the Colleges of Regulators set up for each of the Big 4 audit firms. We are represented on the managing bodies (Board and Plenary) of both IFIAR and CEAOB and in various working groups, some of which we lead. We also lead one of the European Colleges of Regulators. The AFM participates, among other things, in discussions of the quality of statutory audits and the impact on this of

potential changes to the structure of the audit sector. The AFM argues for the development of 'audit quality indicators' to more clearly show fulfilment of the preconditions that are indicative of quality improvement. The AFM holds regular discussions with all PIE audit firms on the progress of their change process and the dilemmas they are experiencing in connection with quality and giving central priority to the public interest.

Seminar for Audit Committees

In 2019, we organised a seminar for members of audit committees (part of supervisory boards) of listed PIEs with more than 500 employees. In various workshops, we discussed how to strengthen the role of the audit committee in the monitoring of the quality of audits and reporting. Around 30 audit committee members attended the seminar.





Focus area 7:

Combating money laundering and other financial-economic criminality

Financial enterprises have an important role in preventing financial-economic criminality and especially money laundering. By systematically identifying risks and taking the appropriate control measures, they can combat money laundering, the financing of terrorism, fraud, corruption and other financial-economic criminality.

We have reviewed investment firms and other institutions to establish whether they are fulfilling their gate-keeping role appropriately and are complying with the relevant legislation and regulation, such as the Money Laundering and Terrorist Financing (Prevention) Act (Wet ter voorkoming van witwassen en financieren van terrorisme, or Wwft) and the Sanctions Act (Sw). The checks to establish that policymakers and co-policymakers are proper persons is also an important element in our integrity supervision.

The key activities for this focus area according to the 2019 Agenda are:

7.1 The AFM will assess whether investment firms, collective investment schemes and financial services providers are meeting the requirements under the Wwft and the Sanctions Act. This includes the conduct of on-site investigations.

7.2 The AFM reviews the properness of policymakers and co-policymakers and that licensees operate their businesses in an ethical and controlled manner on the basis of the Financial Supervision Act (Wet op het financieel toezicht) and the Audit Firms (Supervision) Act (Wet toezicht accountsorganisaties). We assess the control of integrity risks such as fraud and corruption. This includes the conduct of on-site investigations. In addition, if there are substantive grounds for doing so, the AFM will retest the properness of policymakers and co-policymakers at enterprises subject to its supervision.

7.3 The AFM reviews compliance with the obligation of investment firms and collective investment companies to notify unusual transactions and the use of the systematic integrity risk analysis (SIRA) by licensees.

7.4 The AFM gives guidance to the market with regard to applicable legislation and regulation and the control of integrity risk by means of SIRA.

7.1 Review of compliance with anti-money laundering legislation and the Sanctions Act

Financial enterprises falling under the AFM's supervision of compliance with the Wwft and the Sanctions Act are: investment firms, collective investment schemes (such as UCITS, or Undertakings for Collective Investment in Securities) and financial services providers who act as intermediaries in the arrangement of life insurance contracts. Banks and life insurers are not subject to the AFM's supervision of compliance with the Wwft and the Sanctions Act, they are supervised by De Nederlandsche Bank (DNB).

The responsibilities of the financial enterprises falling under our supervision relating to the Wwft and the Sanctions Act include the following:

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

Digitalisation is making it easier for criminals to commit fraud in the Dutch financial sector. Digitalisation therefore sets more onerous requirements for a controlled and ethical business operation at financial enterprises.



Annual survey and risk-driven review

As in every year, the AFM distributed a Wwft/Sw questionnaire to all investment firms (around 300), all collective investment schemes and investment managers (around 600) and approximately 6,000 financial services providers acting as intermediaries in life insurance. Between 95% and 100% of all parties completed the questionnaire. Based on the responses, we used our risk model to assess which parties (unwittingly) are at the greatest risk of becoming involved in money laundering or the financing of terrorism. We then investigated a number of institutions on this basis, both on-site and off-site. We also carried out thematic reviews, follow-up reviews and investigations of signals and incidents in addition to this risk-based review. And finally, there were a number of reviews from the previous year that were completed in 2019.

We carried out a total of 33 on-site investigations in 2019 (including 8 on the BES Islands). In addition, we imposed the following measures: one licence withdrawal, one proposed licence withdrawal, one proposed order for incremental penalty payments, two proposals for an instruction, 63 warning letters, 16 instructive letters on compliance with standards and 72 informative letters on compliance with standards.

Manual for Bonaire, Sint Eustatius and Saba

We published a [Wwft and Sanctions Regulation Manual](#) for BES in October 2019. This manual gives practical guidance and further clarification of the requirements applying to service providers on Bonaire, Sint Eustatius and Saba under the Wwft BES. In addition to several investigations on-site, we organised a round table meeting on Bonaire for service providers (life insurance intermediaries) on the three islands to discuss further interpretation of the legislation and provide additional explanation.

7.2 Reviews of ethical business operation and retesting of properness

Each year, we receive around 200 signals that give reason to carry out retests or thematic or other reviews in connection with ethical business operation. We do this on a risk and data driven basis.

Retesting

The AFM tests directors and supervisory directors of financial institutions and audit firms for suitability and properness (see Ongoing Supervision [page 37](#)). With regard to properness, we establish whether this is beyond doubt. The assessment of properness in principle happens only once. A person who has already been tested and received a positive decision will only be tested again if the AFM sees reasonable cause to do so.

This would for instance entail signals we receive regarding the properness of an existing director or supervisory director, such as involvement in fraud. We established five such 'reasonable causes' in 2019 that led us to initiate a retest. In addition, there were ten retests still ongoing. Twelve of the retests were completed in 2019. This led to three warning letters, two licence withdrawals (at the licensees' request) and one director stepped down after being contacted with respect to the retest. Six retests were completed with positive outcomes.

Integrity risks

In addition, we continually review the approximately 8,000 licensees subject to Wft and Wta supervision of the AFM with respect to the control of integrity risks such as fraud and corruption. In this context, the thematic review based on systematic integrity risk analysis (SIRA) at audit firms was completed in 2019 (see section 7.4). Regarding the Wwft, we work in cooperation with the Financial Supervision Office (Bureau Financieel Toezicht).

Six investigations with associated visits were also started in the thematic review of corruption risks at audit firms in 2019.

The signals received moreover led to the initiation of thirteen investigations with respect to ethical business operation. Eleven of these investigations were completed in 2019. We also completed six still current investigations with



respect to ethical business operation in 2019. Collectively, this led to ten warning letters, three instructive letters on compliance with standards, one licence withdrawal at the licensee's request and two investigations that led to six fines, five of which were imposed on the de facto directors. One investigation was completed after the bankruptcy of the financial enterprise in question.

7.3 Review of transaction monitoring and notification obligation of investment firms; review of risk management

Review of attitude to notification at investment firms

We carried out a review at 17 investment firms in 2018 and 2019 in order to obtain greater insight into how investment firms are dealing with the notification of unusual transactions. We gained an impression of the attitude to notification at these firms by means of a survey and interviews with employees and compliance officers. By 'attitude to notification', we mean the extent to which employees understand the importance of notifying unusual transactions to FIU-Nederland (Financial Intelligence Unit Netherlands) and the extent to which they are encouraged to do this.

We published our report on this [review](#) in April 2019. Our conclusion was that employees at investment firms see the necessity of reporting unusual transactions, but they do not always properly understand what constitutes an unusual transaction. Employees also state that the internal reporting of unusual transactions is a time-consuming process. We accordingly developed a hand-out for firms that can be used to inform employees what to watch out for with respect to unusual transactions.

Number of notifications of unusual transactions has risen

We note that the number of notifications (of unusual transactions) received by FIU-Nederland from institutions subject to our supervision has risen substantially, from only 6 in 2017, to 78 in 2018 and to 124 in 2019. Clearly, there is a growing awareness among investment firms, collective investment schemes and financial services providers that they have a gate-keeping role.

Thematic review of transaction monitoring and notification obligation

We reviewed the monitoring of transactions and observance of the notification obligation at six investment firms and collective investment schemes in 2019. Unusual transaction patterns may be cause for a financial enterprise to qualify a transaction as unusual. An enterprise is obliged to report unusual transactions or intended transactions to FIU-Nederland immediately. Only the suspicion that a transaction may involve money laundering or the financing of terrorism is sufficient for notification to be mandatory.

In 2019, we reviewed the systems and procedures that investment firms and collective investment schemes use in this respect, the unusual transactions that they notified to FIU-Nederland and how they assess whether a transaction has to be notified to the FIU or not. Our main conclusion was that this issue requires greater attention. The thematic review of transaction monitoring and the notification obligation will be completed in 2020.

Thematic review of risk management

Our other thematic review in 2019 concerned risk management. We reviewed the use of SIRA (Systematic Integrity Risk Analysis) at fifteen licensees. This involved an on-site visit at ten of these fifteen enterprises. We held discussions with the management and the compliance department. Fourteen of the fifteen enterprises made changes to their risk analysis and policy as a result of our review.



7.4 Application of SIRA in the audit sector

SIRA is also a useful approach to the assessment of integrity risks at audit firms. A SIRA helps them to prevent incidents, including involvement in criminal offences such as money laundering, the financing of terrorism and corruption.

We formulated practical guidance for the development and application of an effective SIRA for the audit sector on the basis of an exploratory survey in 2018. We [circulated this](#), with our insights from the exploratory survey, to all the audit firms in October 2019.

The aim of this guidance is to get audit firms to critically and continually evaluate their own management of integrity risks and to introduce tighter controls where necessary. The survey showed that some audit firms are making good progress on the systematic management of integrity risks, but that there is also room for improvement and acceleration.

The AFM, the Netherlands Institute of Chartered Accountants (Nederlandse Beroepsorganisatie van Accountants, or NBA) and the industry organisation the SRA all believe that all audit firms, thus including non-PIE audit firms, should demonstrably have brought their management of integrity risks up to standard by the end of 2020.





Pensions supervision

In addition to its seven focus areas, the AFM devoted attention to its supervision of pensions in its Agenda for 2019. This was an area that received much publicity in 2019 due to the pensions agreement that was concluded in June.

The Agenda listed three important activities for the AFM in relation to pensions in 2019:

- + *The AFM will review the extent to which pension funds obliged to reduce pensions in 2020 formulate their information correctly and clearly and communicate this in a timely and balanced fashion.*
- + *The AFM will review and take enforcement action where necessary in cases of failure to comply with the Premium Schemes (Improvements) Act (Wet verbeterde premieregeling).*
- + *The AFM will investigate inconsistencies in the pension entitlements allocated to scheme members.*

The AFM will review the extent to which pension funds obliged to reduce pensions in 2020 formulate their information correctly and clearly and communicate this in a timely and balanced fashion.

In 2019, the AFM started a review of the information provided to scheme members by pension funds that could have been obliged to reduce their pension benefits in 2020 (in the meantime, in November 2019 Minister Koolmees granted the pension funds an additional year in which to restore their coverage ratios).

We also looked at pension funds that may be obliged to reduce their pensions in the somewhat longer term. We considered whether the information they provide to their members is correct and clear and whether they communicate in a timely and balanced fashion. And whether they create appropriate expectations. We also looked at whether they had been honest with respect to the reasons for the necessary reduction and did not wrongfully attribute this solely to the low level of interest rates. We did this by analysing their communication strategies and requesting copies of letters sent and draft letters. In addition, nearly 700 members of the AFM Consument&Panel completed a questionnaire to establish their requirements for communication on pension reduction.

Based on this information, we formulated recommendations for the communication of actual or potential pension reductions. Among other things, we called for more comprehensible language to be used and for an honest and balanced explanation of reductions. We [published a press release](#) on this on 18 December.

The AFM will review and take enforcement action where necessary in cases of failure to comply with the Premium Schemes (Improvements) Act (Wet verbeterde premieregeling).

The Premium Schemes (Improvements) Act (or Wvp) came into force in 2016. This Act makes it possible for members of a premium or capital-based scheme to choose either a fixed pension benefit payable on retirement or alternatively a variable pension whereby part of the accrued capital continues to be invested.

In 2018, the AFM looked at how pension insurers have developed and distributed these variable benefit products. This review, [published](#) in April 2019, showed that this is still not being done with sufficient care.

We started a follow-up to this review in 2019 focusing on pension schemes with a variable benefit, including at premium pension institutions (PPIs).

The increased choice available to pension scheme members and the transfer of risk from employers to employees increases the importance of the AFM's conduct supervision. Under the Financial Supervision Act (the Wft), insurers and PPIs are subject to strict product development requirements. The Pensions Act does not include these requirements. Since this means our supervisory mandate with respect to pension funds is limited, we requested the Minister of Social Affairs and Employment to [change the law](#) in this respect in the legislative letter in April 2019.



The AFM will investigate inconsistencies in the pension entitlements allocated to scheme members

The AFM has received an increasing number of signals from scheme members in recent years regarding contradictory messages from pension providers on the amount of their pensions. This led us to start a review in 2019. We requested two pension funds to provide us with copies of communication on pension claims for a selection of scheme members. We looked for inconsistencies in this communication. This is the first time that the AFM has reviewed the correctness of communication on pension claims from this perspective. This review produced relevant insights. The AFM will decide how to proceed with this review in the course of 2020.

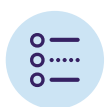
The Pensions Agreement

The government, employer and employee organisations concluded an agreement on pensions in June 2019. The government is now working on a proposal for amending the Pensions Act on this basis.

In the development of this proposal, the AFM acts as an advisory member of the Steering Group for Development of the Pensions Agreement. The AFM strongly proposes – also in this Steering Group – that the financial position of scheme members is in line with expectation as a result of good information, effective guidance and appropriate products. This means that we are looking not only at the provision of information, but also at how pension products will work for individual scheme members. The AFM strives to ensure that the (future) pensions system:

- + makes pension more personal and more comprehensible to scheme members;
- + is explainable and enables providers of pension products to give account of themselves;
- + is cost-effective and practicable;
- + offers a limited number of options with adequate safeguards;
- + more closely reflects developments in society (such as increasing mobility) and the labour market (the position of self-employed persons);
- + and enables all those in work to accrue an adequate pension.





Ongoing supervision

Through its regular contact with companies, the AFM monitors developments and identifies risks at an early stage. This is known as ongoing supervision. The AFM supervises the financial markets: from savings and investments to insurance, lending, pensions, capital markets, asset management, audit firms and reporting. It is important that the public, business and the government have confidence in these markets, and that they function transparently and fairly. This ongoing supervision of the financial markets is an important task that requires a large part of our capacity.

We are in regular contact with large financial institutions at all levels to check that they are continuing to comply with legislation and regulation. We also act as a consulting partner for questions regarding trends such as increasing digitalisation. In addition, we test policymakers for properness and suitability, and we are closely involved in the formulation of the policy for this testing. In situations where the customer's interests are harmed, we take action.

Our ongoing supervision operates with open norms. Obviously, we check that legislation and regulation are complied with correctly, but above all we aim to act as a compass for institutions, and engage in dialogue with them as to how they should meet these norms. We regularly hold up a mirror to them, and make agreements with respect to improvements.

Supervision of smaller financial institutions is usually by means of thematic reviews or in response to signals.

Tests of persons

Persons who determine the policy of an enterprise either solely or collectively or who supervise such policy must be proper and/or suitable for the performance of their tasks. Persons joining an enterprise are tested by the AFM and/or De Nederlandsche Bank for properness and suitability.

Around 95 per cent of the 1,500 to 2,000 initial tests conducted by the AFM each year result in a positive assessment. We also carry out 10 to 20 retests each year in which we test already appointed directors again. The table in this paragraph shows the total number of AFM tests specified according to the various categories. The 'double' tests referred to concern tests by both the AFM and DNB.

Number of tests per category	2019	2018	2017
Advisers/intermediaries/ credit providers	1409	1057	1050
Investment firms/ collective investment schemes	348	283	297
Investment objects and stock exchange	32	15	12
Audit firms	125	149	92
Double testing	32	11	23
Retesting	11	10	6
Total	1957	1525	1480

Table 2: Completed tests of persons



Suitability tests for policymakers at PIE audit firms

Until 1 July 2018, our tests of policymakers at PIE audit firms concerned only the issue of properness. Since that time, our tests have also concerned their suitability. At the end of 2019, we completed all these suitability tests (see focus area 6 of this annual report). On occasion, we test the properness and suitability of persons again because we have received signals giving us reason to do so. Further details are given in focus area 7 of this annual report.

Pilot study using external experts

We applied the recommendations from the [Ottow Committee](#) to further improve the testing process in recent years, and accordingly involved external experts in the testing of persons in a pilot study. This pilot study was evaluated in 2019. The Minister of Finance will be informed by the AFM and DNB in 2020.

Market monitor

The Market Monitor is one of our supervisory tools. The information it provides gives us better insight into the market and the risks. This enables us to target our supervision more precisely and improve the quality of the financial market and confidence in that market.

The audit firms completed the Market Monitor in 2019. Among other things, we asked them about the measure used to determine the contribution to the costs of supervision in 2019. Banks and investment firms were also asked to complete the questionnaire.

There was no Market Monitor for advisers and intermediaries in 2019 as the AFM renewed the questionnaire this year. This Market Monitor will be sent out again in the spring of 2020.

The findings of the various monitors are processed in the results of the focus areas. Only the results of the BES Market Monitor are disclosed below.

Supervision of the Caribbean Netherlands (BES)

The AFM exercises supervision on Bonaire, Sint Eustatius and Saba (BES) on the basis of the BES Islands Financial Markets Act (Wet financiële markten BES, or Wfm BES) and the BES Islands Financial Markets Decree (Besluit financiële markten BES, or Bfm BES). We make regular working visits to these three islands. We also obtain information on developments in the BES area from the annual [Market Monitor](#). The Market Monitor for the Caribbean Netherlands is a digital questionnaire that is sent each year to businesses in the Caribbean Netherlands subject to supervision by the AFM.

Excessive lending and excessively high interest rates on loans are our main item of attention on the three islands. We adjusted the [standard amounts](#) for lending on 1 April. Among other things, our supervision is designed to ensure that providers observe these standard amounts and the maximum permitted interest rates.

Policymakers and co-policymakers at financial enterprises may only be appointed after approval from the AFM. The 2019 Market Monitor showed that various institutions had appointed policymakers [without our permission](#). The Market Monitor also showed that institutions have arranged insurance policies with [insurers that have not obtained a licence](#) or notification from De Nederlandsche Bank (DNB) to carry out this activity. We issued instructions to companies that contravened this requirement, and will take enforcement action if they continue to do so.

We published a [Manual for the Wwft BES and Sanctions Regulation](#) in October and organised a round table meeting for the sector in collaboration with the Financial Intelligence Unit Netherlands.



Interest-rate derivatives

The [Recovery Framework for the reassessment of interest-rate derivatives](#) (the Uniform Herstelkader, or UHK) was published at the end of 2016. This is an agreement between six banks and an independent committee of experts (the derivatives committee). Around 19,000 entrepreneurs from small and medium-sized enterprises (SMEs) with interest-rate derivatives received compensation under the UHK without the intervention of the courts.

In the following years, the banks have reassessed all the cases involving the sale of interest-rate derivatives. Entrepreneurs who were eligible according to the UHK receive compensation. The AFM supervises the application of the UHK by the banks.

As in previous years, we measured the extent of progress by the banks with the UHK on 31 December 2018 and [31 May 2019](#). We have continued to report publicly on this process at each stage. Based on the measurement in May 2019, we concluded that five of the six banks had completed the application of the UHK. We are pleased to note that 99% of these SME owners have now received final compensation or an advance payment. At May 2019, the compensation paid amounted to € 1.27 billion.

We made a further measurement on 31 December 2019 and [published our findings](#). All SME clients with an interest-rate derivative that were eligible for compensation had received an offer letter with a proposal for compensation by their bank by 31 December 2019. 18,907 entrepreneurs collectively have received compensation of approximately € 1.4 billion, over 90% of which has already been paid out. 89% of the clients accepted the proposal from their bank.

Measures

In our supervision, we use supervisory measures that are primarily for enforcement, and also interventions that are designed more to exert influence. The aim of this influence is to prevent violations.

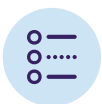
Supervisory measures designed to exert influence

The supervisory measures designed to exert influence aim indirectly to prevent violations. They frequently involve [warning letters and instructive letters](#) on compliance with standards. Most of the warning letters sent out in 2019 related to the thematic review of risk management and the Sanctions Act project, but warning letters were also sent to instruct persons and businesses that had failed to report short sales or the appointment of directors or other important notifications in good time. We also called parties to account that were potentially providing illegal advice on financial products.

The number of formal and informal measures may vary substantially from one year to another, often due to the complexity of the reviews we carry out. The number of formal and informal supervisory measures amounted to 684 in 2019, compared to 746 in 2018.

Fines

We imposed fifteen fines in 2019, compared to nine in 2018. The cases that ultimately led to fines being imposed were intensive in terms of preparation, investigation and processing. Fines are imposed in a targeted manner, meaning that the nature of the fine and its social effect are more important than the number of fines imposed. The number of fines imposed is in line with the average number of fines since 2015. The total amount of the fines imposed in 2019 was € 8.2 million, compared to € 3.2 million in 2018. The largest fine was € 2.0 million. The average fine imposed in 2019 was € 0.5 million (2018: € 0.4 million). We do not recognise fines as income in our financial statements until they have become irrevocable and we have actually received the amount. This means that the fines recognised as income in the financial statements may vary from the total amount of fines imposed.



Orders for incremental penalty payments

An order for incremental penalty payments is often used to obtain information from companies that fail to respond to our normal requests for information. The number of orders for incremental penalty payments imposed in 2019 was 12 (2018: 12).

Licence withdrawal

The formal measure of licence withdrawal among other things concerns full or partial withdrawals due to failure to comply with requirements relating to professional competence and a controlled business operation. There were 5 withdrawals in 2019, compared to 20 in 2018.

Informal supervisory measures

There were 616 informal supervisory measures taken in 2019 (2018: 666). Informal measures involve instructive or warning letters or conversations on compliance with standards. There was a slight shift from warning letters and conversations to instructive letters and conversations in 2019. There was a small decline in the total number of informal measures compared to 2018. These measures concerned issues such as: signals relating to the provision of information, illegal or partly illegal conduct, appointments without prior approval from the AFM and failure to provide personal background information.

Measures	2019	2018	2017
Formal supervisory measures			
Fines imposed	15	9	12
Orders for incremental penalty payments imposed	12	12	12
Reports to PPS	-	2	-
Licence withdrawals	5	20	12
Instructions	3	3	14
Public warnings	30	27	21
Appointment of Wft receiver	-	-	-
Notification without recommendation (Wtfv)	3	3	8
Notification with recommendation (Wtfv)	-	-	1
Complaints to the Disciplinary Court for Auditors	-	4	1
Total number formal measures	68	80	81
Informal measures			
Warning letters regarding standards	316	386	105
Other instructive letters regarding standards	300	280	345
Total number of informal measures	616	666	450

Table 3: Overview of supervisory measures



Priority 2:

Strengthening and renewing supervision through focused investment in technology and methodologies

The AFM also studies the behaviour of consumers and employees in the sector. This makes our supervision more effective and efficient. To be able to keep up with social and technological changes in the financial markets, we invest in new systems that enable us to analyse large quantities of market data. We thus continue to build an organisation driven by technology and data.





Strengthening and renewing supervision

The AFM continually strengthens and renews its supervision. We devote extensive attention to data-driven supervision and consumer behaviour and culture, enabling us to shape our technological and methodological renewal. This enables us to identify risks at an early stage and obtain a better understanding of underlying causes.

The key activities according to the 2019 Agenda are:

- + *The AFM will intensify our data-driven supervision, among other things by setting up an analytical environment to ensure that the data obtained are of reliable quality.*
- + *The AFM studies the influence of remuneration and evaluation on the culture of an organisation and the conduct of employees at larger financial organisations.*
- + *The AFM is considering the effectiveness of alternative interventions since it is clear that the credit warning ('Watch out! Borrowing money costs money') is not having the desired effect.*

Strengthening data-driven supervision

The financial sector digitalises and possesses a huge volume of data. These data are providing the AFM with new insights into the market. Data give us better insight into the operation of the market, the players involved and the customers who are served. This makes our supervision more effective.

In its initial phase (2016-2019), the data-driven supervision programme was mainly focused on setting the necessary preconditions. The central priority in the following phase (2020-2022) will be the embedding of data-driven supervision in the AFM organisation. This will allow us to fulfil the (revised) AFM's strategy and to make further progress in our data-driven supervision.

Example 1:

Risk-driven assessment of fund reporting

One of the AFM's tasks concerns the assessment of fund reporting sent in by asset managers. A fund can only be registered if the assessment is positive. Redesign of the current process has increased effectiveness and efficiency. In the new process, fund reports will be checked automatically against previously defined points of attention. In addition to the options 'not to be processed' (because the documents delivered are not complete) and 'immediate approval', there are three other possible results calling for further consideration with respect to features of the custodian, the manager or the prospectus of the specific fund concerned.



Figure 6: Process assessments



Example 2:
Risk-driven supervision of the bond market

A data-driven approach is very well suited to the supervision of the capital market. The availability of trading data to the AFM makes it possible to (automatically) analyse trading behaviour and identify suspicions of market abuse. The expansion of regulation such as MiFID II, as well as Brexit, has had a substantial effect on our capital markets supervision and the data sources available that we can use for adequate supervision. With effect from 1 January 2018, MiFID II has encompassed additional asset classes such as the bond market.

The development of an in-house detection system for market abuse enables us to focus our current supervision more precisely on the major risks relating to bond trading. This system combines six sources into interactive visualisations to generate more detailed alerts and identify general market trends. Alerts are generated for both liquid and illiquid bonds.

Example 3:
Financially vulnerable households with an interest-only mortgage

By combining data from Statistics Netherlands with data from the major banks and insurers, we have obtained insight into the potential refinancing risk for interest-only mortgages. The AFM is thus in a position to assess the effect of this risk throughout the market. We use these insights to engage in a dialogue with the sector regarding subsequent measures.

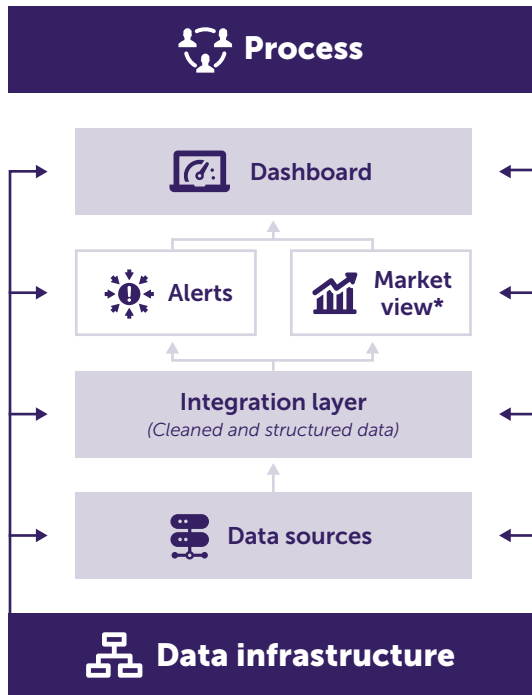


Figure 7: Schema Inhouse detection system



Thematic review of remuneration and appreciation – the keystone of a healthy organisational culture

An organisation's culture significantly affects how employees perform their work. The AFM therefore aims to promote a healthy organisational culture at financial enterprises so that the customer's interests are given central priority. In 2019, we studied the influence of remuneration and appreciation on an organisation's culture and the conduct of employees at larger financial organisations. The review report will be completed in 2020.

Thematic review of the effect of alternative interventions

Information is not always sufficient

With an [overview of several reviews](#) the AFM and the Australian supervisor ASIC show that while statutory obligatory information is an important precondition, it is not always sufficient to enable consumers to take appropriate decisions. We continually take a critical view of our own supervisory tools and urge financial enterprises to give central priority to customer interests in other ways as well.

The effect of choice architecture

In a cooperation with the consumer credit provider Freo, the AFM studied the [effect of changes to the online application form](#) on the types of loan and repayment schedules that people choose. This follows a previous review of the [credit warning](#) and '[leengedrag onder de loep](#)' ('borrowing behaviour examined'). Previously entered amounts, active choices and the choice of the total cost or term instead of a monthly repayment do apparently have an effect. We will not prescribe how providers of consumer credit should design their choice architecture based on this research. We do however expect parties to carefully consider the design of their choice architecture and to research this issue.

Principles for the choice architecture

The sector can contribute to the appropriate handling of customers through a better designed choice architecture. The AFM has developed these principles to clarify its expectations regarding the design of choice architectures created by financial services companies. It is up to the companies themselves to decide how to put these principles into practice and incorporate them into their services, products and information. The principles for choice architecture have been put out for consultation since 21 November 2019.





Priority 3:

Increasing the effectiveness, efficiency and adaptability of the AFM's organisation

We are increasing our effectiveness, efficiency and adaptability in order to realise our ambitions. We distinguish three elements in this process:

1. Strengthening our management with the introduction of quick response management with the help of critical performance indicators (CPIs), and the further development of leadership in the organisation.
2. Making our business operation professional in the areas of IT, processes and HR to improve our quality and efficiency.
3. Giving account to the outside world on the effectiveness of our supervision and the choices that we make.





A professional organisation and a good employer

To achieve the AFM's ambitions, we have focused on strengthening our management, risk management, process management and cost control in recent years. Much attention was also devoted to increasing the competences of our employees and attracting talented people.

There were three focus areas in our HR policy in 2017-2019: 'encouraging continuous improvement', 'developing knowledge and know-how' and 'strengthening leadership'. These aspects of our business remain as important as ever. Our existing and new employees have to be flexible and adaptable to carry out the work we do optimally.

Key activities according to the 2019 Agenda are:

- + Further strengthening of ICT, so that we can further shape our ambition to become a data-driven supervisor.
- + Attracting and retaining talent.

Strengthening ICT

The AFM's ambition is to become an influential, data-driven and proactive supervisory authority. Our information and communication technology has to support this ambition. Further improvement should lead to making our organisation more professional and improve our quality and efficiency.

A European tender was opened in 2019 for the outsourcing of many of the ICT services, focusing on what are known as the standard services, which include office automation and the infrastructure management. The aim of the outsourcing is to strengthen continuity and accelerate the time-to-market of new ICT products. It also reflects our wish to be able to increase or reduce our IT capacity more quickly.

In connection with this outsourcing, the information management department has increasingly become a control organisation. Since more ICT processes are outsourced, the direction of these processes requires much attention. Capacity has been freed up for this and employees have been trained.

The platform for customer relations and supervisory processes was also further developed in 2019. This system is used for the registration of relations and contacts in a single central location. Older IT components and applications were also replaced in 2019.

The AFM culture

Close cooperation between teams is a feature of the culture at the AFM. We help each other, contacts are informal and lines of communication are short. We strive for an open culture and we encourage learning from mistakes. We also devote attention to diversity and inclusivity. As a market conduct authority for the financial markets in an international context, we need to have a good understanding of consumers and institutions. AFM employees have to be able to understand how consumers and institutions behave and we need various views and perspectives to be able to do this. Diversity and inclusivity also contribute to leading and professional supervision. It is important that our employees feel comfortable and that they are listened to.

The workforce consists of 660 people, with a balanced male-female ratio and attention to diversity in the various teams.

Female/male ratio in middle and top segment



Figure 8.



Attracting talent

The employer's position

A professional organisation needs professional people. Despite the increasing tightness in the labour market, we have succeeded in attracting good people, recruiting 124 new colleagues in 2019. In doing this, we made express use of LinkedIn and the website section '[WerkenbijAFM](#)' has been renewed. Staff turnover was 14% in 2019, lower than in 2018 (15.1%). In the current labour market, our employees are attractive for employees in the financial sector. This means that continuous attention is needed to the retention of our talented people. The number of employees rose from 630 FTE in 2018 to 641 FTE in 2019. Absenteeism was an average of 3.7% in 2019, compared to 3.9% in 2018.

To further increase the attractiveness of the AFM as an employer, we are prioritising 'appreciation' in a broader perspective. Among other things, we are moving towards replacing our evaluation system, we are continuing our vitality programme and we continue to devote attention to diversity and inclusivity.

Data science programme

Together with the Dutch Healthcare Authority (Nederlandse Zorgautoriteit, or NZa) and the Authority for Consumers and Markets (Autoriteit Consument en Markt, or ACM), the AFM started the data science programme in 2018. This is a traineeship that lasts for two years and takes place at these three supervisors. At the end of the programme, two data specialists enter employment at each supervisor. After a successful beginning, this programme will be repeated in 2020.

Future Leadership Programme

The Future Leadership Programme (FLP) offers talented people with management skills the potential to develop their skills further. This enables us to fill key positions with good people quickly when they become available. Working with a single programme based on the same principles in this way strengthens the culture of the AFM. Attention is devoted to themes including cooperation in a broader system (including an 'outward mindset'), coaching for result-orientation and talent, (personal) leadership, directing change processes and defining a direction. Five of the eight participants in the first year (2018) now hold management positions. A second FLP is currently under way, from which two participants have already been appointed during the programme. We will start FLP 3 in 2020.

Leadership programme for externally recruited managers

While we use home-grown talent to fill management positions, we also recruit people externally. These views from the outside world strengthen our supervision. A programme has thus been developed for managers who are new to the AFM and have not followed the FLP. In practical terms and in principle, the programme is based on the FLP, which focuses on management in practice. The programme started in 2019 and continues in 2020.

Starting managers are provided with a digital tool kit with all the relevant information and they are made familiar with how the AFM works. They also participate in the master classes 'performance management interviews'.

Average percentage absenteeism at the AFM

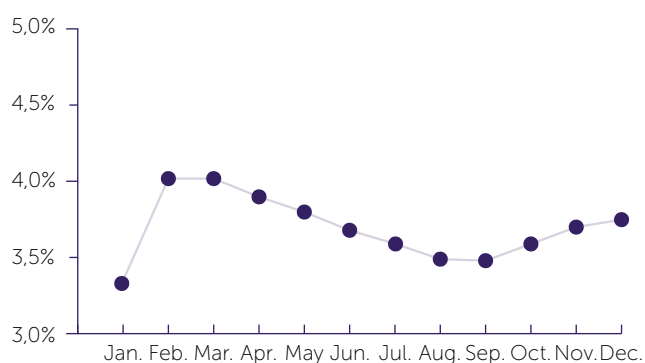


Figure 9.



Training programmes for employees

Personal development of knowledge and competences is vital for realising our strategy. Additional funds (€ 350,000) were made available in 2019 to give all employees basic training for data-driven working in the coming years. This is organised in an AFM-wide programme, with more in-depth training for specialists.

There has also been plenty of room for development within one's own field. Apart from external training, many internal courses are offered through our Supervision Academy, our internal training and development centre. The Supervision Academy also offers various training modules for current supervisors, ranging from open source intelligence research to a master class on influence skills. These courses are given by internal experts or external professionals.

Other activities

Application of KPIs

The AFM uses a control cycle for internal control and external reporting. Within the limits of the cost framework, this cycle concerns the processes of planning (including strategic planning), implementation, direction and reporting. The process of performance management was further developed and embedded in 2019. This process involves consistent direction towards realising our goals with the use of dashboards. The AFM's working practices support this uniform and quick-response focus on actual, measurable and demonstrable results, and the activities necessary to realise them.

Vitality at work

The AFM believes that the permanent vitality of its employees is an important issue. This leads to greater pleasure at work and good performance. We therefore participated in the Vitality Week in 2019, which featured workshops with inspirational speakers and much attention to healthy nutrition. Employees were also offered the opportunity to take a health check (a preventive medical examination). Over 350 AFM employees took advantage of this.

Executive Board

Our Chair of the Executive Board Merel van Vroonhoven stepped down on 1 September 2019. After five and a half years in office, she has decided to become a teacher in special education. Van Vroonhoven led the professionalisation of our organisation in recent years.

Laura van Geest took office as Chair on 1 February 2020, and is appointed for a term of four years. Since 2013, Van Geest has been Director of the Bureau for Economic Policy Analysis (Centraal Planbureau, or CPB). She previously worked at the Ministry of Finance, including as Director-General of the National Budget and at the International Monetary Fund (IMF). She is a Crown-appointed member of the Social and Economic Council. Van Geest studied economics and public administration in Rotterdam.

Hanzo van Beusekom was acting Chair for the period from 1 September 2019 to 1 February 2020. His responsibilities extended across several supervisory areas, and he was therefore asked by the Supervisory Council to take over the Chair.

Results of the Enforcement Unit trial

The Enforcement Unit, a team consisting of several expertises, was initiated at the beginning of 2018. The team was formed with the aim of increasing the quality of investigative and enforcement processes and to manage processing times. Among other things, the unit focuses on interventions in complex supervisory problems with a strategic application of enforcement instruments. The decision-making process on the definitive embedding of these enforcement activities, and with it the completion of the trial, will start in early 2020.

Operational risks and control measures

In our 2019 Agenda, we identified operational risks that could occur in our own business operation. We have worked to prevent these risks occurring. An overview is given below.



Potential risk: delays in developing into a data-driven supervisor.

To make the transformation into a data-driven supervisor possible, we need to continue to invest in high-level technologies and expertise.

There was an acceleration in our progress towards data-driven working in several areas in 2019. Our data and analysis platform has been strengthened with several different functionalities. It is now possible to process large volumes of data effectively and robustly into information that can be consulted by users of dashboards and workstations, for example. This processing complies with applicable legislation and regulation, such as the ability to apply correct encryption. Account is also taken of the purpose of the data collection.

Attracting permanent employees with the right skills and expertise is difficult, given the current state of the labour market and this will continue to be an item of attention in 2020. We are also working on the definition of our final objective with respect to data-driven supervision. A detailed picture of the infrastructure, IT governance and system changes is important for being able to manage risks at the earliest possible stage.

Potential risk: inadequate ability to change and power of execution.

In order to exercise our supervisory duties properly and understand the changing playing field, we need high quality employees and the AFM has to profile itself as an attractive employer for potential new employees.

We developed several activities in relation to our profile in the labour market in 2019. These include the renewal of our ['Werkenbij-site'](#), intensifying our activities on social media, the organisation of in-house days and targeted campaigns. We have devoted much attention to the development of our employees and attracting new talent.

Potential risk: inadequate control and renewal of processes.

Process control and process renewal are essential for continuing to be adaptable and effective.

Progress was made on the control and renewal of processes in 2019. All processes, both those relating to the business operation and those of the supervisory departments, have been identified and included in our Process Monitor. This is embedded in our in-control declaration. This overview of processes makes it easier for us to identify the processes that are critical and formulate improvements. Additionally, the Selection List was published in September 2019. With selection lists, a government organisation makes it known how and when it selects information for archiving and deletion.

The list of applications at the AFM has been renewed and amended to meet requirements relating to security and privacy. The process for Service Level Reporting has also been revised and changes were made to further improve direction of the ICT services supplied. The AFM thus has an important basis for bringing its information security and privacy to a higher level.

In 2020 and the following years, we will continue to work on the control and renewal of processes in order to remain up-to-date with applicable requirements and wishes.



Potential risk: renewal of the ICT infrastructure is too slow.

The quality and functionality of the ICT systems must provide sufficient support to the renewal of supervision.

A successful outsourcing of IT is a precondition for the renewal of the ICT infrastructure. Due to a delay in the outsourcing process, a risk assessment was made and a decision was taken to implement a number of improvements independently. We replaced vital ICT elements in 2019 and old or unnecessary ICT elements were disposed of or renewed. This concerned mainly investments in hardware and the network. An

upgrade of the financial and staff administration system was implemented at Operations. The custom application for levies was also replaced by a standard package. The Central Registration System was moreover adjusted to include what are known as the minimal viable products. For some processes, a decision was taken not to deal with them in 2019 but to wait until the outsourcing process is complete. Due to this delay, extra time was devoted to optimising the control organisation of the AFM in 2019. The outsourcing project carried out an assessment of the risks in 2019, and this is being regularly monitored in order to optimise the management of the outsourcing.





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