



The Dutch Authority for the Financial Markets Annual Report 2020

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Foreword

Last year was something of a roller-coaster. After the outbreak of coronavirus there was a sharp economic dip in the spring, then an improvement and easing of restrictions in the summer, followed by the much-feared second wave in the autumn.

Pandemics have been an item on the long list of potential risks for many years, but the Netherlands was still not really prepared for what happened. Everyone was forced to improvise and adapt to some extent. Now there is some prospect of improvement thanks to the availability of vaccines. We are returning to a more normal society, even though the pandemic will leave lasting traces behind in the form of continued working from home, larger buffers for essential facilities and greater inequality.

The financial markets also had their ups and downs. After a sharp fall in March, the markets rallied and even set new records. The generous support packages from governments and monetary easing certainly played a part in this. We are now left with a disquieting disconnect between a volatile and exuberant capital market and the real economy.

Sustainability and climate change are developments that unfold at a slower pace, but they are becoming increasingly urgent with the passage of time. This urgency has also led to greater ambition. The European Union has set a clear climate target of climate neutrality by 2050, and a sizeable package of legislation will assign a more central role to sustainability in the reporting by companies and asset managers. What are the implications of sustainability for a company's business model? What effect does a company have on its environment? How green or grey are the assets invested? In our role as a market conduct authority, we contribute to this legislation and we encourage implementation and compliance through the transfer of knowledge and, ultimately, through enforcement.

The AFM is committed to promoting fair and transparent financial markets and thus contributes to sustainable financial prosperity in the Netherlands. This ambition is timeless, and we have pursued it again this year together – albeit mainly from home, due to the coronavirus waves!

Amsterdam, 13 April 2021

Laura van Geest, chair
Hanzo van Beuzekom
Jos Heuvelman

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01

Developments and strategy





There were two developments that had a major impact on Dutch society and the financial sector in 2020: the uncertainty around Brexit and the COVID-19 outbreak.

Brexit

The transition period agreed between the United Kingdom (UK) and the European Union (EU) for the UK's departure from the EU on 31 January ended on 31 December 2020. During this period, all the laws and regulations of the European Union continued to apply in the UK. There were thus relatively few changes to the normal daily conduct of affairs for citizens and business operators at that time. For example, all the licences and European passports – which allow businesses to offer services in other EU countries – held by British financial firms continued to be valid as usual.

The transition period has now come to an end, and as of 1 January 2021 the European passports of European financial institutions have been rendered invalid in the UK and the European passports of British financial institutions have also lapsed. The AFM has accordingly removed these licences from its [register](#).

Financial enterprises wishing to continue to offer their services from the United Kingdom in the European Union after 2020 have had to apply for a licence in an EU Member State. A large number of these firms have accordingly applied for a licence to the AFM.

A greater number of institutions means more supervision. This means that we should expect trading volumes to increase. We have therefore invested in supervision of the secondary markets and also market surveillance, since the volume of trading and the related reporting on trading platforms with a licence in the Netherlands will sharply increase.

The COVID-19 pandemic

Since mid-March 2020, social life has virtually come to a standstill. As a result of the COVID-19 pandemic, the Dutch economy is experiencing a period of unprecedented contraction. The pandemic also had a significant impact on the financial markets. Asset prices declined sharply in the first phase of the pandemic and volatility in the equity markets rose to record levels. The spreads on corporate bonds also raced higher and credit quality was downgraded across the board. Dutch collective investment companies such as pension funds and insurers also booked negative returns of 11.7% on average during the first quarter of 2020. Investment funds also saw heavy outflows.

The COVID-19 outbreak demanded greater attention to the stability of the trading infrastructure, liquidity in the asset management sector and the monitoring of sharp price movements in our capital markets supervision. In addition, in our supervision of financial services we devoted additional attention to the effects on travel insurance and consumers in vulnerable situations, such as those in arrears management, having problems making payments or with excessive loans.

Both the financial markets and the retail segment, which deals with consumers, however showed a high degree of resilience, with central bank and government support. The Dutch capital markets continued to function effectively and experienced hardly any operational issues. The Dutch asset management sector has come through the turbulence in good shape, partly due to the implementation of extraordinary liquidity instruments. There were no serious problems in the retail segment at insurers or pension funds, although the impact here is still not fully quantifiable. Figures from the Dutch Banking Association show that over 37,000 consumers have been granted a break from the repayments on their mortgages or consumer loans since the outbreak of COVID-19. The AFM is ensuring that lenders apply an appropriate



policy with respect to the granting or extension of a payment break. We have also expressed concerns regarding the financial straits in which small and medium-sized enterprises (SMEs) find themselves. The AFM does not have a mandate here, but calls for attention to this issue to ensure that today's generic solutions do not lead to problems later on. We have made some changes in our supervision. Where possible, we have put large-scale requests to and supervisory interviews with companies under our supervision on hold, while closely following market developments.

The most important tasks for the AFM organisation have been safeguarding business continuity and adapting our infrastructure and processes to working from home. This involved increasing and improving the capacity for e-working as rapidly as possible, extending the possibilities for video conferencing and facilitating the improvement of home workstations.

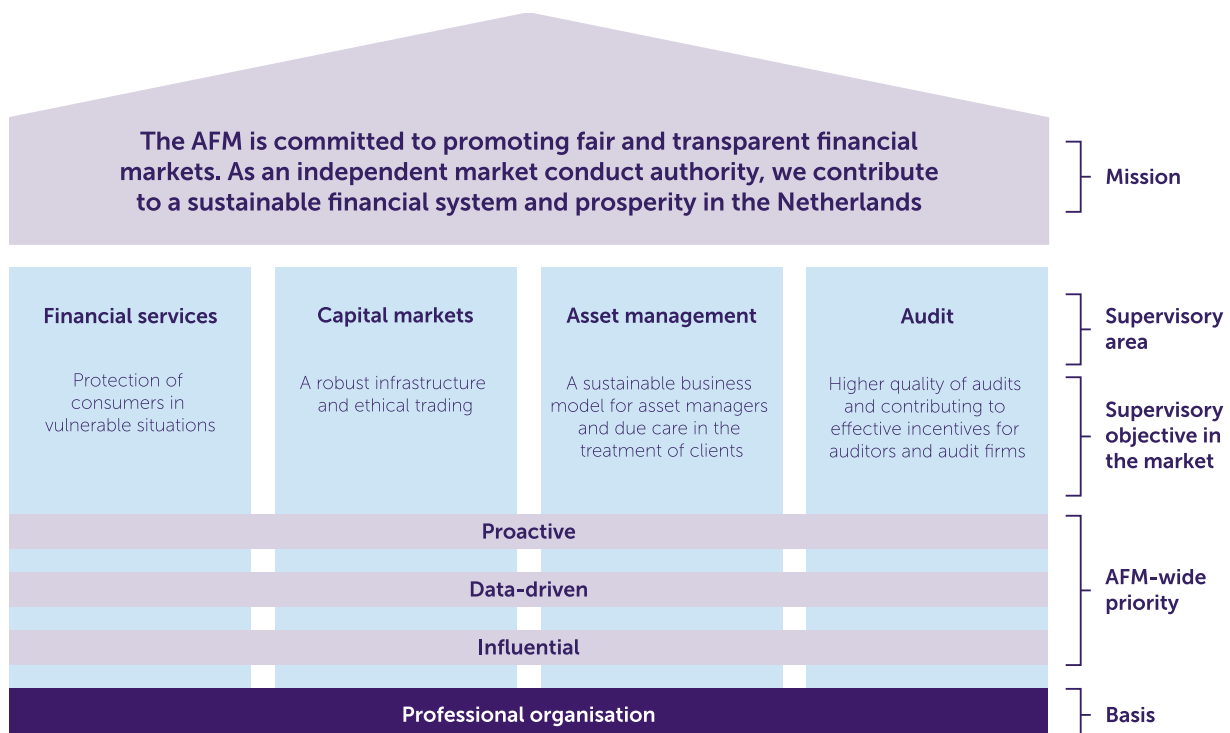
Mission and strategy of the AFM

After the Dutch government took measures in response to the COVID-19 outbreak in March 2020, the AFM reviewed whether its strategy needed to be adjusted. This turned out not to be necessary.

The AFM fulfils its statutory duties with its mission and supervisory goals. Our mission reads:

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. Our supervision is designed to achieve orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to customers.

The mission and external developments have led to four multi-year supervisory goals for these four areas of our supervision. For this, we will use three AFM-wide priorities in our supervisory approach in 2020-2022 and offer a professional organisation with a strong basis for achieving our supervisory goals and mission. We aim to be a leading supervisor, and this begins with a strong internal organisation. We are accordingly working hard on the further renewal and professionalisation of our supervision and the development of our employees. .





Three AFM-wide priorities

Proactive

A proactive approach to supervision means that we can be more effective than if we react to problems after they have appeared. Indeed, with remediation ex-post the damage to consumers, markets, the economy and confidence in the financial sector has already been done. Our approach entails looking ahead to identify potential risks by means of risk analysis and surveys. In the external analysis that forms the basis of our annual [Trend Monitor](#), we review relevant new trends and their effects on our supervision. Furthermore, we look at potential harmful issues in areas where we do not as yet have an explicit mandate. We also participate actively in the public debate on the financial sector and relevant regulation.

Our supervision of product development processes in 2020 included consideration of products for which consumers have difficulty in understanding the long-term effects, such as equity release mortgages, in order to prevent foreseeable disappointments. We also stressed the necessity of extending conduct supervision with respect to pensions in the legislative process in order to reduce the future risks for scheme members. In our supervision of financial reporting, we analysed the semi-annual figures of companies selected specifically for a review of their reporting with respect to the effects of the COVID-19 pandemic, with the aim of achieving improved quality in the annual reporting on 2020.

Data-driven

Technological developments and the exponential growth of the use of data have had a significant impact on Dutch society, the financial sector and the AFM's supervision. In 2019–2020, we started to make specific supervisory processes or elements of these processes data-driven, and the embedding of this approach was given priority within our regular supervision.

Our data-driven supervision enables us to significantly shorten the time during which consumers are exposed to unethical earnings models. One actual example of this has been the redesign of our supervisory processes with respect to investment providers that apply

potentially unethical earnings models. We can combine the data we now have available with signals that we receive, enabling us to take more targeted and more timely action against these investment providers. We also obtain a clear picture of the situation of our pension providers on the basis of data that these institutions provide themselves. This allows us to identify market-wide or specific risks on the basis of trends. We receive huge quantities of data in our capital markets supervision, and this is increasing further as a result of the trading that has relocated from London to Amsterdam due to Brexit. We are striving to improve the quality of these data and apply data analysis to strengthen our supervision of market abuse and insider trading.

In connection with a planned request for data for our market view of retail investing, we raised the question, also on a signal from the sector, as to whether current legislation is adequate for the making of large requests for data during the reporting year. This enables us to conduct our supervision in the interests of customers efficiently and effectively. The legislation states that we may request data, but the quantity, frequency and nature of data requests permitted in relation to personal data are not clearly defined in all cases. We wish to review how this clear definition can be achieved.

Influential

For its supervision to be effective, the AFM benefits from regulation that enables it to address major market and conduct risks. Both society and the financial sector are constantly changing, and therefore also the risks that we have to help to mitigate by means of our supervision. We thus participate actively in the national and international discussions regarding regulation.

At national level, we work closely with the Ministries of Finance and Social Affairs and Employment to align legislation as closely as possible with market developments. In the spring of 2020, we submitted our proposals for new legislation in our [annual legislative letter](#). In addition, we contribute to the public debate with our publications and by participating in panel discussions and round table consultations in the Dutch House of Representatives. In 2020, this included a discussion on the future of the



auditing sector and the development of the new pensions system.

Regulation and the manner in which regulation has to be supervised are increasingly established at European level. The financial markets are becoming increasingly cross-border and this means it is important that we participate in international discussions. We therefore attach a high priority to participation in international working groups and bilateral discussions with our fellow supervisors in other countries.

As a member of the European Securities and Markets Authority (ESMA), we play our part in the development of secondary regulation for financial supervision. This means we can influence the mandates received by ESMA, the European authority for pensions and insurance (EIOPA) and the banks (EBA) from the European Commission. In particular, we focused on the secondary regulation for green investments and the evaluation of the Markets in Financial Instruments Directive (MiFID) II and the Alternative Investment Fund Managers Directive (AIFMD).

Social value

It is important that the public, business and the government have confidence in the financial markets. And that these markets operate transparently and fairly. Reliable and transparent (integrated) reporting has an important role in this respect. In the performance of our public duties, we strive to add social value in the short, medium and longer term. These duties are laid down by law and we perform them [in consultation with various – social – stakeholders](#).

We thus work in a world that is continually changing, with attention to our sustainable capital: the AFM's employees, our knowledge and our network relations. In our supervision, we encourage companies to demonstrate how they create value, for instance by using integrated reporting in their annual reports to give account of their financial and non-financial performance and the links between these two aspects. Such a holistic approach is needed to facilitate the transition to a more sustainable world, economy and financial markets.



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Supervision of financial services





Financial products play an important part in the lives of consumers. These products are needed, and they offer opportunities. Many consumers have the chance to buy a home of their own thanks to a mortgage, they can grow their assets as safely as possible using investment products, and they rely on enjoying the benefits of a pension at a certain age.

But financial products also involve risks, as returns may be disappointing. These risks have a greater impact if a consumer is already in a vulnerable situation, for example if they are facing personal or financial setbacks. Due care in the provision of services is extremely important to mitigate these risks.

Consumers may be vulnerable if they have limited resources or expertise, but also if they are influenced in their choices to their disadvantage without realising this is the case. Digital developments in the wider playing field of financial services can increase this vulnerability.

This vulnerability is the reason for one of the most important social objectives of legislation on financial supervision, that financial enterprises treat their customers with due care. In other words, 'giving central priority to the customer's interests', as a result of which financial services providers faced additional challenges due to the consequences of the outbreak of COVID-19 in 2020.

To ensure that consumers in vulnerable situations are protected, our 2020 Agenda sets out three priorities for us in our supervision of the provision of financial services.

1. Sustainable contribution from products and services with long-term effects
2. The organisation of financial enterprises
3. A position of influence in the supervision of financial services

These priorities have determined our focus in the reviews we conducted in 2020, in addition to our ongoing activities. We have expanded the explanations of some of our supervisory activities, while other activities formulated in our 2020 Agenda are listed in the appendix 'External KPIs' along with the results achieved.

Product development

In its supervision of financial services, the AFM paid particular attention last year to the design and implementation of the processes for product development, also known as product governance, by providers of financial products. This product approval and review process (PARP) has been laid down by law since 2013.

The intermediary market

Since 2019, we have been engaged in a review of the structure, culture, operation and development of intermediaries as a distribution channel for retail non-life insurance. The aim was to obtain insight into the current status of the intermediary channel. This wide-ranging and multi-faceted review was continued in 2020.

Part of the review focused on the design and implementation of the product development process, or PARP. Some authorised agents also act as product developers, and therefore they must have a properly designed and effectively functioning PARP.

Based on the data from the annual market monitor, we selected six parties as the subjects of a more detailed review. The focus here was on car and household contents insurance. The review showed that five of the six firms selected had not adequately complied with their PARP standards. For example, there had been insufficient study of whether a product's information was comprehensible, and that there had not been sufficient consideration of the appropriate target market for products. We issued several warning letters, as well as one instructive letter on compliance with standards and one informative letter on compliance with standards. The measures at our disposal are listed [on our website](#) and the figures for 2020 are disclosed in [the section on measures](#).



The parties which were not in compliance submitted an improvement plan to us and repeated their review or development procedures. Since the products concerned were not complicated and the Insurance Distribution Directive (IDD) was still relatively new at the time the reviews were conducted, we did not consider imposition of an instruction or fine to be appropriate.

Equity release mortgages

The AFM conducted a review of the product governance at a number of providers of equity release mortgages in 2020. An equity release mortgage gives people the possibility of using surplus equity in their homes for a loan from a mortgage lender. This product is often used for example as a pension supplement.

Equity release mortgages are complex and high-impact products, due to their features and the potential vulnerability of what is in most cases an older target group. They also involve risk, such as the possibility of a residual debt or being forced to move house. This means it is particularly important that these providers develop their products with extra care.

The AFM's conclusion was that the product governance for equity release mortgages at the providers reviewed does not involve an appropriate degree of care. There is no proper consideration of which customers are suited to the product and which are not. Moreover, there is insufficient account taken of the effects of changing market conditions, such as a decline in house prices. Lastly, we note that the information provided to consumers was not correct and clear in all cases. In our view, the entire product governance at the providers needs to be improved.

Our review led to us issuing three intentions to issue an instruction, one warning letter and two instructive letters on compliance with standards. Based on the findings, the providers reviewed implemented improvements in their product development processes and information provision directly. The products now take better account of the position of consumers. In addition to feedback to the market, we have also informed consumers regarding the possibilities and risks of equity release mortgages.

Fine for shortcoming in PARP

In extreme cases, shortcomings in a PARP can involve formal measures. 2020 saw the first instance of a fine imposed by the AFM for an investment-linked pension launched by a company several years ago. The shortcomings we identified in the development process, such as consideration of the consumer's interests, meant that the product could end up with consumers for whom it was not suitable. The sector should take note of this, in view of the new pensions system, in which variable benefit products such as this investment-linked pension will become the norm.

Execution-only investment services

The AFM carried multiple reviews to scrutinise the various aspects of execution-only investment services in 2020. We looked at the customer onboarding process, the suitability test and the product governance at investment firms.

The onboarding process

In 2020 we saw a surge in interest in investing, prompted to some extent by the temporary market slump in response to the COVID-19 pandemic. This led us to carry out a survey of the onboarding process at the large online brokers. Based on transaction data, our survey included three Dutch parties with an AFM licence and one non-Dutch party offering investment services in the Netherlands by means of a European passport.

With the knowledge of these firms, we opened accounts and went through the onboarding process. We did not find any major problems in this process at most of the Dutch firms we reviewed. We did however see that the suitability tests and product governance at these firms could be carried out more effectively, thus avoiding a situation in which products are regularly sold to investors outside the target market. We will include these points in other supervisory projects.

We identified greater risks at the non-Dutch party, which we subsequently shared with our fellow supervisor with responsibility for supervising this party in the country in question. This supervisor is currently discussing the situation with the company involved and other supervisors in countries where it is operating.



Suitability test

In early 2020, we informed the companies reviewed of our findings from a common supervisory action (CSA) coordinated by ESMA in 2019. One area of improvement was that from now on, customers should be tested or tested more frequently to establish whether they have the appropriate knowledge to invest in complex products or to invest using a securities-backed loan.

We subsequently monitored whether companies had improved the design and operation of their suitability tests. The companies reviewed have now implemented the necessary improvements. The conduct of thorough suitability tests by companies, an improved product governance policy and a better distribution strategy reduce the risk that execution-only investors invest in unsuitable instruments such as complex high-risk products or invest using borrowed money.

Based on our findings and the findings of other supervisors within the EU, ESMA can issue guidance for the entire internal market. This will lead to a situation in which consumers in Europe can increasingly expect a consistent interpretation of regulation and a consistent quality of supervision. This will help to achieve a level playing field for market parties and improve consumer protection.

Product governance for distribution strategy

As a result of previous reviews of product governance at execution-only investment firms, in which we identified quite extensive shortcomings at the companies reviewed, in early 2020 we issued an [informative letter regarding standards](#) on product governance for the execution-only channel to approximately 150 investment firms.

We then carried out a first follow-up measurement in 2020 to establish the extent to which improvements to policy and the application of product governance had actually been effected. This measurement focused on investment products in the execution-only channel, and specifically on long and short options. In one case, we also investigated trading in turbos.

We established there had been progress in the design of the channel, as a result of which (for example) customers automatically have access to non-complex products only and more complex products are only shown to them if they actively search for them, resulting in better protection. This was the case in virtually all the parties reviewed, in both policy and implementation.

The evaluation of whether products are going to the correct target market in execution-only does involve more work for the parties concerned. Although many of these parties have ideas as to how to evaluate their distribution strategy, this has not as yet had a sufficiently practical effect in all cases. In addition, many of the parties do not yet have actual findings from a completed evaluation. We have also shared these items of attention with the parties concerned.

The COVID-19 pandemic has accelerated the (cross-border) digitalisation of retail investing. During our chairmanship of the workflow Retail Distribution and Digitalisation in the International Organization of Securities Commissions (IOSCO), we obtained an overview of market trends and were in a position to influence future regulation through the definition of collective standards for supervisors in areas including online targeting, online onboarding and outsourcing of online activities.

In addition to our reviews of execution-only investing, we participated in a European supervisory review of the quality of investment advice and asset management services to retail investors, or the suitability test. The review of the suitability test involved 13 investment firms and assessed the extent to which processes and procedures are designed to enable compliance with the applicable statutory suitability requirements.

Pensions

The new pensions system

Under the new pensions system agreed during the summer of 2020, scheme members will have greater freedom of choice. This could significantly affect the amount of pension that is achieved. Greater freedom of choice means



greater responsibility being placed on the scheme members with regard to their financial well-being.

In 2020, the AFM reviewed the development of variable benefits and the guidance provided to scheme members when making choices. Variable benefits are already offered by eight pension funds and one premium pension institution. This review led to us issuing one warning and one instructive conversation on compliance with standards due to infringements of product governance standards and the standards applying to the provision of balanced information. The review provided useful input regarding the aims of the legislation relating to the new system.

During the preparations for the parliamentary debate on the issue, we made it clear that we see potential risks for pension scheme members. With the publication of our [position paper](#) and other communications, we informed the Ministry of Social Affairs and Employment (*Ministerie van Sociale Zaken en Werkgelegenheid*, or SZW) that a chosen pension scheme must be appropriate for the characteristics of the scheme member population. There also needs to be appropriate guidance for scheme members regarding the choices they make. We believe that pension providers must clearly inform their scheme members in a timely and practical manner regarding the choices they have to make in the transition to a new system and the effects thereof on their pensions.

Other important aspects that we believe are in the interests of the scheme members include regular surveys to establish the degree of risk preference among the scheme members and the importance of regulation to ensure that the pension scheme is more closely aligned to the risk preference of the scheme members. The Ministry has recognised our concerns and has taken account of them in the draft legislation.

Existing pension schemes have to be aligned with the parliamentary bill by 2026. The pension providers will make choices that have significant effects for their scheme members during this transition period. We believe it is important that the consequences of choices

made by scheme members are taken into account in the creation of new pension schemes. We also believe it is important that scheme members are informed of the effects of the transition to the new pensions system clearly, impartially and in a timely manner.

As we explained during the round table consultation with the Parliamentary Standing Committee on 4 November 2020, our focus is on conduct supervision with respect to risks in the second pillar of the pensions market. It is time to allow the duty of care for scheme members to increase in line with the system. It is important that a pension is comprehensible and workable. It must not be too complicated for the scheme members, and foreseeable disappointments must be avoided.

Pension communication and insight into the pensions landscape

In 2019 and 2020, the AFM carried out reviews of the communication provided on the various forms of pension reductions. In 2020 for example, 33 pension funds reduced the pension accrual by their scheme members. The most important point here is that the pension funds inform their scheme members correctly, clearly, impartially and in a timely manner. We reviewed how the various forms of reduction were communicated and [published our findings](#). These reviews led to the issue of 15 instructive conversations on compliance with standards.

The AFM issued a report of its supervision for the first time in April 2020, being the responses to a questionnaire sent to all pension funds, pension insurers and premium pension institutions. The approximately 200 pension providers provided information on the benefit, capital and contribution agreements in their portfolios. We use the information from this supervisory report to obtain insight into the pensions landscape, identify risks and prioritise our supervisory activities. We will also publish our findings in this respect. We will continue to carry out similar supervisory surveys in the years to come, also to enable us to monitor the effects of the new pensions system.

We also published our '[Guide to provision of information to scheme members in case of a group transfer of accrued benefits](#)' to clearly



inform pension providers as to how they must inform their scheme members with respect to the consequences of a group transfer of accrued benefits. We will devote increased attention to the provision of information, especially in view of the upcoming revision of the pensions system. We expect there to be an increase in the number of group transfers of accrued benefits involving the provision of information to scheme members during the transition period to come.

Lending standards for consumer credit

The Dutch Banking Association and the Dutch Finance Houses' Association (the *Nederlandse Vereniging van Banken* and the *Vereniging van Financieringsondernemingen in Nederland*) adjusted their lending standards in 2020 in consultation with the AFM. These lending standards concern a methodology used to determine the amount a person may borrow on the basis of their income and expenses. This was the next step in a lengthy process that aims to ensure that consumers are granted consumer credit loans responsibly.

The lending standards have been improved with the assistance of the National Institute for Family Finance Information (*Nederlands Instituut voor Budgetvoorlichting*, or 'Nibud'), as a result of which the calculation of the maximum amount to be borrowed is more in line with the customer's actual financial situation. This further reduces the risk of excessive lending, thus preventing problems for customers from occurring. In all cases, loans will much more closely reflect what customers can afford financially.

We also drew greater attention to limiting the financial risks for consumers by contributing to legislative and policy proceedings with respect to consumer credit.

We made two requests for portfolio data from the ten largest banks and credit providers. These data were used to develop a dashboard that gives us insight into developments in the consumer credit market and the risks in this market. Our aim is to apply specific and risk-driven supervision to each institution. We will also include items of attention in our regular contacts with these institutions and put forward specific suggestions to them.

Interest-only mortgages

After the four major banks had already started to address the risks associated with interest-only mortgages in 2019, the AFM held a seminar in February 2020 for all mortgage providers to inform them of our approach to supervision with respect to interest-only mortgages. The focus for 2020 was on approaching customers at high risk of not being able to extend or repay their loans at maturity or those with problems meeting their payments. The mortgages for many of these customers mature around 2035, meaning there is still time to take action.

The providers have now approached a total of more than 580,000 customers in line with our approach. Around 30% of these customers have taken an affordability test. Some 500,000 customers have made changes to their mortgage. The mortgage providers will continue to follow this approach next year, when they will focus on customers at medium risk and initiating continuous management.

Our view on the duty of care in the management phase

Our discussions with various companies and institutions included a closer focus on the duty of care in the management phase. What can the sector do to assist its customers, also during the term of their product or service? These discussions gave us an idea of what market parties are already doing for their customers in the management phase, where there are still obstacles and where greater clarification regarding the expectations of the AFM is needed. This is necessary, as while market parties are obliged to comply with their duty of care requirements, the legislation does not obviously state what is meant by the duty of care during the management phase. We will use this to share our views with the market.

Survey of risks in finance for SMEs

Small business customers such as the self-employed are mostly very similar to consumers when it comes to knowledge and their financial position. The vulnerability of the small and medium-sized enterprise sector (SMEs) that searched for finance was even more expressly demonstrated in a year in which many small business owners suffered greatly from the effects of the COVID-19 pandemic. The AFM does not



have a mandate with respect to lending to SMEs. However, in view of the vulnerable position of these SMEs, we have made an exploratory survey of the risks faced by these customers.

After desk research, we held discussions with market parties in the segments of factoring, leasing and crowdfunding and with several SME finance advisers. The reason for this more in-depth study of non-bank financiers of small business customers, including the self-employed, is that they are increasingly referred to these parties.

The Ministry of Finance had a study carried out in 2020 of excessive fees and conditions used by non-bank credit providers. We advised the Ministry regarding potential ways of mitigating these risks.

International influence

At international level, we have, in addition to the collective supervisory approach for the suitability test already mentioned, called for European attention to the Dutch ban on inducements (*provisieverbod*). We have also obtained further information on the cross-border services provided by Dutch institutions. Furthermore, we have placed the issue of fees for investment services and product governance on the agenda for ESMA. Besides product governance in the provision of investment services, there will be a review in 2021 in which several European supervisors will participate, coordinated by ESMA.

As a result of the COVID-19 pandemic, the European Commission is proposing to give the sector more room on a temporary basis (the Capital Markets Recovery Package). In cooperation with the Ministry of Finance, we successfully campaigned hard for the continuation of the product governance provisions in MiFID II. These provisions are important for the protection of investors against unsuitable products.

The other – less extensive – supervisory activities and results are presented in the [appendix 'External KPIs'](#).

Ongoing supervisory activities for financial services

Signals, requests for exemption and requests for enforcement

We dealt with seven requests for exemption in 2020, ranging from a request for exemption from the ban on inducements and professional competence to a request for exemption from professional liability insurance. We also received two requests for the proposed allocation of a retention payment. These were withdrawn after we explained that the requests did not meet the conditions for such payments.

Provision of information that is correct, clear and not misleading

Supported by our data system, we monitored ongoing advertisements for financial products and services. This led to our sending responses to market parties or supervisors outside the Netherlands on 18 occasions. In most cases, this led to the information being amended.

We also carried out a market-wide scan of the information provided for insurance documents. We assessed the insurance product information documents (IPID) for home contents, liability and occupational disability insurances, which in many cases did not meet the required standards. On this basis, we sent 17 responses to market parties and [published guidance](#).

There were also several policy processes involving the provision of information in which we made an active contribution, including Packaged Retail Investment and Insurance-based investment Products (PRIIPS) and the Sustainable Finance Disclosure Regulation (SFDR).

Monitoring of compliance with the product intervention measures

We identified a number of infringements in our monitoring of the measures relating to contracts for difference (CFD) and binary options. In cases where this involved parties located in the Netherlands, we called the parties to account regarding the deficiencies directly. In cases involving parties with a European passport, we notified the fellow supervisor in question and requested it to ensure that the infringements were no longer continued.



Interest-rate derivatives

The AFM [reported](#) on the extent of progress made by the banks with settlements under the Uniform Recovery Framework. We will issue a final report stating the ultimate status of this issue in the course of 2021, after completion of our final checks.

After-sales for investment-linked insurance policies

We have monitored the activities of insurers, and we initiated discussions with them where necessary to prompt them to adequately observe the requirements for after-sales care to customers with an investment-linked insurance. This process included a review to establish whether insurers had met their statutory obligations to activate customers with new non-accrual investment-linked insurances. These are insurances for which the expected accrual of capital in the policy is less than the future premiums due, in which case there is a statutory (annual) obligation for the insurer to offer an appropriate solution to customers it has not yet contacted or who have not yet made a well-considered decision within six months.

Our regular reviews show that all the insurers complied with these obligations (during the period reviewed).

Integrity supervision

The AFM's supervision of integrity focuses on licensees and their (co-)policymakers, but also on parties that are exempted from the obligation to obtain a licence if the matter concerns certain statutory transparency requirements. The main aims of this supervision have been to combat and prevent unethical behaviour and involvement in criminal activity. There were several formal and informal enforcement processes ongoing, supplemented with thematic and data-driven projects.

The main markets and populations supervised were the investment market, audit firms and financial services providers. In addition, in cases where there are reasonable grounds for doing so, the AFM retested the properness of key officers at financial enterprises and audit firms. A total of four retests were completed, two of which were started in 2019. In two cases, the retest of properness led to imposition of a formal measure (withdrawal

of the licence and an instruction to dismiss) and in the two other cases the retest of properness led to voluntary stepping down and a withdrawal of the licence at the party's own request.

The AFM's integrity supervision has been strengthened by renewed active participation in the ESMA Enforcement Network, which encourages and supports cross-border cooperation between European supervisors and in which European supervisors have shared practical examples in relation to investigation and enforcement. In addition to various enforcement processes in 2020, warning campaigns were an important element in the supervision of integrity. For instance, we warned against the use of sucker lists by boiler rooms with an active [media campaign](#). The aim of this campaign was to raise awareness among consumers in vulnerable situations and encourage them to notify us if they had witnessed or been the victim of abuse.

As part of our integrity supervision of licensees in financial services, in a [published Market Impressions report](#), we called for attention to the obligation to report incidents and the associated procedure, in addition to compliance with the Money Laundering and Terrorist Financing (Prevention) Act (*Wet ter voorkoming van witwassen en financieren van terrorisme*, or Wwft). We also sent a letter to licensees in the investor market on this same issue. Institution-specific investigations in financial services focus for instance on 'straw man' constructions. If there is reasonable cause to do so, we will retest the properness of sitting executive and supervisory directors.

Our integrity supervision of the investment market focuses on the combating and prevention of unethical and illegal trading practices with the aim of self-enrichment by investment providers. This area of supervision is also linked to criminal chain partners in cases where self-enrichment involves investment fraud. In 2020 this supervision focused on licensees, exempt providers of securities, AIFM-light managers and providers of investment objects.

In addition, our integrity supervision included continuing attention to the risks posed by (national and non-Dutch) providers of pay-day loans for financially vulnerable consumers. We have taken enforcement action where necessary.



AFM-wide supervisory priority

Combating money laundering, the financing of terrorism and other forms of financial criminality

Financial enterprises have an important function in the prevention of money laundering, financing of terrorism and other forms of financial or economic criminality. These enterprises have a gate-keeping function to fulfil in order to prevent criminals from laundering the proceeds of crime through the financial system. They can also make it more difficult for persons and organisations subject to national or international sanctions, for example due to terrorist activity, from participating in the financial system and they can make it difficult for businesses and persons to benefit from fraud and corruption. If financial enterprises become involved in such activities, either consciously or otherwise, this can damage confidence in the financial sector.

The AFM works to achieve a financial sector that is not misused for financial or economic criminality and the financing of terrorism. For example, we supervise compliance with the Money Laundering and Terrorist Financing (Prevention) Act (the Wwft) and the Sanctions Act 1977 (*Sanctiewet*, or Sw).

We conducted 85 investigations relating to the Wwft and the Sw in 2020. These investigations included interviews with the boards of companies, reviews of transaction monitoring and other systems and inspection of customer files. We imposed various measures in this reporting year: 1 order for incremental penalty payments, 2 notices of intention to impose orders for incremental penalty payments, 3 notices of intention to issue an instruction, 31 warning letters, 5 instructive letters or interviews on compliance with standards and 154 letters or interviews on compliance with standards. This led to increased awareness, remediation of infringements and better compliance with the law.

We also amended our [guidance for the Wwft and Sw](#) last year. This was necessary due to new regulation, such as the introduction of the register of Ultimate Beneficial Owners (UBO). There was also a need for more explanation to companies, mainly in relation to the open standards in the Wwft. The AFM's revised guidance was also one of the items discussed at the online round table consultation held with managers of collective investment companies and the industry association Dufas in December 2020. Other items discussed included risk management, transaction monitoring and the notification obligation.

Transaction monitoring and notification obligation for investment firms and collective investment companies

We carried out follow-up reviews of transaction monitoring and compliance with the notification obligation by investment firms and collective investment companies. This was prompted by the [AFM review](#) in 2019, which revealed that collective investment companies and investment firms were still not doing enough to combat potential money laundering or financing of terrorism. Our investigations at several institutions showed that the institutions needed to monitor transactions more closely and notify unusual transactions to the Financial Intelligence Unit more quickly and more accurately.

The number of notifications to FIU Nederland is increasing (2020: 274; 2019: 124). However, our annual [request for information from investment firms](#) showed that the number of transactions notified is still limited, given the number of alerts originating from transaction monitoring. The transaction monitoring process is still not especially effective. The AFM will publish its findings in 2021 after all its investigations are completed.



National and international cooperation

We have been a member of the Standing Committee on anti-money laundering and countering terrorist financing (AMLSC) since the beginning of 2020. Among other things, this committee – part of the European Banking Authority – discusses recommendations and proposals for strengthening and further harmonisation of European money-laundering supervision. In addition, the AFM has worked with the Ministry of Finance and DNB on a Dutch response to the consultation on the proposal from the European Commission for the introduction of European anti-money laundering supervision, which aims to implement effective and risk-based supervision throughout Europe.

At national level, we have worked with the Financial Expertise Centre (FEC) on issues such as investment fraud, giving several presentations in the past two years in concert with the Fiscal Intelligence and Investigation Service (FIOD) to employees at four major banks on how to identify investment fraud. These presentations were aimed at raising awareness of investment fraud among bank employees and to achieve earlier and more effective detection of investment fraud or possible investment fraud, with faster intervention so that (further) damage to consumers will be prevented. The AFM chair Laura van Geest was appointed as the chair of the FEC at the end of 2020.

03

Supervision of the capital markets





The capital markets are significantly changing, due to the introduction of new regulation and the arrival of new parties in the Netherlands as a result of Brexit. These developments are increasing the workload of the AFM, the number of parties subject to supervision and the volumes of order and transaction data. In this context, our supervisory objective in the coming years is to continue to ensure that the infrastructure of the capital markets is robust and that trading is ethical.

We have intensified our supervision of the capital markets and adjusted its structure in anticipation of these developments. The activities we developed in 2020 are part of our aim to exercise institution-specific and data-driven supervision, to provide reliable information to the market and exert influence at international level.

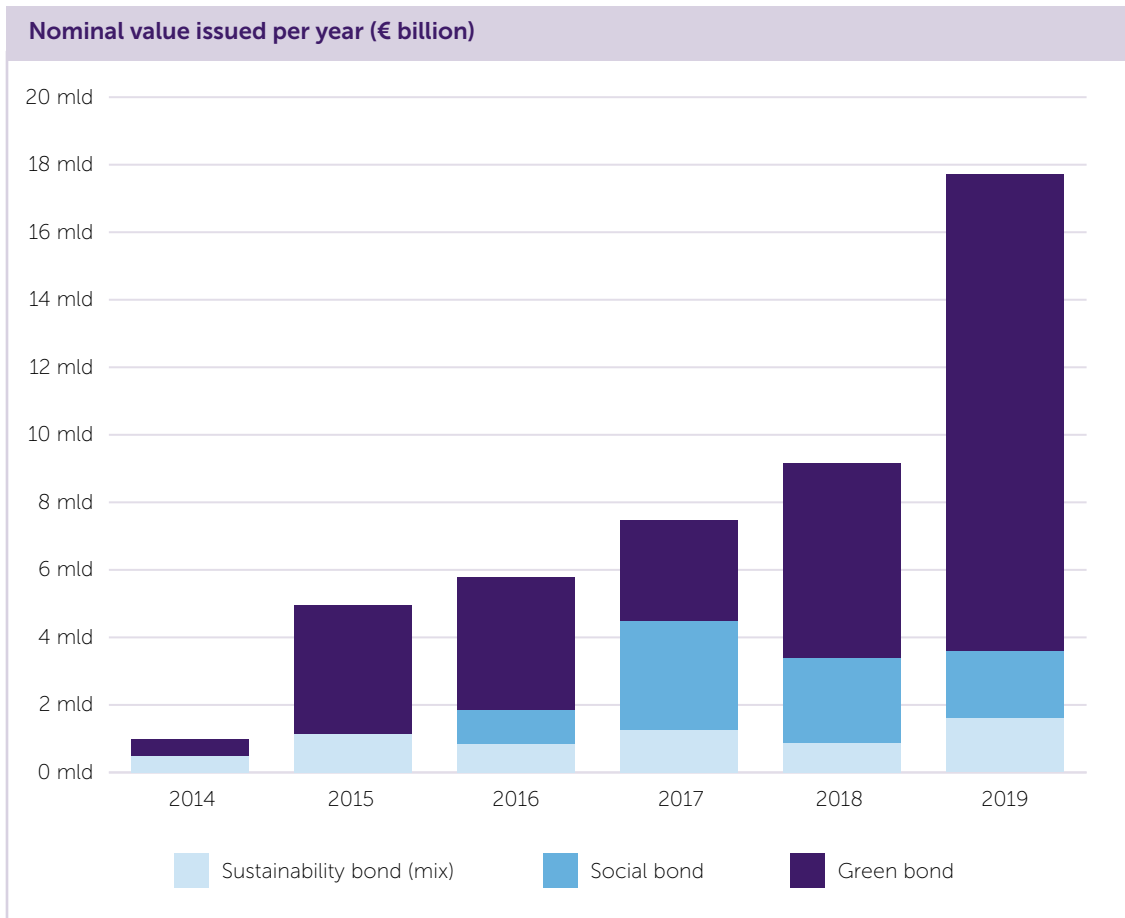
Report 'Sustainable Bonds in the Netherlands'

In response to the fast-growing market in sustainable bonds, the AFM published its report 'Sustainable Bonds in the Netherlands' in April 2020. This report provides greater detail of the developments related to the increasing demand for sustainable bonds, the risks associated with this and the consequent effect on our supervision. One of the conclusions is that the sustainable market currently features a variety of standards. We argue that greater standardisation is needed, and accordingly support the proposals of the European Commission, for instance for an EU Green Bond Standard. The conclusions of our report have also been used as input for the AFM responses to EU consultations and as a foundation for the AFM's view of sustainability.

The analysis of the sustainable bond market in the Netherlands is partly thanks to the cooperation of 20 major players in this market, including issuers, large investors and banks. This cooperation and the information thus obtained has given us the best possible understanding of the risks associated with this growth, from the perspective of both our supervision and of the market. The findings in this report have been shared with these parties.

In its supervision of prospectuses, we also wish to see greater transparency, for example on how the proceeds will be used and an account of the impact of the investment. Among other things, this could help to prevent 'greenwashing', which refers to companies or organisations presenting a greener or more socially responsible image that is actually the case. Transparency is also needed in the reporting of relevant non-financial information. We accordingly argue that issuers need to be more specific and go into greater detail in their annual reporting. Transparency benefits all the parties involved and will have a positive effect on the market.





Analysis of the fixed income and derivatives market

In anticipation of possible changes to the current MiFID II regulations, the AFM has conducted an impact analysis of the applicability of the rules for the fixed-income and derivatives markets. This analysis is part of our aim to influence the exercise of supervision at an international level. The analysis was carried out in [two parts](#): an analysis for equity, investor protection and commodity derivatives, and a deep dive for the primary bond markets and the secondary fixed-income markets.

The analysis reveals that price formation in the fixed-income and derivatives market is still not sufficiently transparent. The MiFID II regulations moreover are less applicable to the bond markets. We have however noted a shift of trading in bonds and derivatives to trading platforms. Among other things, our recommendations concern a greater degree of standardisation in fixed-income instruments. For transparent price formation, a financial

instrument has to be sufficiently liquid, which in turn means a certain degree of standardisation.

The conclusions of our analysis are included in the discussion of draft report by ESMA. Our analysis that transparency in the fixed-income markets is still not up to standard and that we need to focus on meaningful transparency in the liquid part of the market is reflected in [ESMA's final report on non-equity transparency](#).

The interest-rate benchmark transition (IBOR)

An additional survey was conducted in cooperation with De Nederlandsche Bank (DNB) to establish the extent to which banks, insurers and pension funds have made the necessary preparations for the transition to alternative risk-free benchmarks in 2022. The findings were [announced in November 2020](#). We saw that financial companies in the Netherlands have already migrated to alternative interest-rate benchmarks, but that further action is required, especially with regard to the inclusion of fall-back options in contracts.



Inadequate preparation for this transition could lead to several risks, such as lack of clarity regarding payments or valuations, legal disputes, reputational damage, operational issues and reduced liquidity in the markets for frequently used derivatives. An accumulation of risks could ultimately threaten financial stability. The AFM and DNB are therefore monitoring the transition phase closely and urge financial institutions to migrate to appropriate alternative interest-rate benchmarks and to include fall-back options in contracts where applicable.

The AFM and DNB have shared our insights with the financial sector, presenting an account of the use of interest-rate benchmarks, the risks we have identified and the actions taken on the basis of the information provided. We also cited a number of best practices and current information on the transition.

AFM Market Watch

The first [online Market Watch](#) was published in September 2020. The 'AFM Market Watch' is a newsletter offering detailed information on current topics and developments in the capital markets such as MAR, MiFID II and transaction reporting. With the AFM Market Watch, we present our observations and findings on current developments in the capital markets using data analysis.

Market Watch will appear at least three times a year, with each edition covering one current topic in our daily supervision of the capital markets, and will be sent to all subscribers to our capital markets newsletters. We also share this information with stakeholders such as DNB, the Ministry of Finance, ESMA, other national and international supervisors and the media.

The debate on short selling flared up as a result of the developments in the financial markets after the outbreak of COVID-19. In [the first edition of our AFM Market Watch](#), we focused more closely on how we dealt with short selling in the Dutch financial markets during the pandemic. We acknowledge that short selling is an important investment strategy, under normal market conditions. In exceptional market conditions, it can be argued that short selling has a negative effect on the orderly functioning of the market and financial stability, and there

is the possibility, in consultation with our fellow supervisors in ESMA, to temporarily restrict short selling.

We noted that the financial markets in the Netherlands have functioned satisfactorily since the outbreak of COVID-19, in the sense that they responded to the economic developments and expectations. Although market confidence declined in this period, we did not find any indications that short selling contributed to any loss of confidence and therefore we saw no reason to implement measures to restrict short selling at that time.

Other supervision of the capital markets

Tightening of transaction reporting and supervision of notifications

In 2020, the AFM laid the foundations for further intensification in 2021 of its supervision of MiFIR transaction reporting (NTRS), FIRDS and EMIR transaction reporting, including enforcement. There was also much work done on the further operationalisation of SFTR, Securitisation and FITRS reporting supervision in 2021 in close cooperation with ESMA. We are taking a stricter approach in reminding market parties of their obligation to report all relevant transactions correctly, fully and without delay. This will give us better insight into the trading of market parties and improve our detection of market abuse.

Due to the COVID-19 pandemic, there has also been much attention in the supervision of notifications (financial reporting, issued capital, publication of inside information, substantial shareholdings, short positions and transactions by directors) to notifications of short positions. As [stated above](#) contrary to the view taken by some other supervisors in the EU, we saw no reason to restrict short selling.

In cooperation with ESMA, we also made an effort to improve companies' reporting of the Legal Entity Identifier (LEI), a worldwide unique code that can be used to identify parties in financial markets. Identification of parties involved in a financial transaction makes it easier to supervise market abuse and maintain financial stability.



As part of its enforcement of notification and transaction reporting supervision, the AFM imposed around 100 supervisory measures in relation to infringements of relevant regulations.

Expansion of and innovation in surveillance supervision

2020 featured an expansion of what was mainly supervision of equity trading into multi-asset surveillance. This was due to the arrival of several bond and commodity derivatives platforms in the Netherlands as a result of Brexit. For this, the AFM actively uses data-driven instruments such as algorithms, home-made detection and commercial surveillance tools.

Real-time surveillance tools are used on the equity platforms in order to ensure that issuing institutions publish all the relevant information that must be made publicly available in a timely manner. Last year, the AFM was in contact with issuing institutions on this issue several times a week, held instructive conversations on compliance with standards and in one case the AFM suspended trading until the issuer concerned had published the relevant information. If market manipulation is detected in real time, the AFM also takes immediate action against the party concerned. Our surveillance supervision moreover regularly delivers signals of market abuse that can lead to investigations and enforcement.

Mandatory notifications (Suspicious Transaction and Order Reports, or STOR) of market abuse by financial companies may also form a good basis for carrying out investigations. The AFM has devoted much attention to informing companies regarding their obligation to submit these notifications to the AFM. This led to more than 500 notifications by these institutions. Based on these notifications and our own signals, several dozen investigations of market abuse were initiated that may lead to formal or informal enforcement measures. Informal enforcement in particular allows us to enter into dialogue with the person or institution concerned so that the infringement is not repeated. This includes warning letters, of which there were 15 to 20. Certain cases were also raised in the consultations with the Public Prosecution Service (OM) and the Fiscal Intelligence and Investigation Service (FIOD).

Permanent attention to the prevention of market abuse

The AFM formulated a plan designed to further prevent market abuse in 2020. Issuing institutions must be aware of the requirements placed upon them as a result of their market listing. Preventive supervision contributes to both raising and maintaining awareness among issuing institutions. Preventive supervision makes it less likely that people accidentally fail to meet their obligations, such as the publication of inside information and maintaining the confidentiality of this information until the time of publication. Among other things, this led to a message in March 2020 to all issuing institutions calling for attention to the impact of COVID-19 on their financial position and prospects. By maintaining contacts with issuing institutions, we stay up-to-date on market developments and can inform the market of such developments as required. We also held knowledge sessions with the internal surveillance departments at financial institutions. Sharing our knowledge helps them to detect, report on and more effectively prevent potential or actual manipulative trading more frequently.

Ongoing supervision of the capital markets

Supervision of institutions (trading platforms, proprietary traders, benchmark institutions)

In its supervision of trading platforms, the AFM noted that trading volumes on the new platforms have increased. Higher trading volume also means more supervision. We also devoted attention to cybercrime and disruptions. One interesting developments concerns the announcement of the takeover of Borsa Italiana by Euronext.

We conducted a cross-institutional project among proprietary traders to look at how algorithm-based trading by proprietary traders is embedded in their organisations. Among other things, this involves the internal controls and internal governance at these companies. Our benchmark supervision involved much attention to [the IBOR project](#), as well as the granting of licences.

The AFM additionally continued with the granting of licences to benchmark institutions



and the associated international/ESMA activities in relation to (future) regulation. As a result of the further extension of the term within which benchmark institutions have to apply for a licence, issues relating to a presence in the office and in the Netherlands, also during the pandemic, were among those addressed.

Prospectus supervision

The amended Prospectus Regulation came into effect in 2019. This should make it less likely that investors base their investment decisions on advertising that does not comply with the law. The AFM noted the effects of the regulation in 2020, when market parties complied better with the rules. This was also due to the discussions we held with collective investment companies. The checking of advertisements has accordingly become a permanent item in our supervision. More than 95% of the prospectuses were dealt with in accordance with the statutory provisions within the allotted term.

One interesting development is the increase in the number of applications for special purpose acquisition companies, or SPACs, last year. A SPAC is an investment vehicle that has no operations at the time of the IPO, but is formed with the intention of acquisition of operations by the listed company within a certain period. We also dealt with a number of offers concerning the acquisition of a financial institution, including NIBC.

In its market flotation and subsequent issue project, the AFM investigated the role of various parties involved in market flotations and subsequent issues, with particular attention to identifying potential conflicts of interest. We formulated focus areas that will be applied in our supervision. These include consideration of the role of analysts, but also the function of statements by issuing institutions in addition to the prospectus intended to draw attention to the offering.

Supervision of clearing and settlement institutions

Clearing and Settlement is the process whereby a transaction is actually executed. Clearing is the process at the end of the trading day that counts the transactions of an exchange member and nets them off in order to determine the new positions (that is, the balance in a particular

security). Settlement is the process whereby the transaction is actually settled. Our supervision of EuroCCP for clearing, and of Euroclear for settlement, is both national and international and ensures that these processes are carried out safely. We do this in concert with the relevant supervisors in the countries where these institutions also operate.

In connection with Brexit, on 23 November 2020 ESMA extended the temporary possibility of exemption from the clearing obligation and bilateral margin for intra-group transactions between Dutch entities and third-country counterparties without regulatory equivalence until 21 June 2022. The extension allows a non-financial counterparty (NFC) temporarily to continue to make use of existing exemptions with UK counterparties after 1 January 2021. A record number of more than 80 Dutch and non-Dutch NFC parent companies submitted applications to the AFM for their Dutch subsidiaries in 2020.

The AFM moreover advised ESMA with respect to the temporary third-country recognition of the British Central Securities Depositories (CSDs) in connection with Brexit.

The testing and approval procedure for new payment settlement companies

The AFM is involved in the supervision and approval procedure for new payment settlement companies. A payment settlements company is responsible for the settlement of payments by fund transfer. In 2020, Mastercard was assigned the status of a Systemically Important Payment System (SIPS), a payment system with systemic importance.



04

Supervision of Asset Management





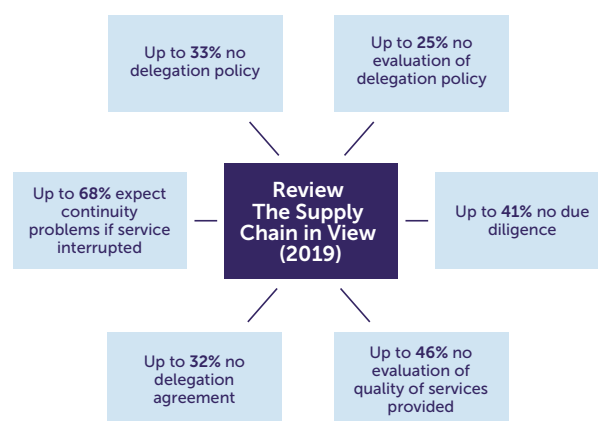
To achieve its objective in the supervision of asset management – a sustainable business model for asset managers and treatment of clients with due care – in the coming years, the AFM focuses particularly on the proper functioning of the asset management supply chain.

Much of the supervision in 2020 was on identifying the main risks arising from delegation or hiring of services by market parties in the supply chain, as well as the manner in which these risks can be managed by asset management parties. We also focused on the implementation of a report from depositaries on irregularities at management companies and investment funds identified by the depositaries. Extensive attention was additionally paid to preparing the market for upcoming regulation in relation to sustainability.

The supply chain – delegation of tasks

For the supply chain of asset management parties to function optimally, it is important that the sector adequately manages the risks arising from the delegation of tasks in order to safeguard the quality, continuity and costs of the service to customers. The chain consists of both the asset managers that delegate various business activities and the (third) parties that they engage for this purpose. Management of the risks relating to this is essential, as approximately 90% of the management companies and investment firms currently delegate one or more of these activities and this practice is expected to become even more commonplace.

Our first review (The Supply Chain in View (*Keten in Beeld*) – 2019) revealed that the sector does not have adequate controls in place. This review was conducted in a sub-population.



In [a letter to the sector](#) in 2019, we requested companies to provide information on the matter and to introduce measures.

The Supply Chain in View (*Keten in Beeld*) 2.0 is a sequel. The market was prepared for our new survey in October 2020 by means of sessions with members of the industry organisations Dufas and VV&A, in which we again raised the issue of the need to adequately manage delegation risks. Our aims were twofold:

1. firstly, to establish the extent to which our previous recommendations had been adopted,
2. and secondly to obtain a thorough impression of the extent of delegation to provide insight into the inherent, concentration and control risks resulting from delegation of tasks in the asset management sector.

Additionally, we expressly raised the issue of delegation within ESMA, which has led to ESMA also explicitly including the issue in its policy statements.



Depository reporting

Depositories have an important role in the supervision of investment funds. They hold the assets of investment funds in custody and have their own supervisory tasks. For instance, they check if a management company makes an unauthorised payment or makes an investment that is outside the established investment objectives. Every management company of an investment funds located in the Netherlands is obliged to appoint a depository who is active in the Netherlands.

There are 13 depositories in the Netherlands covering virtually all the fund management market, and they are thus important participants in the chain. Ultimately, depositories fall under the supervision of the AFM. The ultimate aim of this supervision is that investors can have confidence that their capital in investment funds is in good hands.

We introduced half-yearly reporting by the depositories with effect from 1 July 2020. This reporting gives us greater insight into material irregularities (identified by the depository in question) at institutions subject to our supervision. These may concern breaches of investment restrictions, or issues relating to the separation of capital. Among other things, we have entered into a dialogue with the industry organisation the Dutch Association of Depositories with the aim of convincing the industry that this kind of reporting will benefit the quality of the asset management population.

This greater emphasis on the important role that depositories have and the clear demonstration that the AFM is requesting the depositories for information on irregularities they observe will increase the care taken by and quality at investment fund management companies. In addition, these depository reports will enable us to identify potential or actual abuses more quickly. Irregularities are included in the prioritisation of our supervision, and finally we will share our experiences with the market by means of letters to the sector.

Impact of the sustainability transition

A great deal of new legislation and regulation relating to sustainability is on the way. In Europe, the new rules arise from the [EU Action Plan for Financing Sustainable Growth](#). The regulation is intended to encourage financial enterprises to embrace the sustainability transition, the transition to a sustainable society, and put them on the right course. The action plan is based partly on the UN's Sustainable Development Goals and the Paris Climate Agreement. To ensure that the sector is future-proof, it is important that the AFM obtains insight into the risks associated with this sustainability transition. Furthermore, we want to prevent situations in which investors purchase a product which is not what they believe it to be.

We list some of these risks below.

1. Investors may be faced with large changes in the valuation of financial instruments due to market shocks as a result of climate change for instance, or due to policy enacted in reaction to climate change.
2. The results of sustainable investing may not reflect expectations, due to an information disadvantage among investors.
3. Despite efforts made by the sector, the information on sustainability is still not sufficiently standardised and comparable.
4. Providers may have an incentive to depict themselves as 'green', for example because investors will accept a lower return if the finance goes towards the realisation of sustainability goals, in combination with the lack of a uniform definition of what sustainable investing actually means.

The AFM had a facilitating role in 2020 with respect to preparing the sector for the regulation that will come into effect in 2021. We have provided information and removed uncertainties. We also carried out a market analysis at parties in the market, with the aim of identifying the initial need for information on the upcoming legislation and regulation. We informed the sector of our key findings, including various recommendations, in a letter to the sector.

We have also been in regular contact with our fellow supervisors at DNB. We keep each other informed on our mutual (proposed) activities in



relation to sustainability, in order to harmonise these activities and our statements to the sector.

We also participate in the discussion regarding the sustainability transition at international level (in the Joint Committee ESG SG of ESMA). This enables us to take account of the interests of Dutch parties and continue to argue for a level playing field. The AFM was also involved in [a position paper](#) putting forward arguments by the AFM and the French supervisor for European regulation of ESG data providers.

Other supervision of asset management

The AIFMD review

Discussions on the operation of the AIFMD were held with various stakeholders and interest groups in the summer of 2019. The input obtained was used among other things to develop our own view of the AIFMD. This ultimately led to various recommendations being put forward in a position paper '[Views on the review of the Alternative Investment Fund Directive \(AIFMD\)](#)'.

One of our most important recommendations concerns the introduction of a properly functioning third-country passport. We also recommend that AIFMD data should be collected by an independent third party, with national supervisory authorities having access to this central data source. This will contribute to the (timely) availability of data and will increase data quality. The position paper has been discussed in various consultations with other supervisors, ESMA, EC, the Ministry of Finance and interest groups.

The EC started the consultation on the AIFMD as part of the AIFMD review in November 2020. For us, the responses to the consultation questions will focus on the key points in the position paper. We have also looked for cooperation with DNB and the Ministry of Finance in order to exercise influence internationally.

CSA study of UCITS liquidity

All the European national supervisors have been involved simultaneously and in mutual harmonisation in this study, known as a common supervisory action (CSA), which started

in January 2020. The CSA focused on the design and implementation of liquidity risk management at UCITS funds, an element of the business operation of collective investment companies that has significance for investors. The study revealed that most management companies had not used any liquidity instruments in 2018 and 2019. A notable point is that liquidity risk management in the past two years has been assessed as extremely limited by internal audit and compliance departments. This entails a risk that institutions are not adequately prepared for crisis situations. A follow-up study took place at the end of 2020, which involved a further assessment of liquidity risk management at four UCITS management companies. The findings will be shared with the sector in 2021.

Review of real estate funds & corporate debt funds

In connection with the COVID-19 pandemic, on 6 May 2020 the European Systemic Risk Board (ESRB) recommended to ESMA that a review should be conducted of funds that invest mainly in real estate and bonds. There are 18 such funds that fall within the scope of the review in the Netherlands. The review established the extent to which these funds are prepared for shocks such as those experienced in March 2020. The findings are confidential.

In general, the findings were positive. We do however take the view that funds investing in corporate debt could make better use of liquidity management tools, for example by including the possibility of swing pricing. Institutions must at least ensure that they have sufficient preventive tools at their disposal. We pointed this out to all institutions regularly in 2020 and also subsequently, partly because we encountered situations in which not all the parties had responded to our previous requests. The number of funds subject to supervision that actually had difficulties was in fact extremely low.

Attention to specific liquidity problems

The AFM has been in close consultation with the sector due to the COVID-19 pandemic, mainly with respect to liquidity risks. We were also in close contact with market parties forced to temporarily suspend withdrawals. In the Netherlands, these measures remained relatively limited to smaller and mostly relatively exotic



strategies affecting a small portion of the total assets under management. This relative calm was mostly due to the fact that the majority of assets invested in the Netherlands originates from pension capital, which has a relatively long investment horizon.

Here too, we believe that funds could make better use of liquidity management tools. We pointed this out to institutions on regular occasion in 2020.

Analysis of risk of forced sales in case of potential credit downgrades by rating agencies

The ratings of debt issued by companies and (semi-)government bodies were downgraded by the rating agencies as a result of the pandemic and the lockdown. One of the risks potentially associated with this concerns forced sales as a result of mandatory investment policies at bond funds regarding minimum credit ratings. We studied the risk of such behaviour at the managers of bond funds in the Netherlands. Our analysis showed that the risk to stability from 'fire sales' as a result of forced selling due to mandatory investment policies at Dutch bond funds with respect to credit ratings appears to have been limited. The investment policies at bond funds provide some flexibility to deal with the issue in a sensible manner. In addition, the assets invested in bond funds that are exposed to downgrade risk can be quantified.

Review of business operation under COVID-19

The developments and measures associated with the COVID-19 pandemic, such as working from home, could have prompted asset managers to make different assessments than they would have made in a 'normal' business situation. This could lead to changes in the business operation and the risks of the company in question. For example, there may be abandonment of the four-eyes principle, a focus on the short term instead of the long term, or failures in reporting and the provision of information. The AFM carried out a survey in order to obtain insight into the additional risks and to establish whether business operations are still controlled and ethical. We will share the results of this survey with the sector in early 2021.

Review of risk management at management companies of collective investment companies

In 2020, the AFM started a review of compliance with the obligations under the AIFM Directive with respect to risk management. This review aims to establish how the selected management companies comply with the provisions that apply to them. The review is also intended to get management companies to improve the quality of their risk management where necessary. In addition to individual feedback, we will share our findings with the sector in 2021.

Review of cost structures (not carried out)

A review of the cost structures used by institutions was planned for 2020. This was not carried out, as we did not wish to impose a further burden on the sector during the COVID-19 pandemic. This review has been rescheduled for 2021.

Ongoing supervision of asset management

The AFM is the primary supervisor of the asset management population: both collective asset management (UCITS and MMFs) and individual asset management (MiFID). In the exercise of this responsibility, our ongoing supervisory activities focus on the monitoring of adequate separation of capital, business operation, governance, investment policy and risk management.

Licensing

After the increase in licence applications in 2018 and 2019 in anticipation of Brexit, the number of applications for new licences declined initially at the beginning of this year. From September onwards, the number of questions from British investment firms on the possibilities of continuing their existing activities in the Netherlands in 2021 increased sharply. The first licence applications from British investment firms were received in the last quarter, and the AFM also received indications that further applications would follow. Partly in the light of the new situation that exists after the end of the transition period at the end of 2020, the Ministry of Finance, DNB and the AFM will review the adequacy of the national third-country policy in 2021.



Assurance reports

The AFM assesses assurance reports on separation of capital and investment restrictions. We reported our findings with respect to separation of capital in a letter to the sector in 2020, also stating our expectations on this matter. We also consulted with the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*, or NBA) on further improvement of assurance reporting. Following our assessment of assurance reports, we provided individual feedback on matters such as infringement of investment restrictions.

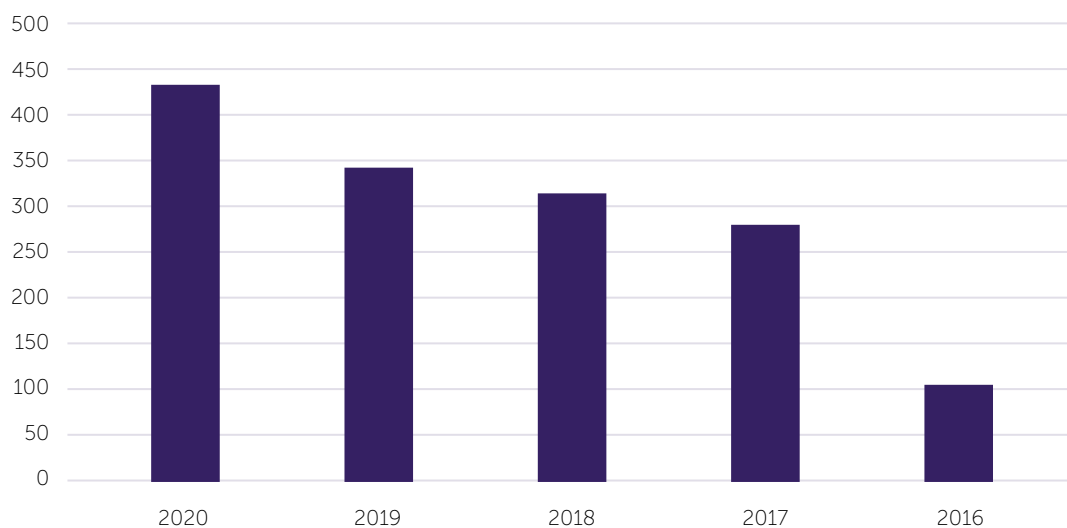
Notifications

Investment firms and management companies of collective investment companies (both UCITS and AIFs) have a statutory obligation to provide certain notifications to the AFM. In the case of investment firms, this concerns material changes to the business operation and reports of incidents. For management companies of collective investment companies, in addition to reports of incidents this includes fund notifications, changes in governance, remuneration policy, appointment of a depositary and changes to prospectuses.

There were 628 notifications in 2019, and 541 in 2020, 138 of which were fund notifications. The number of new collective investment companies and UCITS was thus slightly higher than the average in recent years. The number of new funds peaked in 2019 as a result of the granting of a licence to two management companies, which collectively registered some 170 collective investment companies in that year. Approximately half of these new funds are offered solely to professional investors.

There was a sharp increase in other notifications (403) compared to 2019. This increase in the number of notifications was mainly due to the larger number of prospectus changes, which included the establishment and amendment of liquidity management tools. For a number of collective investment companies, this became necessary due to the exceptional market conditions as a result of COVID-19. There was also an increase in the number of notifications of delegation arrangements, partly in connection to Brexit. The number of notifications of mergers and acquisitions, changes of valuer and incidents also increased. We issued a [call for](#) notifications of incidents in 2020.

Number of notifications for ongoing supervision of asset management





When dealing with these notifications, we were also able to make timely responses to changes to the business operation at institutions. In addition, we received signals with respect to certain institutions as a result of these notifications.

Incidents relating to integrity and information security

As stated above, in 2020 we [called on the sector to report incidents](#). Investment firms and management companies of collective investment companies have a statutory obligation to notify us of incidents posing a serious threat to their controlled and ethical business operation. Partly due to the COVID-19 outbreak, we have focused on incidents relating to integrity and information security and called

on the sector to report these incidents to us. These incident notifications enable us to respond to developments in the sector and contribute to adequate functioning of both the market and individual companies.

Review and follow-up of signals

The AFM had frequent contact with institutions regarding signals of failures in maintaining a controlled business operation and governance. This enabled us to take timely action without the need for formal investigations. We additionally initiated investigations of individual institutions as a result of serious signals and we supervised the follow-up actions and/or termination of activities due to formal measures imposed on individual institutions.





AFM-wide supervisory priority

Financial stability

The AFM supervises financial stability from the perspective of the capital markets and conduct and thus supplements the stability supervision of DNB. Our responsibility includes systemic risks in the asset management sector and systemic risks affecting customers of financial institutions. This year was dominated by the COVID-19 pandemic.

Participation in the House of Representatives debate on financial stability

We participated in the House of Representatives debate on financial stability for the first time in 2020. We presented our view of the pandemic in a [paper for Members of Parliament](#), in which we listed the stability risks in the asset management sector and in the capital markets resulting from severe capital markets shocks and called for attention to the effects of the COVID-19 pandemic on households.

Increased monitoring

From March 2020, the AFM increased its monitoring of stability risks in asset management and the capital markets as a result of the COVID-19 pandemic. This enables us to respond to current supervisory issues such as short selling and the use of liquidity management tools by investment funds.

Margin requirements for asset managers

One major risk to stability concerns high margin requirements that may result from a shock in the derivatives market. This certainly applies to Dutch asset managers, which hold large portfolios of interest-rate derivatives for the hedging of risks associated with pensions. The pandemic underlined the seriousness of this risk. We assessed the pressure from margin requirements resulting from this market shock and discussed our findings in the [Dutch Financial Stability Committee](#) (FSC), of which the AFM is a member. The [subsequent press release](#) from the FSC called for further attention to issues relating to margin pressure.

Other activities

The pandemic was also the main item of attention for the FSC in 2020. Additional themes discussed included Brexit, cyber risks, low interest rates, the housing market and sustainability risks. The FSC advised market parties of these various risks and requested them to take measures if appropriate. At international level, in its participation in the European Systemic Risk Board (ESRB) of the European Central Bank and ESMA, the AFM contributed to the mitigation of stability risks resulting from the pandemic, among other things by means of closely monitoring the liquidity of investment funds. In the ESRB, our analyses of corporate bonds and exchange-traded funds were included in the EU Non-Bank Financial Intermediation Risk Monitor 2020. In addition, we engaged in a thorough analysis of risks associated with derivatives and the potential imposition of a limitation on leverage. The stance of ESMA on this issue was significantly based on our analysis.

The FSC took the lead in developing a view on the structure of European equity and bond markets, as published in the [Trend Monitor](#).

05

Supervision of auditing and reporting





Reliable financial reporting is a crucial precondition for a properly functioning financial system. This includes an independent opinion from the auditor concerned. Investors, banks and other stakeholders have to be able to rely on the information in financial statements and the certainty provided by auditors.

For some years now, audit firms have been engaged in permanently improving the quality of their statutory audits. They have already made significant progress in this respect. However, our reviews revealed that the quality of statutory audits was not consistently at a high level. In addition, attention is still needed to the embedding of a quality-oriented culture.

The AFM accordingly focused on relevant and reliable reporting and a permanent improvement of the quality of statutory audits by the large audit firms in 2020.

Review of the efforts to increase quality at audit firms

We completed our review of the efforts to increase quality at the big 4 audit firms in 2020, which focused on the key preconditions for statutory audits of good quality. We also looked at how these firms are working on achieving a quality-oriented culture and continuous quality improvement. The quality of statutory audits was not part of this review.

Our review revealed that the big 4 audit firms are moving in the right direction towards achieving a quality-oriented culture and continuous quality improvement. They have all formulated plans designed to achieve permanent quality improvement within their firms, and their management boards are setting a good example. Moreover, external auditors and employees are also experiencing support in the achievement of a quality-oriented culture. We also noted that the implementation of quality safeguards can be strengthened, for instance in order to detect issues with a statutory audit at an early stage.

Each audit firm has been sent a specific report. We have also engaged in dialogue with them, in order to provide further explanation and answer questions. The audit firms acknowledged our concerns and stated their willingness to

address them. The findings will however also be dealt with in a wider context, as the insights gained from the review are relevant to the entire auditing sector.

The AFM began a new review in 2020 on the achievement of quality, this time involving all six PIE audit firms, in which we are focusing on both the elements of the effort to improve quality and the quality of statutory audits.

Strengthening the role of audit committees

Audit committees have an important part to play in good financial reporting by companies and the statutory audits performed by auditors and audit firms. The audit committee is responsible for the selection of the auditor or audit firm that performs the statutory audit, and it also monitors the performance of this audit. The audit committee gives account of its selection of the auditor to the company's shareholders.

The AFM believes it is important to know how members of audit committees fulfil this responsibility, and also how we can assist each other in our roles. We carried a thematic review on this in 2020, with the main focus on the role of the audit committee in the selection of the auditor or audit firm and how this committee monitors the performance of the statutory audit.

For the purpose of the review, we requested members of audit committees to complete questionnaires, held interviews and requested documentation.



In its report, the AFM focused on a number of general observations.

1. A positive development is that compared to our review in 2015 we noted that audit committees are taking their final responsibility for selection even more seriously.
2. Another positive development is that audit committees in principle have adequate expertise at their disposal to be able to fulfil their duties with respect to selection and monitoring.
3. There is room for improvement with respect to the monitoring of the quality and the independence of the auditor or audit firm.
4. In particular, there is room for improvement with respect to transparency to shareholders regarding the process of selection.

The AFM additionally calls for attention to a number of issues in the selection and monitoring of the auditor and the audit. The AFM is issuing guidance and recommendations on a number of items.

We presented the initial findings of our review during a webinar for members of audit committees. We explained our findings in an interactive workshop in the form of good and bad practices, and engaged in dialogue with the participants on these matters. We also asked them to indicate to us how we can assist them in their roles in our role as a supervisor. We are using the information from the review and this dialogue to further define our role regarding the monitoring of the performance of audit committees in the coming years.

Review of disclosure of effects of COVID-19 pandemic in reporting

The AFM [published a report](#) in November 2020 on the quality of disclosures by listed companies on the effects of the pandemic in their semi-annual financial reporting. This review was not scheduled in our Agenda, but was considered to be necessary, certainly when the potential impact of the pandemic on companies' business operations and business models became clear in the spring of 2020.

These disclosures are indeed very important and relevant information for investors. This concerns not only the financial effects of the pandemic, but also the associated non-financial

aspects, such as the outlook for employees and the company's business model. Investors also need to understand what actions companies are taking to mitigate the negative consequences of the pandemic.

The review showed that most companies mentioned the effects of the pandemic, but that the quality of these disclosures was extremely varied and could have been much better in certain respects. Our review included the semi-annual reports of 26 listed companies that we saw had been severely affected by a decline in share price or revenue. Only a quarter of them gave an adequate disclosure of the effects of the pandemic. Around half of them failed to provide information on relevant aspects. There was also a small group that provided hardly any disclosure.

We have written to the companies concerned listing the necessary improvements. Our report also cites a number of good practices that can assist companies to disclose the effects of the pandemic in a comprehensible and thorough manner, and stated clearly that we expect them to address these points in their 2020 financial statements. They have a responsibility to do this towards their investors and other stakeholders. In addition, this is relevant information for the auditor who will perform the statutory audit of their financial statements. The effects of our review should be visible in the annual reporting for 2020. We will also check that companies have addressed these items requiring improvement in 2021.



Development of supervision of audit firms

The Accountancy Monitoring Committee (*Monitoring Commissie Accountancy*, or MCA) and the Committee on the Future of the Audit Sector (*Commissie toekomst accountancysector*, or CTA) published a report in early 2020 stating recommendations for permanent improvement of the quality of statutory audits. The [government's response to the CTA's report](#) was published in March, in which the Minister of Finance announced a broad package of measures. He also made reference to the AFM's report on its review of the other PIE audit firms and the report from the MCA.

The measures proposed are aimed at the whole chain of reporting and auditing. Among other things, the government intends to experiment with the 'intermediary model' and carry out further research into 'joint audit' and 'audit only' models. A set of audit quality indicators (AQIs) will be formulated that should lead to greater transparency. The government has appointed two facilities coordinators to drive this process.

The proposed measures will therefore also affect the AFM's supervision. For instance, responsibility for supervision of around 265 non-PIE audit firms that perform statutory audits will be transferred from the SRA and the NBA to the AFM on 1 January 2022. The AFM will also be given more enforcement tools to enable it to exercise its supervision more effectively.

At the same time, our supervision is affected by developments such as the continuous progress in technology and the possibilities offered by data and the use of artificial intelligence, as well as the continuing level of expectation from the public regarding the quality of statutory audits. These developments are leading to the formulation of a new methodology for our supervision of audit firms. We also aim to achieve a higher frequency of reviews and more data points, resulting in rapid feedback to the sector. In other words, we aim to improve our data-driven and risk-driven supervision.

All these developments entail a complex process of change. We started the preparations for this in 2020 and initiated a programme titled

Revised Supervision of Audit Firms (*Herijking Toezicht Accountantsorganisaties*, or HTA). We will carry out a number of trials to test the new methodology in the non-PIE audit firm segment in 2021. This programme is expected to run until the middle or end of 2022.

Other supervision of auditing and reporting

International activities

The AFM has made numerous statements and exercised influence on key themes and developments on the international stage. During the COVID-19 outbreak, together with European and national supervisors, we have ensured that messages and decisions relating to reporting have been coordinated and uniform, devoting attention to the importance of transparency in semi-annual and annual reporting and the auditing of this reporting.

From the International Forum of Independent Audit Regulators (IFIAR), we have led a task force charged with taking stock of international developments in the audit sector. Among other things, the report deals with developments in and the impact of concentration and competition in the sector, the business model (audit and advisory services) and the way in which auditors are appointed. The report contributes to the debate on the vulnerabilities in the structure of the audit sector and the incentives that are an obstacle to permanent assurance that statutory audits are of high quality. In an internationally organised sector such as auditing, the exchange of knowledge and experiences at international level is of fundamental importance.

We have also discussed the issue of sustainability at international level, focusing mainly on the importance of non-financial information in reporting and the reliability of this information. The AFM is moreover actively involved in various international groups and committees. For example, we contributed to a peer review by the European supervisor ESMA on the supervision of reporting in the Wirecard affair. We also chaired several international working groups at ESMA and IFIAR, and we collaborate as a supervisor of audit firms in European bodies for the big 4 networks.



In addition, we responded to certain international consultations in 2020. In our response to the consultation of the European Commission for the review of the Non-Financial Reporting Directive (NFRD), we argued for an international standard for non-financial information in reporting. This standard is needed to improve the comparability, consistency, relevance and reliability of this information. In our response to the consultation of the IFRS Foundation on the formation of a Sustainability Standards Board (SSB), we expressed our support for the creation of a standard-setter for non-financial reporting. We see this as an important step in the formulation of international standards for non-financial reporting.

Review of the use of non-financial information in reporting

In 2020, we conducted our own review in the Netherlands of the current status of the provision of non-financial information (NFI) by companies and the use of this information by investors and analysts. The AFM notes that investors and analysts have some way to go in their use of NFI, and that companies could contribute to wider usage with relevant non-financial reporting.

In 2021, we will organise a round table meeting for further consultation with the various relevant parties on this issue. Non-financial factors will become increasingly important for a company's future cash flows, and this information will therefore become increasingly important to investors. Companies can contribute to this by improving connectivity in their reporting, for instance by clearly explaining how their non-financial performance and risks will affect their future financial performance.

Reporting in ESEF

In 2020, we prepared for the receipt and validation of the annual financial reporting of securities-issuing institutions in accordance with the European Single Electronic Format (ESEF). ESEF will make reporting more accessible and will improve the comparability of annual financial reporting. We have consulted with ministries, other national supervisors, the NBA and companies at national and international level with regard to making the process of filing reporting with the AFM in the new format as efficient as possible. We also organised two seminars and one webinar with the assistance of the NBA and XBRL Nederland, in which we exchanged information with the market. The obligation for securities-issuing institutions to make their annual financial reporting generally available in accordance with the ESEF and to file this reporting with the AFM will take effect for financial years beginning on or after 1 January 2020. Due to the COVID-19 pandemic, the Dutch government announced on 11 January 2021 that securities-issuing institutions with the Netherlands as their Member State of origin will be given additional time to meet the obligation to make their annual financial reporting generally available in accordance with ESEF. Securities-issuing institutions may still however choose to make their annual financial reporting generally available according to ESEF for the 2020 financial year and subsequent financial years on a voluntary basis. We expect this to occur in accordance with the applicable regulation and we will supervise that this is the case, while taking account of the exceptional circumstances in our supervision.

Technological developments such as ESEF are increasingly affecting reporting and the auditing of this reporting. To respond to these developments, we have developed a model for data-driven and risk-driven supervision of reporting. This model was further developed during 2020.



Ongoing supervisory activities for audit firms and reporting

Supervision of financial reporting

In our supervision of financial reporting, we look for material misstatements in the reporting of listed companies, and we design our supervision to prevent or correct such misstatements, taking enforcement action where necessary. We thus contribute to improving the reliability and relevance of reporting by companies. In 2020, we completed 18 reviews of reporting on 2018 and started 24 reviews of reporting on 2019. The measures resulting from our reviews of the reporting on 2018 resulted in two notifications and a number of agreements.

Review of application of new reporting regulations+

In 2019, we carried out a thematic review entitled 'Application of New Reporting Regulations in 2019'. Through individual feedback, we called on 24 of the 60 companies reviewed to improve their observance of 'IFRS 16: Leases' in their reporting. In 2020, we assessed the effects of our notifications, agreements and exhortations on the reporting for 2019. This revealed that these had been followed by most of the companies concerned. We engaged in further dialogue with companies where this was appropriate.

Signals and notifications

We followed up on various signals and notifications in the course of 2020, and we started and completed incident investigations. The AFM receives signals and incidents from audit firms, companies or other stakeholders, and also from its own observations, including in the media. An audit firm will then be asked to provide input and state what action it is taking itself, such as an internal investigation. We can then decide whether to carry out our own preliminary investigation, possible to be followed by an incident investigation. We take enforcement action as necessary. A signal does not necessarily imply that an audit firm has done something wrong. Our supervision is also designed to encourage an audit firm's ability to learn. This applies to supervision based on signals and notifications as well.

Review of management of risk of corruption

We conducted a follow-up in 2020 to the thematic review of the management of corruption risk by audit firms that we started in 2019. The ten organisations selected were informed individually of the (provisional) findings from this thematic review in 2020. We also engaged in dialogue with the audit sector regarding effective ways to manage the risk of corruption. This thematic review will be concluded in 2021.

Licences

We issued seven licences to non-PIE audit firms in 2020. This always includes an intake interview with the audit firm concerned, in which we explain what we expect from an audit firm and obtain a general impression of the firm's quality control system. We provide feedback with respect to specific risks. This approach ensures that new audit firms are made directly aware of their key responsibilities and the importance of high quality statutory audits and quality control systems. Furthermore, we stress the importance of a systematic integrity risk analysis, or SIRA. This contributes to raising awareness of the risks relating to integrity at audit firms.

Disciplinary proceedings and fines

The court of Rotterdam issued its ruling in the appeal lodged by Baker Tilly (Netherlands) N.V. in 2020. Baker Tilly appealed against the administrative fine € 900,000 imposed by the AFM in 2018 for failure to ensure that its business operation was controlled and ethical. This was the first occasion on which the court had ruled on this open standard in the Audit Firms (Supervision) Act (*Wet toezicht accountantsorganisaties*, or Wta). The case revolved around the question of whether we had provided a correct explanation of the open standard of 'a controlled and ethical business operation'. Our argument was that failure to comply with this standard could mean that an audit firm or its employees could be involved in criminal offences and violations of the law that could damage confidence in the organisation or the financial markets in general. The court agreed with the AFM that a fine could be imposed, but also found that we had taken too long to make our decision, and accordingly reduced the fine by 5% to € 855,000.



In 2017, we submitted a complaint regarding two auditors at BDO in relation to the wrongful provision of an unqualified audit opinion for the 2014 financial statements by an international dairy products producer. The complaint was largely upheld by the Disciplinary Court for Auditors (*de Accountantskamer*).

We filed [disciplinary complaints](#) against two auditors at PwC in 2018. This was due to our inves-

tigation in relation to articles appearing in *NRC Handelsblad* in 2017 on controversial payments by subsidiaries of SHV, for example at Econosto Mideast in Dubai. Our complaints related to the statutory audits performed by the two PwC auditors of financial statements for the 2011-2014 financial years. The Disciplinary Court for Auditors partially upheld the complaint against the PwC auditor of Econosto in 2020. The complaint against the PwC auditor of SHV was dismissed.

AFM-wide supervisory priority

Sustainability in the financial sector

The financial sector has an important role to play in the sustainability transition. Market parties such as collective investment companies and institutional investors will contribute to improving sustainability at companies by taking account of sustainability in the conduct of their business. These parties also play an important part in mobilising capital for sustainable investments. Among other priorities, the AFM has focused on attention to sustainability and the related risks for financial enterprises and consumers in 2020.

The transition to a sustainable society and economy is clearly visible in the financial markets, as shown by the rapid increase in the offering of sustainability-linked investment products to consumers. Our review in 2020 showed that the [market for sustainable bonds](#) in the Netherlands has undergone huge growth. Another AFM [review](#) also showed that retail investors are prepared to accept a lower return and a higher risk if the investments are sustainable.

Risks for companies and consumers

The increased attention to sustainability in both the supply of and demand for financial products and services is a positive development. But there are also risks. There is frequently a lack of clear and reliable information on sustainability factors. The information is moreover not standardised and therefore not directly comparable. This means it is difficult for investors to assess whether an investment actually contributes to sustainability goals and whether sufficient account is taken of sustainability risks. There is also the potential for 'greenwashing', when providers falsely represent non-sustainable products as sustainable.



Our view of sustainability

A great deal of European regulation is on the way designed to steer the sustainability transition in the right direction and address many of the risks, including the Regulation on Sustainability-Related Disclosure, which came into effect on 10 March 2021. There are also proposals for various amendments to the UCITS Directive, the AIFMD and MiFID II regarding the integration of sustainability risks and factors. We published our [view of sustainability](#) in 2020, listing our expectations with respect to market parties and we will exercise our supervision in this area. There are three basic principles that apply:

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

Guidance offered to companies

To assist financial institutions in the implementation of the sustainability regulations, we offered [guidance](#) in 2020, for example by means of general letters to the sector to collective investment companies and companies in the pensions industry. Our guidance is based on three general items of attention: companies must invest in knowledge, they must check that their products meet the requirements of new legislation and regulation, and they must provide clear communication on the sustainable goals and features of financial products to final investors and/or customers.

The AFM endorses the need for a reporting standard and regulation of ESG ratings and data

Financial enterprises and consumers need clear, relevant and reliable information in order to make investment decisions. They must therefore have access to accurate sustainability information. In our responses to consultations regarding planned legislation by the European Commission, we accordingly argued for the introduction of an [international reporting standard](#) for non-financial information. We also argued for [the regulation](#) of providers of ESG ratings, data and related services. These service providers have a crucial role to play in the sustainability information that is required. Together with our fellow supervisor in France, the AMF, we put forward a [proposal](#) for the outline of such regulation, with a focus on greater transparency and internal control, subject to European supervision. This will reduce the risk of inappropriate investments and greenwashing, and will assist investors in making sustainable investment decisions.

06

Professional organisation





The COVID-19 pandemic significantly affected the AFM's business operation in 2020, especially its IT processes. Like most of the Netherlands, our employees had to adjust to mainly working from home at very short notice. Suppliers encountered problems, and both internal contacts and contacts with institutions subject to supervision and other stakeholders suddenly became digital.

We had already formed a crisis management team and working group in February 2020 that performed a substantial amount of work in multiple areas ([see box on following page](#)). Although working from home placed high demands on both our internal organisation and our staff, we continued to operate effectively and were able to complete most of the activities listed in our 2020 Agenda. We took account of the fact that the institutions we supervise were also having to deal with the switch to home working, and we adjusted our supervision accordingly. We allowed the institutions as much room as possible to adjust to the challenges of the pandemic and the needs of their customers.

Among other things, with effect from 26 March 2020 we suspended large requests for data from financial companies until 1 June 2020. Institutions were given two additional months to prepare their reporting on 2019 and file this with the AFM. We also conducted a review of the financial resilience of households during the pandemic.

The employees at the Financial Markets Hotline and the Business Desk have been working from home since 13 March 2020 and the telephone lines have been closed. Nonetheless, we did everything possible to reply to questions or requests for callbacks within one business day. Despite the closure of the telephone lines, consumers and market parties were able to contact us by email. We received over 20,800 questions in 2020.

Strategy for 2020-2022

A professional organisation is the basis for our [strategy for 2020-2022](#). Briefly, we aim to be a leading supervisor, and achieving this starts with a strong internal organisation. We are accordingly working hard on the further renewal and professionalisation of our supervision and the development of our employees.





Dynamic approach to the COVID-19 pandemic

The AFM has identified several operational risks and formulated plans for how it should act in certain scenarios. There was also a contingency plan in place for business continuity management (BCM) during a pandemic. On this basis, a crisis management team (CMT) and a working group were formed in early February.

In the first weeks, the general pandemic plan was adjusted for the pandemic, in close cooperation with DNB and the occupational physician we share. The big challenge here was the unknown quality of the virus. There were many areas of uncertainty, and we had to adjust our policy on a regular basis in order to keep up with developments. Changes were introduced in our offices to maintain working conditions that were as safe as possible for all our colleagues, with stricter hygiene protocols and observance of the 1.5 metre social distancing. The technical infrastructure was adjusted so that the organisation was able to migrate more or less seamlessly to a situation in which almost all staff were working from home.

This dynamic formulation of policy and measures, and the ability to explain this to our colleagues clearly and quickly, were of essential importance. This approach turned out to be needed during the COVID-19 pandemic as a result of the continually changing effect of the COVID measures on working (from home) at the AFM. We initiated a home workstation scheme in order to achieve this as effectively and safely as possible for our colleagues. Since the autumn of 2020, only colleagues involved in vital processes that have to be operated in the office have been able to continue working at our offices.

Our Audit Service performed an audit of business continuity that also included the CMT and the working group. This showed that the organisation was generally able to respond quickly, flexibly and effectively to the pandemic. It also revealed that the direction of our BCM could be improved, and actions have been taken to address this issue.

Human Resources

Our HR policy for 2020-2022 has two strategic priorities: (1) strengthening the AFM's profile as an attractive employer, and (2) the further development of the AFM as a leading conduct supervisor. In order to exercise our supervisory duties effectively and understand the changing playing field, we need high quality employees and to profile ourselves as an attractive employer for potential employees.

We want to be an influential conduct supervisor that is closely connected to the world around us. This also has implications for our culture. We want to be a learning organisation, both internally and externally. We want to offer our employees meaningful work and encourage everyone to produce their best performance, and develop and apply their own talents. We strive to achieve a progressive and inclusive culture, in which we play to our strengths and encourage improvement where this is possible.

We encourage our employees to make a social contribution in order to forge this connectivity with the world around us. For example, a group of 41 AFM employees worked as volunteers in a meal delivery project in Amsterdam that was created in 2020 in response to the pandemic. We helped by giving them the time to do this, which in this case amounted to around 200 hours.

In all our activities relating to development, we focus on encouraging this culture and we welcome open and honest discussion. Examples of this in 2020 include the 'outward mindset' project, guiding team sessions on the basis of our vision for change and the development activities for our current management. The third Future Leadership Programme has been started for potential future managers.



Diversity and inclusivity

As a supervisor, we believe a broad view of the financial sector is important, and that different points of view provide the room for this. If you are setting standards for businesses, you are expected to set an example. We also want to be an employer where everyone can be themselves and can participate. We value diversity and are convinced that this leads to better performance from the organisation. The organisations we supervise have to deal with a diverse customer base. In our supervisory role, we have to be able to understand how these customers behave, and we can do this better if we are a diverse organisation.

Our policy thus expressly focuses on diversity and inclusivity. We were involved in various activities in 2020, including working with organisations that provide intermediary services for employees that are distanced from the labour market, activities relating to recruitment and selection, mentoring programmes with other organisations, participation in the 'Talent to the Top' foundation and actions to raise awareness among both employees and managers.

Recognition and remuneration

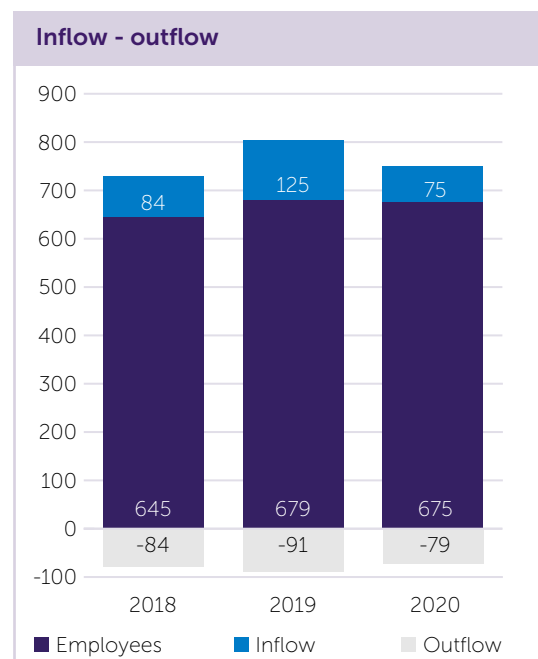
'Recognition and Remuneration' is an important strategic project that started in 2020. We have seen that our current evaluation system is no longer appropriate for our desired culture, and we are preparing for a cost-neutral transition to an alternative evaluation cycle in 2022, in which a progressive and learning approach will have central priority.

AFM employees satisfied with approach to the COVID-19 pandemic

In 2020, we devoted maximum effort to facilitate good employership during this exceptional period. During the initial months, we asked our employees to complete two short questionnaires to inform us how they were coping with the situation and how the measures we had taken had affected them. The results of these two questionnaires showed that AFM employees were satisfied with the organisation's approach to the pandemic (8.6 and 7.9 on a scale from 0 to 10). There was also a general feeling that the interests and safety of colleagues had been a priority (8.9 and 8.0) and employees approved of the communication of our policy (8.4 and 8.1).

World Class Workplace

These surveys were followed by a broader employee survey in the summer. The response to this of 80.9% was slightly lower than in 2018 (83.7%), but still higher than the benchmarks Public Administration and Security (*Openbaar Bestuur en Veiligheid*) and Financial Services (68.5% and 74.6% respectively). The AFM's score as an employer increased from 6.8 in 2018 to 7.5 (7 = agree and 10 = completely agree). We also saw significant increases in our scores on other elements. We were thus delighted to qualify as a 'World Class Workplace'.





Employees

- On 31 December 2020 the AFM had 675 employees, with a male-female ratio of 50-50%. This ratio is also in balance at management level: executive board 50-50%, department heads 60-40% and managers 49-51%.
- Employee turnover declined in the year under review. Inflow was lower, with 75 new employees versus 125 in 2019, and outflow was also down, with 79 employees leaving versus 91 in 2019. These figures include 15 employees who moved to Cegeka in 2020 in connection with the outsourcing of IT services.
- Average absenteeism in 2020 of 2.6% was significantly lower than in 2019 (3.75%) and in 2018 (3.91%).

Labour market

We redesigned our profile in the labour market in 2020, through the development of our 'working-at' website, increasing our communication in social media and initiating campaigns targeted at specific groups. We have generally succeeded in filling our vacancies, although we have had difficulty in filling a number of positions.

Training and development

We continued our investment in the training and development of our staff in 2020. This included offering courses on subjects such as data-driven working and outward mindset, and power classes on mental resilience and adaptability. The Supervision Academy also offers courses aimed at further strengthening our supervision. We continue to devote attention to developing our management and management potential by offering focused development interventions such as the Future Leader Programme, peer supervision and leadership courses.

Both the introductory programme and the courses offered by the Supervision Academy (including the basic supervision course) have been conducted almost entirely online. As in previous years, part of the training budget in 2020 was devoted to an AFM-wide programme on data-driven working, with more detailed courses for specialists in this area. Although initially less of the training budget was used due to the cancellation of external and some internal courses, this was made up for in the second half of the year. The final amount spent on training in 2020 came to € 1.9 million (excluding travel and accommodation expenses) against a budget of € 2.05 million. The spend in 2019 amounted to € 2.67 million.

Outsourcing of IT services

A large proportion of the ICT services was outsourced in 2020, including the standard service provision (such as office automated data services) and the management of the infrastructure. The aim of this outsourcing is to strengthen continuity and accelerate the time-to-market of new ICT products. It also reflects our wish to be able to increase or reduce our IT capacity more quickly. 15 of our employees moved to our ICT partner Cegeka in the summer.

Management

Laura van Geest took office as Chair on 1 February 2020, and is appointed for a term

of four years. She also chairs the Financial Expertise Centre, she is a member of the board of supervision of the Erasmus University in Rotterdam, chair of the official study group for implementation of the European Commission climate plans (the 'Green Deal') and a member of the independent committee of the National Growth Fund.

Gerben Everts stepped down as a member of the Executive Board on 12 May 2020. Due to his focus on the labour market, this was followed by a six-month cooling-off period. His second term of appointment ended in November 2020. Everts joined the AFM in 2011 and became a board member in 2012. Board member Hanzo



van Beusekom has taken over responsibility for supervision of the capital markets, audit firms and financial reporting by listed companies. Everts' responsibility for supervision of asset management has been taken over by board member Jos Heuvelman.

Chief Operating Officer Ellen van Schoten left the AFM after more than three years' service on 31 December 2020. She became a member of the Executive Board of Erasmus University in Rotterdam on 1 January 2021.

AFM in appeal in cassation against ruling by the Court of Amsterdam over unilateral application of the AFM pension scheme

On 3 November 2020, the Court of Amsterdam ruled in the case brought by a number of AFM employees against the AFM. The central issue in the case was the change to the AFM's pension scheme with effect from 1 January 2016. On the one hand, the Court ruled that the AFM was authorised to unilaterally amend its pension scheme due to a compelling interest in controlling the costs of the AFM's pension scheme, but on the other it rules that it was not authorised to apply unilateral changes to pension entitlements already accrued. The AFM has now submitted an appeal in cassation to the Supreme Court. Based on legal advice, the AFM believes it has a probable chance of success in its appeal in cassation for two of the three elements on which the Court has ruled (the higher contribution to cover a shortfall and contribution cushioning). A provision has been formed in the 2020 financial statements for a third element (indexation) and the legal costs, along with a more detailed disclosure attached to both the provision and the item 'unrecognised liabilities'.

We give further details of a number of operational risks we see in HR [below in this annual report](#).

Planning, Control and Finance

To enable us to achieve the AFM's ambitions, we have focused on strengthening our financial management, process management and cost control in recent years. These areas continue to be important.

Cost Framework and levies

The Cost Framework for 2021-2024 was established in 2020. This clearly sets out the maximum costs of supervision in general terms and the development of these costs during this period. The 'Levies improvement programme' was also started in October 2020. This should lead to the optimisation and digitalisation of the front end of the levy process over the coming 18 months. We have already assessed whether and how digitalisation and data analysis could contribute to cost control and the efficiency of our work for this process and our performance management.

A more efficient procurement process

Much effort has been devoted to obtaining greater insight into and control of irregularities, and therefore control. The design of the procurement process has been improved to become more efficient, supported by our new procurement system Negometrix. Knowledge at our procurement organisation has been further strengthened, by among other things courses on category and contract management. This led to an irregularity percentage of 0.26% in 2020.

Operational risks and control measures

Renewal of the ICT infrastructure

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

The AFM's ambition is to become an influential and data-driven supervisory authority. Our information and communication technology has to support this ambition. A European tender was opened in 2019 for the outsourcing of the standard ICT services, which was completed in 2020 with the selection of Cegeka as the AFM's IT partner. Cegeka will focus on what are known as the standard services, which include office automation and the infrastructure management. This outsourcing will strengthen continuity and accelerate the time-to-market of new ICT products.

Our IT organisation has increasingly been developed into a management organisation, with the intention that it should be outsourced. The outsourcing of ICT processes requires



greater attention to the design and direction of these processes. Capacity has been freed up for this and employees have received additional training. The platform for customer relations and supervisory processes was also further developed in 2020. This system is used for the registration of relation data and contacts with our relations in a single central location.

We have been forced to perform more of our work digitally during the pandemic. In order to ensure that processes and especially the supporting processes can continue to provide optimal support to our employees, the automation of some processes was accelerated. There was also extra attention paid to the increased cyber risks that this entails, in the form of for instance awareness-related activities for employees. Our aim here is to make employees more resilient against these threats.

Acceleration in transformation to data-driven supervisor needed

To continue and further embed our transformation into a data-driven supervisor, we need to continue to invest in high-level technologies and expertise.

The shaping and realisation of a transformation into data-driven working by definition involves a great deal of exchange of knowledge, training on the job and cooperation due to the bringing together of different disciplines. These are elements that become more difficult as a result of remote working in 2020. This risk is also affected by the outsourcing of the ICT services that has been initiated.

Data play a big role, and certainly in our supervision. There was further progress towards data-driven working in 2020. Investment in the transformation of our supervision, attracting new skills and expertise and an acceleration of the current pace of the initiated change are still needed in order to achieve our objective of being a data-driven supervisor in 2022. For this, it is important that the technical infrastructure, the supervisory processes and knowledge and competences are designed at central level. The security, governance and management relating to effective use of data need to be structured for data-driven supervision to become embedded.

A department in capital markets supervision engaged in data-driven supervision was set up in 2020. Additional skills and expertise have been acquired, and there is a central pool of data analysts at the AFM. The AFM has an organisation-wide training programme for data-driven working. All employees involved in our supervision take a 10-day course on data-driven supervision. There is also special training for data analysts to ensure that they have the required level of competence. All our managers have also participated in the programme.

Together with the Dutch Healthcare Authority (the NZa) and the Authority for Consumers and Markets (ACM), the AFM started the data science programme in 2018. The trainees work at all three supervisors during this two-year programme. At the end of the programme, two data specialists enter employment at all three supervisors. A new class of data trainees started in 2020.

Good employership strengthens ability to change and execution power

As an employer, we believe it is important that our employees feel safe, vital and 'at home'. In our view, this is the basis for the ability to learn (from mistakes), to be open to the world around us and to be able to conduct an honest dialogue with each other and the outside world. We have organised various activities to encourage this in 2020 relating to issues such as diversity and inclusivity, and vitality. In particular, during the pandemic we have devoted attention to the mental well-being of our employees and connectivity with each other and with the organisation. We also offered online courses via the GoodHabit platform in 2020. As is the case in the rest of the world, the pandemic has become part of our daily working lives and this has required the AFM to make structural changes in its capacity as an employer.

One important development affecting our employee population concerned the report from the Committee on the Future of the Audit Sector (*Commissie toekomst accountancysector*, or CTA). We started a programme to prepare for the expansion of our supervision in 2020. In the coming years, we expect to hire around 25 FTEs to deal with this task and have started to prepare for this. This risk requires particular attention,



since the new employees we will look to hire, such as Registered Accountants, are relatively scarce.

COVID-19 pandemic is a threat to the continuity of activities

The effects of the pandemic demand a high degree of flexibility from organisations and their employees in order to maintain the continuity of their activities as far as possible. The same applies to the AFM.

After the initial signals regarding COVID-19 and its potential effects, we set up a crisis management team (CMT) and a supporting COVID working group at an early stage. We started the selection of a tool (Webex) to enable video meetings immediately. When it became clear that working from home would become the norm, the number of licences for home working was scaled up to make a licence available to all AFM employees. These items were mentioned as positive in the employee satisfaction survey.

The vital processes and processes that have to be carried out at the office were identified and the employees concerned were offered the possibility of working at the office. The office was adapted for the 1.5 metres social distancing requirement by placing stickers, banners and walkways. The working group formulated a communication plan for home working, scaling up of scenarios and the possibility of working at the office with observance of the rules. The plan was applied in the advice to the CMT and the preparation of a road map for subsequent measures. A plan was drafted for a return to office working in 2021, if this becomes possible, and we considered the possibilities for continuing to support home working in 2021 and working in a more hybrid manner.

This naturally involved much necessary attention to the physical and mental situation of our employees, in the form of blogs, training and personal stories.



07

Tests of persons and measures





Tests of persons

Persons who determine the policy of an enterprise either solely or collectively or who supervise such policy must be proper and suitable for the performance of their tasks. Persons joining an enterprise are tested by the AFM and/or DNB for properness and/or suitability. The AFM decided to centralise its suitability testing of key officers in early 2020. This concerns the testing of key officers in the supervisory areas of capital markets, auditing and asset management.

Around 95 per cent of the 1,500 to 2,000 initial tests conducted by the AFM each year result in a positive assessment. The table in this paragraph

shows the total number of AFM tests specified according to the various categories.

In 2020 the AFM received 1,955 requests from DNB regarding double testing in 2020. The 'double' tests referred to concern tests by both the AFM and DNB. Because these concern, strictly speaking, requests for information rather than tests, they are not included in the count. There were no requests that were not considered or rejected in 2020. There were requests that were withdrawn by the applicant during the procedure, as a result of which the total number of requests was higher than the number granted.

Table 1 Testing overview

Number of tests per category	2020	2019	2018
Advisers/intermediaries/credit providers	1235	1409	1057
Investment firms/collective investment schemes	448	348	283
Investment objects and stock exchange	24	32	15
Audit firms	85	125	149
Double testing	19	32	11
Retests*	5	11	10
Total number of tests	1816	1957	1525

* includes both tests for properness and tests for suitability

Measures

In our supervision, we use supervisory measures that are designed to exert influence with the aim of preventing infringements (in the form of interventions), and measures that primarily concern enforcement.

Our interventions mostly take the form of [warning letters and instructive letters on compliance with standards](#). During 2020, most of these informal measures were applied in relation to the structure and implementation of the product approval and development process (PARP) or the product governance at providers of financial products. We also carried out several separate reviews last year to examine the possibilities for execution-only investing.

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. We believe a proactive approach to supervision is more effective than correcting problems after they have occurred. Indeed, with remediation ex-post the damage to consumers, markets, the economy and confidence in the financial sector has already been done. Our proactive approach has led to an increase in the number of informal measures compared to the number of measures of a primarily enforcement nature, the number of which actually declined. The number of formal and informal supervisory measures amounted to 906 in 2020, compared to 684 in 2019.



Formal measures

Fines

We imposed 13 fines in 2020, compared to 15 in 2019. 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 fines imposed in 2020 (€ 2.2 million) was lower than the amount in 2019 (€ 8.2 million) and 2018 (€ 3.2 million). The difference with last year is because there were a number of large fines imposed in 2019, with the largest fine in that year amounting to € 2.0 million.

One priority for the AFM in 2020 was closer monitoring of how banks, insurers and credit providers bring pension and mortgage products to the market. This will be continued in 2021.

We do not recognise fines as income in the 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, or to cause a company to cease certain harmful activities. There were 4 orders for incremental penalty payments imposed in 2020 (2019: 12).

Licence withdrawals

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 3 withdrawals in 2020, compared to 5 in 2019.

Informal supervisory measures

There were 862 informal supervisory measures taken in 2019 (2019: 616). Informal measures involve instructive or warning letters or conversations regarding standards. There was also a shift from warning interviews or letters to instructive conversations or letters on compliance with standards that had already occurred to some extent in 2019. The rising number of informal measures is due to both the COVID-19 pandemic and our proactive approach, in which we prefer as far as possible to take measures that can prevent infringements. The difference was also due to the 150 informative letters on compliance with standards sent to all investment firms on product governance. Normally we send such letters only to the limited number of parties involved in a review, but when we identified that the parties reviewed did not have a distribution strategy specifically aimed at a target market, we considered it likely that this was also the case more generally in the sector.

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.



Appendix 2 – Overview of supervisory measures

Overview of measures	2020	2019	2018
Formal supervisory measures			
Fines imposed	13	15	9
Orders for incremental penalty payments imposed	4	12	12
Reports to PPS	-	-	2
Licence withdrawals	3	5	20
Instructions	3	3	3
Public warnings	17	30	27
Notification without recommendation (Wtfv)	2	3	3
Complaints to the Disciplinary Court for Auditors	2	-	4
Total number of formal measures	44	68	80
Informal measures			
Warning letters on compliance with standards	125	316	386
Other instructive letters on compliance with standards	737	300	280
Total number of informative measures	862	616	666

* This includes both instructive letters on compliance with standards (in case of an infringement, but no warning) and informative letters on compliance with standards (no infringement, no warning).

08

Stakeholder dialogue





We conduct our supervision on a problem-driven and risk-driven basis in order to fulfil our statutory mandate as effectively and efficiently as possible. This means, as stated in [our approach to supervision](#), that we strive to identify the major risks and devise structural solutions accordingly. This requires continual analysis and interpretation of risks, including new and changed risks. Dealing with these risks may involve a renewal of either our supervision, or, in some cases, of legislation. It is thus important that we maintain a continuous dialogue with our external stakeholders, such as the financial sector and its representatives, the Ministries of Finance and Social Affairs and Employment (SZW) and the European institutions.

Supervision of financial services

Our supervision of financial services entails close contact with many industry associations such as the Pensions Federation, the Dutch Banking Association (NVB), Association of asset managers and advisers (VV&A), the Dutch Association of Insurers and Adfiz, the association of independent financial advisers. We also maintain contact with the Automation Contact Group. We had direct contact with financial services providers through our visits to offices in 2020. These online and physical contacts are appreciated from both sides as a means of understanding each other's position. In our ['Market Impressions' report](#), we gave account of our findings from these visits to the market.

As a result of our [review of product development in the market for authorised agents](#), together with the Dutch Association of Authorised Insurance Companies (NVGA) we tried to explain what we expect from them by means of sending a general letter through the NVGA to all the approximately 250 authorised agents in the Netherlands. This included an explanation of the key PARP standards. The NVGA's newsletter also included an interview on PARP with one of the department heads at the AFM.

In addition, there was much intensive contact with the NVB on a wide range of subjects. This included the effects of the pandemic, such as related requests for payment breaks regarding mortgages and consumer credit. Our discussions with the NVB also involved [tightening the lending standards for consumer credit](#) (together

with the Dutch Finance Houses' Association (*Vereniging van Financieringsondernemingen in Nederland*) and approaching customers with interest-only mortgages at high risk of not being able to repay or extend their loans at maturity. On this last item, the AFM also organised a seminar on 5 February 2020 to enable the major banks to share their experiences with other mortgage providers.

We participated as an advisory member of the Steering Group for Development of the Pensions Agreement, chaired by the Ministry of SZW, in which we pointed out the importance of protecting scheme members in the transition to a new pensions system. We also participated in various sub-committees of the steering group charged with the technical development of the principles in the Pensions Agreement of June 2019. The discussions in the steering group led to a draft of the Future Pensions System Act (*Wet toekomst Pensioenstelsel*) that was offered for consultation at the end of 2020.

The AFM has contributed to events in the sector on various occasions. For example, Executive Board member Jos Heuvelman gave a speech at the IIR Hypotheken event on the challenges facing the mortgage sector. He also expressed his view of the pricing techniques coming from innovation in the insurance industry at the annual InsurTech organised by the Dutch Association of Insurers and spoke to attendees at the online event ['De Financiële Poort'](#) organised by the Dutch Banking Association on influencing consumer behaviour.

Supervision of the capital markets

The Capital Markets Committee met on two occasions in 2020, and advised the AFM on certain cases, legislative aspects and interpretations of public offerings, market abuse issues and prospectus-related issues. The committee also gave advice on the outlines of the policy on the supervision of financial reporting and the supervision of audit firms. The discussions in 2020 featured the role of the auditor in financial reporting in the pandemic and the importance of non-financial information. Invest NL described its activities, with a focus on aspects in common with the AFM.



With its fellow supervisors, the AFM discussed trends and supervisory techniques relating to market abuse at the Market Conduct Round Table. This sharing of experiences strengthens our supervision. We are working more closely with the French supervisor *Autorités des Marchés Financiers* (AMF) in the areas of short selling and the supervision of market abuse. We also have an operational collaboration in place with the supervisors in Scandinavia relating to the supervision of MiFID transaction reporting.

From the Financial Expertise Centre (FEC), we are collaborating on the strengthening of integrity in the financial sector. The FEC is a collaboration between authorities charged with supervision, monitoring, prosecution or detection in the financial sector. The AFM uses information obtained from investigations and detection by its FEC partners in its reviews and investigations. This could for instance concern information from the Tax & Customs Administration that is used in a supervisory interview or a test for suitability or properness.

Supervision of Asset Management

We hold regular discussions with the industry organisation Dufas (Dutch Fund and Asset Management Association) and its European counterpart EFAMA (European Fund and Asset Management Association) on the themes in our supervisory agenda several times a year. The issues discussed include the implementation of sustainability legislation and regulation and the risks associated with the delegation of tasks. We also held discussions with the Dutch Banking Association (NVB), the Pensions Federation (PF) and Association of Insurers (BvV). Our recommendations for the AIFMD review were discussed with EFAMA.

The AFM gave a presentation to ESMA on delegation in the supply chain and the associated risks, thus raising the issue for particular attention at international level. We conducted several reviews in cooperation with ESMA (see 'activities'). We have also been continuously involved with international working groups in ESMA in the fields of sustainability, supervisory convergence and issues affecting holders of AIFMD and UCITS licences.

A great deal of new legislation relating to sustainability will be introduced in the coming years. The new Sustainable Finance Disclosure Regulation (SFDR), which will set additional transparency requirements relating to sustainability comes into effect in 2021. The AFM participated in an online debate with several market parties organised by the US financial services provider Morningstar on 2 December 2020.

Also as a result of the COVID-19 pandemic, we intensified our contacts with a cross-section of market parties. This is a useful supplement to our monitoring of the market and its developments, which gives market parties the opportunity to voice any issues they have towards us and we can provide further explanation of our view of the market and its developments.

Supervision of audit firms and reporting

The AFM organised a webinar for members of audit committees in December. Audit committees have an important role in the financial reporting chain. Our discussions with them concerned their role, their responsibilities and the main challenges that face them today and in the (near) future.

Together with the professional association the NBA and XBRL Nederland, we organised three seminars on the new [European reporting format ESEF](#). At these seminars, we shared important information with relevant market parties on the reporting format and the procedure for filing reports in this format with the AFM.

At various times, we engaged in dialogue with key stakeholders in the auditing sector regarding the effort to increase quality at audit firms. We were in contact with the PIE audit firms regarding the [findings of our review of progress on increasing quality at the Big 4 audit firms](#). We further organised a round table meeting with the PIE audit firms, the NBA and the Facilities Coordinators for the Future of the Accounting Profession on the quality of statutory audits.

The AFM's Committee for Financial Reporting & Accountancy, which had six members in 2020 including experts from the auditing sector, academics and representatives of interest



groups, made a major contribution to the further shaping of our view of our supervision. Among other things, the committee was involved in the preparations for our webinar for members of audit committees, our [report on the effects of the COVID-19 pandemic in semi-annual financial reporting](#) and the preparations for changes to the AFM's supervision of the auditing sector.

Our board members regularly participated in events and meetings organised by the sector in 2020. For example, Hanzo van Beusekom gave a speech in September at the Rode Loper debate of the role of auditors and supervisors in the Wirecard affair in Germany. In November, Laura van Geest attended the Kristal Event of the Ministry of Economic Affairs and Climate, and gave a speech on sustainability in financial reporting.

Advisory panel

In 2020, the AFM organised three meetings with its [advisory panel](#), including one written and one digital meeting due to the COVID measures. This panel includes organisations with an interest in our supervision. At the meetings, we answered questions on issues including [the new cost framework for 2021-2024](#), our budget, the progress of our activities and our annual reporting.

Consumer surveys

The AFM carried out several consumer surveys to obtain their input for our supervision. We conduct the [AFM Consumer Monitor](#) every six months, in which we ask mortgage borrowers, retail investors and pension scheme members to participate in order to obtain greater insight into developments in the market and potential risks.

[One of these surveys](#) in 2020 included questions on the expected consequences of the pandemic. Nearly two thirds of the mortgage borrowers expressed no concerns regarding the costs of their mortgage, despite the pandemic. Younger people were more concerned than those aged over 55.

The AFM Consument&Panel consists of over 1500 consumers who share their insights with the AFM through questionnaires and polls. In 2020, the issues included supplementary health care insurance, the possible effects of negative savings rates and the new European information documents for sustainable financial products. The AFM uses the results from Panel&Monitor in academic and other publications, presentations and reports.

Financial Markets Hotline and the Business Desk

As stated above, the pandemic affected the activities of the AFM and certainly also the availability of the Financial Markets Hotline and the Business Desk. In mid-March, we switched from availability by telephone to email for initial contacts.

	By telephone	By email	Contacts in 2020	Contacts in 2019
Business Desk	2.155	11.563	13.718	17.523
Financial Markets Hotline	926	7.748	8.674	10.164
Total contacts			22.392	27.687

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Organisation and governance



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Report of the Supervisory Board

The direction of the AFM's supervision is largely determined by external developments. In 2020, the COVID-19 pandemic had a huge impact on the entire financial sector. An economic contraction, support packages and widespread working from home: none of this was foreseen in 2019.

Fortunately, the pandemic had a relatively minor impact on the results achieved by the AFM. We continued to work hard on the preparation for the expansion of our supervision of audit firms. The AFM also welcomes the pensions agreement that has been concluded; pensions reform is complex and has many implications, and will require much effort from the sector. Brexit became a fact at the end of 2020 with the end of the transition period. The AFM prepared well for this and the necessary licences have been granted.

The management and employees had to display considerable flexibility, perseverance and additional commitment in 2020. The Supervisory Board hugely appreciates the manner in which they have committed themselves to maintaining the AFM's supervision during the year. Different working practices and a different kind of supervision will also be required in 2021. The Board has every confidence that the AFM's management and employees will meet this challenge with resilience and energy.

Departures and appointments of members of the Executive Board and members of the Supervisory Board

Laura van Geest became the new chair of the AFM's Executive Board on 1 February 2020. On 12 May, Gerben Everts stepped down from his board duties and left the AFM on 12 November 2020. The allocation of responsibilities in the Executive Board was changed as a result of his departure. On 12 May 2020, the Executive Board consisted of three members under the articles of association. The Supervisory Board wishes to express its appreciation to Gerben Everts for his huge commitment to the AFM, in particular for his contribution to the supervision of the capital markets and auditors. On 1 January

2021, Ellen van Schoten, the Chief Operating Officer (COO), left the AFM to become a member of the Executive Board of Erasmus University in Rotterdam. The AFM's Executive Board has begun the process of recruitment for a successor to fill this vacancy. The Supervisory Board wishes to thank Ellen van Schoten for her contribution to the professionalisation of the AFM's internal organisation.

The composition of the Supervisory Board did not change in 2020. Willemijn van Dolen was reappointed for a term of four years on 1 September 2020. The Supervisory Board is delighted that she will continue to place her experience and knowledge of data-related and behavioural science at the disposal of the AFM. Martin van Rijn temporarily stepped down as the chair of the Supervisory Board between 20 March and 9 July 2020, during which period he served as the Minister for Medical Care in connection with the COVID-19 pandemic. Willemijn van Dolen took over as the Supervisory Board's chair during this period.

Activities – general

The Supervisory Board and the Executive Board consult frequently on major strategic supervisory issues. At each meeting, the Executive Board informs the Supervisory Board about the priorities and key activities of the AFM in its memorandum to the Supervisory Board. The COVID-19 outbreak meant that the Executive Board's pandemic-related management was a frequent item of discussion with the Supervisory Board. This included a broader assessment of the effects on the AFM's supervision (the revised 2020 Agenda) and the financial sector, as well as the impact on the organisation itself. An internal scenario analysis of the post-pandemic world was also discussed. There were specific discussions of the risks, potential solutions and



the mandate of the AFM. External experts were also invited to offer relevant knowledge to the Supervisory Board and the Executive Board to assist us in acting as adequately as possible and to look ahead in this unpredictable period.

The final report from the Committee on the Future of the Audit Sector (CTA) was published in early 2020, followed later by a response from the government. The AFM supports the measures proposed in this report for strengthening the supervision of non-PIE audit firms. There was extensive discussion in the Supervisory Board on the preconditions for achieving this additional supervision without this being at the expense of our commitment to the quality of our supervision of PIE audits.

The anti-money laundering supervision of collective investment companies and firms was another item that was intensively discussed. The need for anti-money laundering supervision is as strong as ever, and the Supervisory Board strongly supports the AFM's efforts in this area.

The Supervisory Board and the Executive Board also had further discussion of the effects of low interest rates on the AFM's supervision. The continuing low level of interest rates may put pressure on lending standards and therefore also observance of the duty of care. There was specific attention to certain dilemmas in relation to the manner of communication to customers and the impact of the pandemic.

The AFM's transition to becoming a data-driven supervisor was raised in the Supervisory Board on several occasions in 2020. Specifically, the Board was asked to give advice regarding a number of challenges, including the desired organisational 'end state' and privacy issues. The Board stressed the importance of involving stakeholders in the development of the AFM's data-driven supervision.

During its annual 'off-site' meeting with the Executive Board, the Supervisory Board discussed the strategic challenges facing the AFM, with extensive attention to sustainability, revision of the AFM's view of the duty of care and the impact of Brexit.

Besides the issues mentioned above, the Supervisory Board was also informed in 2020 with regard to consumer credit, supervision of pensions, the legal reporting, the progress on interest-only mortgages and lessons to the learned from the Wirecard affair.

Governance and compliance

A major update was completed in 2020, and the AFM has adequate rules for its governance and compliance. Among other things, the Supervisory Board approved the amended articles of association of the AFM, the Executive Board regulations, the regulations for the Supervisory Board (and its committees), the (revised) AFM code of conduct and the mandate regulations for the AFM. The current regulations are available on the AFM's website.

At each meeting, the Supervisory Board reviews the register of ancillary positions with the compliance officer in attendance. The Supervisory Board also assessed various ancillary positions on the basis of the applicable test framework.

Business operation

The Supervisory Board assessed the regular financial reporting in 2020. The Board has approved the Agenda 2021 (including the budget) and the appointment of the external auditor. The succession planning was also discussed by the Board in plenary session. At the end of 2020, both the audit committee and the Supervisory Board were informed by the Executive Board regarding the financial implications of the ruling by the court with respect to the AFM's pension scheme.

Audit Committee

The specific items of attention for the audit committee this year included the outsourcing of IT, the new cost framework for 2021-2024, the financial dashboards and the further embedding of risk management, including several risk management reports. The audit committee was kept informed on the progress of the transition of IT services to Cégeka by means of regular reports. Additional investment by the Executive Board turned out to be necessary to bring the IT services to the desired level. In addition, the audit committee was regularly informed by the Executive Board regarding the new cost



framework for 2021–2024 and the financial and other dashboards. The audit committee approved the Charter Operational Risk board in 2020, and also the policy with respect to management of delegation risk. Good progress was again made in 2020 on the embedding of risk management at the AFM. The Internal Audit Service (IAS) prepared several audit reports for the committee's agenda, and the audit committee approved the annual plan and the charter for the IAS. The audit committee held an evaluation interview with the head of the IAS. The Supervisory Board moreover held separate discussions with the external auditor without the presence of the Executive Board. The audit committee prepared for these discussions. The issues raised included information security, experiences with the performance of the external audit and a number of specific audit findings.

Appointments and remuneration committee

The appointments and remuneration committee prepared for the reappointment of Willemijn van Dolen. The Supervisory Board then submitted a proposal for reappointment to the Minister.

The committee also discussed the detailed qualitative and quantitative analysis of the outflow figures. The outflow overall was not considered to be extraordinary, which was reassuring. The committee called for extra alertness with respect to outflow among starters and data experts, and additional action where possible to minimise outflow. The appointments and remuneration committee also discussed succession planning and the process of evaluation of members of the Executive Board.

Permanent education

The Supervisory Board also consulted with stakeholders in 2020, as it did in 2019. On this occasion, there was discussion with the CEOs of parties subject to our supervision of the capital markets. The issues raised included future developments in the market and the effects of these on the AFM. These discussions were also continued in 2021. This is an important source of information for the Supervisory Board on important market developments.

Two permanent education sessions were also organised for the Supervisory Board. The first

focused on data-driven supervision, with the Supervisory Board receiving information from an external trainer on artificial intelligence (AI), the challenges and successes in relation to AI and the implications and potential use of AI for the AFM. The second session was held with the Executive Board, and dealt with the social impact of the COVID-19 pandemic and more specifically its effects on the financial sector. The Supervisory Board also received detailed information on two trends mentioned in the 2021 Trend Monitor, namely responsible mortgage lending and the competition between exchanges and trading platforms in a single European capital market.

Members of the Supervisory Board attend consultative meetings with the Works Council twice a year. The Board meets with the Ministry of Finance twice a year on the basis of a fixed consultation structure.

Evaluation of the Supervisory Board and the Executive Board

The evaluation of the individual members of the Executive Board and of the Board as a whole was carried out at the beginning of 2020. Input for this was obtained from (among others) department heads, fellow members of the Board and the Supervisory Board. The Supervisory Board subsequently held individual interviews with Board members, covering both areas of development and necessary training. The Supervisory Board is of the opinion that the Executive Board's performance is adequate and that it performs its tasks satisfactorily.

As a follow-up to the self-assessment in 2019, the Supervisory Board developed and established a view on supervision at the beginning of 2020 in which roles and responsibilities were clearly defined. The self-assessment for 2020 took place under external guidance at the end of the year. This consisted of the evaluation of the individual performance of the members of the Supervisory Board, the evaluation of the Board as a whole and of its committees. The results were discussed by the Supervisory Board and the Executive Board. One important finding of this evaluation is that calm and stability in the Supervisory Board has been restored. The composition of both these organs is now adequate. As a follow-up, there will be specific



attention to which issues are discussed with the Supervisory Board and the stage at which they are discussed, and the role or input from the Supervisory Board that is considered to be desirable. There will also be investment in further acquaintance and deeper connectivity between the Executive Board and the Supervisory Board.

Meetings of the Supervisory Board and its committees, and attendance of Board members

- The Supervisory Board met on seven occasions in 2020, on one occasion without the presence of the Executive Board. There was one further discussion by conference call or digital connection when this was necessary. Most of the meetings were conducted digitally via video conferencing. Supervisory Board members Van Rijn, Langezaal and Van Dolen did not attend one of these meetings. Their attendance rate was therefore 86%. Van Rijn additionally missed one regular meeting due to his temporary period of absence. Supervisory Board member De Jong did not attend the strategy session.
- The audit committee held three regular meetings in 2020, plus one additional meeting. The regular meetings were attended by all committee members. Most of the meetings were conducted digitally via video conferencing. The meetings were held in the presence of the Chair of the Executive Board, the COO, the Head of Planning, Control and Finance, and the Head of the Internal Audit Service. The external auditor from the Government Audit Department (Auditdienst Rijk, or ADR) attended the meetings at which the financial statements, the budget, the management letter and the confirmation of engagement of the ADR were discussed.
- The appointments and remuneration committee held two regular meetings during 2020 and also consulted without holding a meeting (by conference call) as necessary. Most of the meetings were conducted digitally via video conferencing. The regular meetings were attended by all committee members. The meetings were held in the presence of the Chair of the Executive Board and the Head of Human Resources & Facility Services.

Independence and conflicting interests

The articles of association state that members of the Supervisory Board must perform their duties independently and not bound by instructions. In the performance of their duties, they must focus on the interests of the Foundation and consider the reputation of the Foundation and its statutory and social tasks and objectives. Any form of conflict of interest must be avoided. This is further defined in the regulation on conflicts of interest. If a member of the Supervisory Board has a direct or indirect personal interest that conflicts with the interests of the AFM, they shall not attend the consultation or decision-making with respect to the matter in question. This did not arise in 2020.

About this report

The Supervisory Board has approved the annual report and the financial statements for 2020. The AFM's external auditor was in attendance during the discussion of the financial statements.

Amsterdam, 1 March 2021

The Supervisory Board of the AFM



Supervisory Board

In 2020 the Supervisory Board consisted of¹:



Chair

Martin van Rijn
(1956)

Dutch citizen, first appointed as Chair on 24 May 2019, current term to 24 May 2023, first appointment as member 15 February 2018, ending on 23 May 2019



Vice-Chair

Willemijn van Dolen
(1972)

Dutch citizen, first appointed as member on 1 September 2016, reappointed on 1 September 2020, current term until 1 September 2024

- Member of Appointments and Remuneration Committee

¹ Martin van Rijn temporarily stepped down as the Chair of the Supervisory Board from 20 March to 9 July 2020 due to his taking up a temporary position as Minister of Medical Care. Willemijn van Dolen took over as Chair during this period.



Member

**Wendy de Jong
(1966)**

Dutch and Canadian citizen, first appointed as member on 15 February 2019, current term until 15 February 2023

- Chair of Audit Committee



Member

**Rob Langezaal
(1966)**

Dutch citizen, first appointed as member on 1 September 2019, current term until 1 September 2023

- Chair of Appointments and Remuneration Committee



Member

**David Voetelink
(1953)**

Dutch citizen, first appointed as member on 15 July 2019, current term until 15 July 2023

- Member of Audit Committee
- Member of Appointments and Remuneration Committee



Executive Board

In 2020 the Executive Board consisted of:



Chair

**Laura van Geest
(1962)**

*Dutch citizen, first appointed on
1 February 2020, current term until
1 February 2024*



Board member

**Hanzo van Beusekom
(1972)**

*Dutch citizen, first appointed on 1 June
2018, current term until 1 June 2022.*



Board member

**Jos Heuvelman
(1962)**

*Dutch citizen, first appointed on
1 September 2018, current term until
1 September 2022.*



Board member

**Gerben Everts
(1971)**

*Dutch citizen, first appointed on
1 November 2012, stepped down on
12 May 2020*



COO*

**Ellen van Schoten
(1966)**

*Dutch citizen, first employed on
1 October 2017, left employment on
1 January 2021*

* The COO is responsible for operational matters at the AFM. The COO is not a member of the AFM's Executive Board under its articles of association.



In Memoriam

**Arthur Docters
van Leeuwen**

During the night of Friday, 14 August 2020, the AFM's founder Arthur Docters van Leeuwen passed away at the age of 75. As the AFM's first Chair, Docters van Leeuwen put the supervision of the financial sector in the Netherlands on the map. Between 1999 and 2007, he was responsible for expanding the supervision of securities transactions (with the Securities Board of the Netherlands, or Stichting Toezicht Effectenverkeer), into the supervision of conduct in the entire financial sector with the AFM.

Docters van Leeuwen strove to build an effective and independent conduct supervisor of national and international renown. We owe him a great deal for the manner in which he founded and expanded the AFM. He was responsible for building the quality of our organisation at a time when the AFM was assigned a wide range of new duties. He thus made a huge contribution to improving sustainable financial welfare in the Netherlands.

The portfolio allocation for the Executive Board is shown in the [organisational diagram](#) on the website of the AFM. The ancillary functions of members of the Supervisory Board and the Executive Board, as well as the profile descriptions for the Supervisory Board and the Executive Board, are shown [on the website of the AFM](#).



Governance at the AFM

Organisation and management

The AFM is a non-departmental public body (NDPB) with statutory powers for the supervision of conduct in the financial markets. Under the [Framework Act for NPDBs](#), an NDPB is an administrative body of the central government that under or pursuant to legislation is invested with public authority and is not hierarchically subordinate to the Minister. The AFM is a foundation (legal entity) with an Executive Board and a Supervisory Board.

The Supervisory Board supervises the manner in which the Executive Board of the AFM carries out its duties. The Minister of Finance appoints the Executive Board and the members of the Supervisory Board. The Supervisory Board may make non-binding nominations for these appointments.

The Dutch Financial Supervision Act (*Wet op het financieel toezicht*, or Wft) contains various provisions regarding the governance of the AFM, including rules for the appointment and remuneration of members of the Executive Board and the Supervisory Board. The Wft also states the duties of the AFM. The governance and these provisions are further elaborated in the articles of association and regulations of the AFM.

Corporate Governance Code

As far as possible and relevant, the AFM fulfils the same governance requirements as those applying to listed companies subject to its supervision. The AFM accordingly voluntarily complies with the Dutch Corporate Governance Code ('the Code').

Dutch listed companies are expected to report in 2021 on their compliance with the Code in 2020. For its analogous reporting on compliance with the Code in 2020, the AFM has prepared an overview of all the provisions in the Code that are applied within its organisation. This overview, the Corporate Governance Code Matrix also shows the provisions that apply only partially or do not apply because the AFM is a non-departmental public body (NDPB) with the form of a foundation. For instance, provisions in the

Code that apply to supervisory boards are in the AFM's case applied by analogy to the Supervisory Board. This matrix is published [on the website of the AFM](#).

Best practice provision 2.1.6 of the Code states that the corporate governance statement contains a report on the application of a diversity policy. The AFM's view with respect to diversity is to have an inclusive culture. The formulated objectives are:

1. a diversified composition of the Executive Board and the Supervisory Board;
2. promoting an inclusive culture;
3. increasing external management exposure with respect to inclusivity.

The target figure for gender diversity is 40%. This percentage was achieved for the Executive Board and the COO in 2020 (with the appointment of Laura van Geest as Chair on 1 February). The target percentage was also achieved for the Supervisory Board. The AFM has additionally formulated a view with respect to diversity and inclusivity, including a description of where these issues affect the supervisory work of the AFM. The view also covers employership (including onboarding at the AFM and decision-making (multiple consideration).

Compliance & integrity

Compliance and integrity are high priorities for the AFM. Confidence in the AFM will be weakened if its employees are involved in unethical behaviour, either intentionally or otherwise. In its capacity as the supervisory authority for the financial markets, AFM employees have to set an example with respect to integrity.

The organisation as a whole is also expected to set an example in this respect. The position and reputation of the AFM as a supervisory authority can only be assured if we lead the way when it comes to integrity and policy relating to integrity.



We have established a Compliance Charter and appointed compliance officers in order to promote and safeguard compliance and integrity. This assures a direct reporting line to the Chair of the Executive Board and the Chair of the Supervisory Board, as well as access to information and availability of sufficient resources.

The compliance function at the AFM in 2020 consisted of a chief compliance officer, a senior compliance officer and a compliance officer, with additional support as needed (for example for training, screening and investigations). The compliance function also works with other second-line functions, such as the privacy officer and the information security officer. Apart from compliance and integrity, this department is also involved in information security, operational risk management and privacy. The chief compliance officer reports regularly to the Executive Board and the Supervisory Board. The Chair of the Supervisory Board also reports to the Minister of Finance every six months on aspects of compliance that have been raised in the Supervisory Board.

Activities in 2020

Many of the activities of the compliance function are regular in nature. The duties include making employees aware by means of training courses, providing information to employees via intranet messages and conducting dialogues at specially organised consultation sessions. There was also monitoring of matters such as personal investment transactions, ancillary functions, invitations and gifts. The Supervisory Board is also advised with respect to ancillary functions and activities of members (or prospective members) of the Supervisory Board and the Executive Board. Besides dealing with individual ancillary functions, the meeting of the Supervisory Board regularly devotes attention to compliance and integrity policy in a wider context. In addition to these regular activities, attention was devoted to the revision of the Code of Conduct and the regulations of the AFM.

The Code of Conduct has been completely rewritten and brought into line with new legislation and regulation and developments in the organisation. Furthermore, all the regulations

and procedures associated with the Code of Conduct have been revised and combined into a single document: the AFM Code of Conduct, which came into effect on 1 January 2021.

Enforcement

We received certain internal signals regarding possible infringements of the Code of Conduct and the AFM's compliance regulations in 2020. In two cases, this led to an investigation of the facts which was conducted in accordance with the proper procedure. Both cases involved an infringement, and appropriate measures were taken.

Complaints scheme / General Counsel

The AFM and its employees must behave correctly in their treatment of others. If a person believes this is not the case, they may submit a complaint to the General Counsel of the AFM. Complaints are dealt with carefully by the AFM in accordance with its complaints scheme and the General Administrative Law Act (*Algemene wet bestuursrecht*, or Awb).

The General Counsel did not deal with any formal complaints in 2020. Questions and general complaints regarding the policy of the AFM are responded to on the General Counsel's behalf. Complaints regarding institutions subject to supervision are flagged internally in order to support the implementation of our supervision.



Legal proceedings and notes

Objections and appeals

We received 79 objections in 2020, 30% fewer than in the previous year (2019: 113). Most of the objections (64) were against the levies imposed on the basis of the [Financial Supervision \(Funding\) Act \(Wet bekostiging financieel toezicht, or Wbft\)](#). The objections related to levies for non-recurring supervisory procedures and levies for ongoing supervision.

The other 15 objections were against various decisions, including notices of intention to impose a fine (5), orders for incremental penalty payments (2) and withdrawals or refusals to grant licences (2).

A total of 97 objections were dealt with in 2020. 39 of these were withdrawn, 22 were declared inadmissible, 10 were fully or partially upheld, 25 were declared to be unfounded and 1 was rejected. In over 98% of the cases, we made a decision regarding the objection within the statutory allotted period.

Appeals committee

Before deciding on an objection, we give the interested parties the opportunity to present their arguments orally to the appeals committee. The appeals committee held 9 hearings in 2020. This procedure is only not held if there is no possible reasonable doubt regarding the decision to be taken. If the interested parties state that they do not wish to make use of the right to be heard, no hearing by the appeals committee is held.

The AFM appeals committee, which is not an advisory committee in the sense of Section 7:13 of the General Administrative Law Act, consists of an external Chair, a legal expert from the Legal Affairs department and (in some cases) a representative from the department that prepared for the primary decision that is the subject of the objection. The appeals committee had three external Chairs in 2020: Mr C.O.W. Dubbelman, LL.M., Prof. C.M. Grundmann-Van de Krol, LL.M., and Mr J.A.F. Peters, LL.M.

Legal proceedings

The total number of legal proceedings instituted declined slightly in 2020 compared to 2019 (38 in 2020 compared to 40 in 2019). Rulings

were issued in 24 legal proceedings (provisional rulings, appeals and higher appeals) in 2020. A number of the proceedings also involved legal formation and were fundamental in nature.

There were 19 rulings in favour of the AFM, 3 partly in our favour and 2 against in 2020. The rulings were (generally) favourable to the AFM in more than 85% of the cases. This applies for instance if a ruling requested by an opposing party is rejected, an appeal or a higher appeal by an opposing party is declared to be unfounded, or if the stance of the AFM is generally upheld.

	2020	2019
Number of proceedings instituted	38	40
Number of court rulings	24*	33

Number of court rulings

	2020	2019
Interim injunctions	6	10
Appeals	10	15
Further appeals	7	8
Total	24*	33

* including one ruling in a civil case

Control cycle

We use a control cycle for internal control and external reporting. This cycle concerns the processes of planning (including strategic planning), implementation, direction and reporting within the financial preconditions. The issue of whether we are 'on track' is assessed on the basis of various interim measurements. Adjustments are made when necessary. External stakeholders are informed as to progress. The AFM gives account of the results and effects of its efforts in its annual report.

Risk management

The Executive Board and management are responsible for the design, existence and operation of a risk management framework. This system includes a risk management process, in which risks are identified that relate to the goals to be achieved, control measures are



implemented (if necessary) and the development of risks is monitored. We have integrated and embedded our risk management in our control cycle. This is part of the dialogue between the Executive Board and the department heads with respect to performance. The design of our risk management has been approved by the Supervisory Board and the external auditor.

We distinguish between risks occurring in the market (market risks) and the risks experienced by it as an organisation (operational risks). The specific controls of the key risks are described in the initial sections of this annual report.

The operational risks that have a financial impact on the financial statements are also monitored by means of a system of in-control statements.

Market risks

It is a statutory and social duty of the AFM to supervise conduct in the financial markets. We continually review which conduct can be considered as undesirable and where and how our supervisory capacity can be applied. The key risks are identified in agreement with our stakeholders. These supervisory priorities form part of our 2020 Agenda. Management was actively directed at achieving the results defined in the Agenda during the year, including the monitoring of new developments in the financial markets and consideration of whether adjustment or addition to our strategic objectives would be appropriate.

Operational risk

Operational risks concern all the possible events that could have an impact on our values or the realisation of our goals.

The operational risk management framework was further developed in the organisation in 2020. Risk self-assessments at various departments were carried out by our central risk function. These risk assessments resulted in risk overviews for each portfolio or Executive Board member and a risk overview for the organisation as a whole.

These risk overviews ensure that the prevailing risk overview is confirmed and more accurately defined. The types of risk that have the highest net scores for the AFM are explained further

elsewhere in this annual report. Based on the risk overviews from the self-assessment, we considered whether the departmental targets needed to be adjusted in order to reduce risk. In the Operational Risk Board, the first, second and third line regularly discuss and issue directions with respect to risks that could affect the AFM's realisation of its objectives.

In-control statement

The in-control statement is one of the ways in which the Executive Board gives account of the quality of the controls in the internal business processes. In particular, the in-control statement focuses on the quality and reliability of the external reporting. In order to arrive at a positive (and well-founded) opinion, a description is provided of the processes and their associated risks and the control measures in place. By signing an in-control statement, the process owners declare that both the design and the operation of the risk control measures are up to standard. Based on the underlying system of in-control statements, we are of the opinion that the systems of internal risk control and controls of the business processes have operated satisfactorily and provide a high level of assurance that the financial reporting is free of material misstatements.



Report on the legitimacy of the financial management

The AFM has structured its financial management. We use a system of internal procedures with built-in checks, including authorisation, separation of functions, obligatory documentation and recording of financial management. Last year, the AFM introduced various measures to strengthen its financial management.

We have remained comfortably within our budget and cost framework. Our 2019 financial statements were assigned an unqualified audit opinion with no issues. We also made a substantial contribution in 2020 to the establishment of the Cost Framework for 2021-2024. This clearly sets out the maximum costs of supervision in general terms during this period and the development of these costs. The Levies improvement programme was started in October 2020, which should lead to optimisation and digitalisation of the front-end of the process in the next 18 months. There were also further improvements to our project administration last year, with consideration of whether and how digitalisation and data analysis could contribute to cost control and the effectiveness of our work.

The professionalism of our Procurement department was also increased in 2020. The design of our procurement system has now been further improved and will be used for tenders and registration of agreements and extensions of agreements. The internal approval and signing procedure for agreements and extensions to existing agreements was also adjusted at the end of 2020. This is now conducted entirely in digital form.

In line with the three lines of defence model, the new procurement organisation now has expertise in the legal aspects of tenders and an advisory and monitoring function has been set up in the Legal Affairs department. The cooperation between the Procurement Team and the Legal Affairs department became closer during 2020 and is now operating excellently. These measures have strengthened our checks and balances to ensure the lawfulness of our procurement.

The AFM remained well within the government-wide tolerance level (2% of actual costs) for unjustified procurement in 2020, with a percentage of 0.26%. In 2019 this was 0.63%. In 2018 the figure was an excess of 1.6% and in 2017 4.8%. The measures taken and the further professionalisation of Procurement have produced results. This improvement will be continued further in the years to come.

Audit

The AFM's financial statements are audited by an external auditor. In line with the provision of Section 7 (2) of the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*), this auditor is not subject to supervision by the AFM. A choice was made for the Government Audit Department (*Auditdienst Rijk*, or ADR) that carries out the internal audit function for several ministries, including the Ministry of Finance.

Since the ADR, like the AFM, falls under the Ministry of Finance, the Ministry has taken specific measures with respect to the audit of the AFM to ensure independence. The audit is conducted by an auditor who is not involved in issues that are in any way related to the AFM as a result of his position at the ADR or his responsibility for work at the ADR for other clients.

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Financial statement



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Statement of income and expenditure

for the years ending on 31 December

(Figures in EUR x 1,000)		2020	Budget 2020	2019
Income				
Levies	a.	104.116	105.797	96.110
Fines	b.	4.592	-	3.151
Orders for incremental penalty payments	b.	304	-	70
Government contributions	c.	389	431	599
Total income		109.401	106.227	99.930
Expenditure				
Employee expenses	d.	85.632	84.801	84.139
Depreciation costs on non-current assets	e.	1.211	1.207	1.041
Other operating expenses	f.	18.874	20.219	20.317
Total expense		105.717	106.227	105.497
Financial income and expense	g.	- 14	-	- 9
Total expenditure	h.	105.703	106.227	105.488
Operating balance	o.	3.698	-	- 5.558



Statement of financial position

at 31 December

(Figures in EUR x 1,000)			2020		2019	
Assets						
Non-current assets						
Property, plant and equipment			i.			
Rebuilding		1.853			1.536	
Inventory		1.040			1.201	
Computer equipment & software		772			1.194	
					3.665	3.931
Financial non-current assets						
Rental guarantee account	n.	688			688	
					688	688
					4.353	4.619
Current assets						
Receivables						
Debtors	j.	20.794			22.300	
Other receivables, accrued income and prepaid expenses	k.	11.624			11.365	
Ministry of Finance	n.	-			193	
					32.419	33.858
Cash and cash equivalents			l.		9	
Cash and cash equivalents		117				9
					117	
					32.536	33.867
Total			36.889			38.486
Liabilities						
Provisions		m.	3.874			2.633
Current liabilities (up to 1 year)						
Current account Ministry of Finance	n.	16.823			20.893	
Still due (repayable) to Ministry of Finance	n.	42			-	
Operating balance to be settled	o.	3.169			193	
Creditors		2.256			3.878	
Tax and social insurance contributions		4.087			4.102	
Other payables and accruals	p.	6.640			6.787	
					33.015	35.853
Total			36.889			38.486



Statement of cash flow

for the years ending on 31 December

(Figures in EUR x 1,000)			2020		2019	
<i>Cash flow from operating activities</i>						
Operating balance			3.698		- 5.558	
<i>Adjustments for:</i>						
• Depreciation of property, plant and equipment	e, i.	1.211		1.041		
• Divestments of property, plant and equipment	i.	-		4		
• Movement in provisions	m.	1.241		- 404		
			2.452		641	
<i>Increase (-/-) / decrease in working capital:</i>						
• Current receivables		1.440		- 1.167		
• Current liabilities		- 5.813		15.506		
			- 4.374		14.339	
Payment of fines and orders for incremental penalty payments due to the State according to Section 8 of the Financial Supervision (Funding) Act (Wet bekostiging financieel toezicht, or Wbft)			- 721		-	
Cash flow from operating activities			1.054		9.422	
<i>Cash flow from investment activities</i>						
Investments in property, plant and equipment	i.	- 946		- 2.414		
Cash flow from investment activities			- 946		- 2.414	
<i>Cash flow from financing activities</i>						
Repayment of non-current liabilities		-		- 7.000		
Cash flow from financing activities			-		- 7.000	
Net cash flow			109		9	
Closing balance 31 December	l.	117		9		
Less: opening balance 1 January	l.	9		-		
Movement in cash and cash equivalents			109		9	



Notes

General

The Dutch Authority for the Financial Markets is a foundation with its registered office at Amsterdam and is registered at the Chamber of Commerce under number 41207759.

As stated in the Non-Departmental Public Bodies Framework Act, the AFM's financial statements are as far as possible presented in accordance with Title 9 Book 2 of the Dutch Civil Code (*Burgerlijk Wetboek*, hereinafter: 'BW'). Instances where the provisions of Title 9 Book 2 BW are not followed are explicitly disclosed. The AFM's financial statements must in addition meet the requirements of the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*, or 'Wbft') and the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*, or 'WNT').

All figures in these financial statements are stated in thousands of euros, unless otherwise stated. The figures in the tables are rounded, which may result in rounding differences.

Accounting policies

Income and expenditure are allocated to the financial year to which they relate.

The AFM's costs are mainly covered by income from annual levies raised from the companies subject to its supervision. Its income also includes fixed sums linked to the processing of applications and registrations (non-recurring procedures) and government contributions for BES supervision. The AFM also has the power to impose fines and orders for incremental penalty payments.

In cases where an objection, appeal or higher appeal against a levy imposed is upheld, the amount to be repaid is deducted from the income from levies.

Income from fines and orders for incremental penalty payments is recognised as income once the following two facts apply: (a) they are declared irrevocable and (b) the AFM has actually received the amounts imposed.

In this respect, the AFM deviates from the provisions of Title 9 Book 2 BW. Section 8 of the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*, or Wbft) states that income from fines and orders for incremental penalty payments in excess of €2.5 million accrue to the State. Realised income of up to €2.5 million is set off against the levy for ongoing supervision in the subsequent year. See the note to o. 'operating balance to be settled'.

The AFM is exempt from value-added tax for the performance of its statutory duties. The AFM is not automatically exempt from corporate income tax. The AFM carried out an analysis of its activities in 2020, which revealed that the vast majority of its activities were not subject to corporate income tax, as was the case in previous years. Based on this analysis, the AFM submitted a request to the Tax & Customs Administration to not submit a corporate income tax return form for the 2020 financial year. This request was honoured by the Tax & Customs Administration.

Measurements in the statement of financial position

Assets and liabilities are measured at nominal value, unless otherwise stated.

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition and is depreciated over the estimated economic life on a straight-line basis.

The following terms are generally used for depreciation:

- five years for inventory;
- three years for computer equipment and software;
- rebuilding: the remaining term of the lease.

Current assets

The measurement of the 'debtors' item takes account of the risk of inability to collect.



Provisions

Provisions are measured at nominal value, with the exception of the provision for transitional arrangements for employees, which is carried at current value.

In accordance with RJ 271, the AFM forms provisions for transitional arrangements in relation to employment benefits.

Pension scheme

The AFM placed its pension scheme with the pension provider 'De Nationale APF' (DNA) on 1 January 2018. The accrued pension entitlements of the scheme members are placed in a specific (separate) AFM scheme.

The main features of the pension scheme and the administration agreement are as follows:

- A collective defined contribution (CDC) pension scheme.
- Pension accrual based on a conditional average pay system (target pension accrual) and pension entitlements are (conditionally) indexed if indexation can be funded from the investment returns and the contribution and indexation deposit in the AFM scheme.
- The pension contribution of 25% of the uncapped total salary (the fixed pension contribution) is charged to the AFM annually.
- DNA calculates a cost-effective pension contribution annually. The positive difference between the fixed pension contribution and the cost-effective pension contribution necessary to achieve the target pension accrual is paid into a contribution and indexation deposit in the AFM scheme. This is for both indexation and equalisation. If the cost-effective pension contribution is higher than the fixed pension contribution, the target pension accrual in the year in question is reduced so that the cost-effective pension contribution equals the fixed pension contribution.
- For active scheme members in service on 31 December 2015, a transitional measure applies whereby a single contribution is charged for the period from 2016 to the end of 2025 for the unconditional indexation of their pension entitlements.
- This unconditional indexation is limited to the annual wage index with a cap at 1.5%.

Discount rate for provision for transitional arrangements for employees

- -0.53% (based on an average term of 1.9 years and on the 'Nominal interest-rate term structure for pension funds (zero coupon)' from de Nederlandsche Bank (DNB).

Wage inflation (only for the calculation of transitional arrangements for employees):

- 1.50%

The following principles apply for the Pension Ruling provision:

- Number of active scheme members on 31/12/2015: 612.
- Average turnover rate 2016-2020: 11.57%.
- Life expectancy table: Actuarial Association (AA) 2018.
- The indexation principles for the AFM scheme with DNA.

Retirement age:

- The standard retirement age is 68 years.

The former Wabb reserve is measured at nominal value.

Principles for the statement of cash flow

The cash flow statement is prepared using the indirect method.



Notes to the statement of income and expenditure

(figures in € x 1,000, unless indicated otherwise)

General

The operating surplus in 2020 came to €3.7 million, and is the net result of lower expenditure (€ -0.5 million) and higher income (€3.2 million) than estimated. The lower expenditure was due to higher employee expenses (€ +0.8 million) and lower other operating expenses (€ -1.3 million).

The higher than budgeted income is the result of lower income from levies (€ -1.7 million) and higher income from fines and orders for incremental penalty payments (€ +4.9 million).

a. Levies

The analysis of the income from levies is as follows:

To be levied in 2020					
		A	B	C=A+B	
	Actual 2020	Budget 2020	To be settled from 2019 in 2020	Total to be levied in 2020	Actual 2019
Levies under Wbft					
Levies for ongoing supervision Wbft	97.134	96.992	528	97.520	87.325
Levies for non-recurring procedures Wbft	6.972	8.790	-	8.790	8.769
Total Wbft	104.107	105.781	528	106.310	96.094
Levies BES					
Total BES	10	15	-	15	16
Total levies	104.116	105.797	528	106.325	96.110

For most of the supervision, the activities related to ongoing supervision, or supervision relationship management. The costs of this are covered by annual levies raised from all companies subject to supervision in a particular supervisory category. The levy in any year is based on two components: 1) the amount to be levied in the budget for that year (column A) and 2) the amount to be settled from the previous year (column B). For a proper comparison therefore, the amount to be settled from 2019 is stated as well as the budgeted figure.

The total amount to be levied is divided according to a legally established allocation formula across categories of companies subject to supervision. Within the supervisory category in question, the AFM divides the sum to be levied via a fixed amount per company and/or a variable charge based on a levy measure. This measure varies per supervisory category and is usually related to the size of the individual company. Levy measures include variables such as: number of FTE, total balance sheet and average market capitalisation.



Levy income of €104.1 million was realised in 2020. This is €2.2 million lower than the amount to be levied of €106.3 million. The lower income consists of €0.4 million less income from ongoing supervision and €1.8 million less income from non-recurring procedures. Differences between the sums to be levied and actual receipts from supervisory categories arise from unforeseen changes in the population and the fact that the measures used to set the levy may differ from the values used to calculate the rates.

In cases where the AFM carries out non-recurring supervisory activities for companies subject to supervision, separate charges are made where possible. Examples of this include dealing with licence applications, registrations,

exemptions, testing of directors and assessments of public offerings or issue prospectuses. These levy rates are in principle cost-effective and are set by the Minister of Finance and the Minister of Social Affairs and Employment. The €1.8 million less income from non-recurring procedures was mainly due to lower income from supervision of prospectuses, public offerings, licences and tests of persons.

The income from non-recurring procedures in 2020 was €1.8 million lower than the actual figure in 2019. This was mainly due to new applicants in 2019 due to the exit of the United Kingdom from the European Union.

b. Fines and orders for incremental penalty payments

The analysis of fines and orders for incremental penalty payments is as follows:

	2020	Budget 2020	2019
Fines and orders for incremental penalty payments to be settled with market parties	2.500	-	2.500
Fines and orders for incremental penalty payments due to the State	2.396	-	721
Total fines and orders for incremental penalty payments	4.896	-	3.221

Under Section 8 Wbft, the AFM has to pay income from fines and orders for incremental penalty payments in excess of €2.5 million in any year to the State. As a result, €2.4 million from the income from fines and orders for incremental penalty payments is paid to the

State via the allocation of the operating balance. €2.5 million in fines and orders for incremental penalty payments will be settled with companies subject to supervision via the levies for ongoing supervision next year (see letter o. for the operating balance to be settled).

c. Government contributions

The analysis of the government contributions is as follows:

	2020	Budget 2020	2019
Total BES	389	431	599
Total government contributions	389	431	599



The government reimburses the costs of BES supervision (The Caribbean Netherlands, or Bonaire, Sint Eustatius and Saba) to the extent that these exceed the income from levies. The

government contribution for BES supervision is lower than budgeted in 2020 because no regular supervisory visits to the Caribbean Netherlands took place due to the COVID-19 pandemic.

d. Employee expenses

The analysis of employee expenses is as follows:

	2020	Budget 2020	2019
Salaries	55.738	55.194	53.410
Social insurance contributions	7.130	7.330	7.122
Pension costs*	14.071	11.551	11.087
Temporary personnel	6.261	6.636	7.973
Other employee expenses	2.431	4.091	4.547
Total employee expenses	85.632	84.801	84.139

* The pension costs concern the pension contribution paid to 'De Nationale APF' less the personal pension contributions from the AFM employees (net pension contribution) plus the contribution to the Pension Ruling provision. The policy funding ratio at 31 December 2020 of 'De Nationale APF', AFM scheme, is provisionally set at 97.3%. The policy funding ratio at 31 December 2019 was 98.2%. Like many other pension funds, the group AFM scheme at 'De Nationale APF' is facing an increasing likelihood of reductions.

Employee expenses were €0.8 million above budget. This is the net result of higher salary, social insurance and pension costs (€ +2.9 million), lower costs for temporary personnel (€ -0.4 million) and lower other employee expenses (€ -1.7 million).

Salary, social insurance and pension costs were €2.9 million higher despite the average number of FTE in service (657) being slightly lower than budgeted (661). The higher costs were mainly due to the contribution to the Pension Ruling provision and also among other things an increase in the leave balances because less leave was taken during the COVID-19 pandemic. The pension costs were higher than budgeted due to higher allocation of indexation.

The costs of temporary personnel were only slightly different from the amount budgeted (€ -0.4 million).

The other employee expenses were €1.7 million below budget. This was mainly due to lower costs as a result of the pandemic for commuting costs, congresses & seminars, recruitment & selection and training.

Employee expenses were €1.5 million higher than in 2019 due to higher salary, social insurance and pension costs (€ +5.3 million), lower costs for temporary personnel (€ -1.7 million) and lower other employee expenses (€ -2.1 million).

Salary, social insurance and pension costs were €5.3 million higher due to the contribution to the Pension Ruling provision and also the increase in the average number of FTE in service from 641 in 2019 to 657 in 2020, together with an increase in the average salary cost per FTE. The lower costs of temporary personnel (€ -1.7 million) were mainly due to less temporary personnel hired for Brexit-related activities and less temporary personnel hired for specific expertise. The other employee expenses were €2.1 million lower, mainly due to lower costs as a result of the pandemic for commuting costs, congresses & seminars, recruitment & selection and training. Training costs were also lower than in 2019.



The table below gives a breakdown of the average number of FTE by the various supervisory and other areas. The actual total number of FTE was slightly less than budgeted. The higher number of FTE at the

Other Departments was mainly because the outsourcing of IT took place later in 2020 than the date originally used for the budget.

	Including temporary personnel			Excluding temporary personnel		
	Actual 2020	Budget 2020	Actual 2019	Actual 2020	Budget 2020	Actual 2019
Financial services	176	180	175	175	178	172
Capital markets	85	89	77	85	87	77
Asset management	39	44	38	38	41	36
Audit	49	48	48	48	46	47
Sub-total Supervision	349	361	339	346	351	333
Direct supervision support	172	184	168	165	173	157
Other departments	172	160	189	146	136	152
Total average number of employees (FTE basis)	693	704	695	657	661	641

Remuneration of the Executive Board and Supervisory Board

As a non-departmental public body (NDPB), under the Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector*, or WNT) the AFM is obliged to report the remuneration of its Executive Board members and certain other officials if applicable. In accordance with Section 4.2 WNT, the AFM has chosen to deviate from reporting in accordance with the BW.

The WNT remuneration cap in 2020 is €201,000.

Based on a proposal from the Supervisory Board, the Minister of Finance approved the setting of the remuneration of Everts at €229,185 for the whole of 2020. This takes account of the reduction of Everts' remuneration under the previous arrangement, with the frameworks

of the transitional law. The Executive Board member Everts was granted discharge at his own request by Royal Decree with effect from 12 May 2020. In the event of discharge, members of the AFM's Executive Board are subject to a six-month cooling-off period. During the cooling-off period from 12 May 2020 to 12 November 2020, remuneration of the Executive Board member Everts was set at the current WNT remuneration cap.

The Executive Board members Van Geest, Van Beusekom and Heuvelman receive a (time-proportionate) remuneration in the amount of the current WNT remuneration cap.

The senior officers stated in this report did not receive any payments in the form of bonuses or severance payments in either 2020 or 2019.

The reporting reads as follows:

Figures in EUR 2020						2020
Senior officers	Position	Days in service	Extent of employment (in FTE)	Remuneration	Average pension contribution costs and other remuneration payable over time (*)	Total remuneration according to WNT
L.B.J. van Geest (from 1 February 2020)	Chair	335	1,0	163.426	20.550	183.975
H.L. van Beusekom	Executive Board member	366	1,0	178.535	22.465	201.000
J.R. Heuvelman	Executive Board member	366	1,0	178.535	22.465	201.000
G.J. Everts (until 12 November 2020)	Executive Board member	316	1,0	164.349	19.352	183.701
E.M.A. van Schoten	Chief Operating Officer	366	1,0	166.320	22.465	188.785
Figures in EUR 2019						2019
Senior officers	Position	Days in service	Extent of employment (in FTE)	Remuneration (**)	Average pension contribution costs and other remuneration payable over time (*)	Total remuneration according to WNT
H.L. van Beusekom	Executive Board member	365	1,0	172.513	21.487	194.000
G.J. Everts	Executive Board member	365	1,0	213.390	21.487	234.877
J.R. Heuvelman	Executive Board member	365	1,0	172.513	21.487	194.000
E.M.A. van Schoten	Chief Operating Officer	365	1,0	160.731	21.487	182.218
M.W.L. van Vroonhoven (until 1 September 2019)	Chair	243	1,0	151.074	14.296	165.370

* The employer's contribution reported in the pension contribution is a calculated gross average contribution taking account of the Executive Board member's personal contribution. The WNT table thus allows for a direct comparison with the WNT remuneration cap, as this cap is also based on the average contribution system.

** The remuneration stated in the comparative figures for 2019 includes the amounts stated under both 'Remuneration' in the 2019 financial statements and 'Taxable fixed and variable reimbursement of expenses'. In accordance with the WNT regulations, these items are no longer presented separately.

Figures in EUR	2020	2019
Supervisory Board	Fixed annual remuneration	Fixed annual remuneration
M.J. van Rijn (temporarily stepped down as Chair from 20 March to 9 July)	20.924	25.300
W.M. van Dolen (member, and Acting Chair from 20 March to 9 July)	23.175	19.400
W.E.M. de Jong (from 15 February 2019)	20.100	17.008
R.G.J. Langezaal (from 1 September 2019)	20.100	6.484
D.W. Voetelink (from 15 July 2019)	20.100	9.036
P. Rosenmöller (Chair until 23 May 2019)	-	11.401
R. Becker (until 14 July 2019)	-	10.364

The WNT states that the annual remuneration for the Chair of the Supervisory Board may not exceed 15% of the WNT remuneration cap. For the other members of the Board, this percentage is set at 10%.

The remuneration levels stated are, in accordance with the provisions of the WNT, stated excluding 21% VAT.

e. Depreciation costs on non-current assets

	2020	Budget 2020	2019
Rebuilding	269	241	129
Inventory	329	425	255
Computer equipment & software	613	540	656
Total depreciation costs on property, plant and equipment	1.211	1.207	1.041

The depreciation costs on non-current assets in 2020 were virtually the same as budgeted. Depreciation costs were slightly higher than

in 2019, due to investments in premises and inventory.

f. Other operating expenses

	2020	Budget 2020	2019
Premises costs	4.124	4.720	4.117
Consultancy expenses	3.966	3.946	5.607
Incidental expenses change of pension provider	-	-	236
IT expenses	8.278	8.243	6.939
General expenses	2.507	3.311	3.418
Total other operating expenses	18.874	20.219	20.317

Other operating expenses came to €18.9 million and were €1.3 million lower than budgeted, mainly due to a combination of lower premises costs (€ -0.6 million) and lower general expenses (€ -0.8 million).

Premises costs were €0.6 million lower than budgeted due to lower costs of external meetings and maintenance due to the increase in working from home due to the COVID-19 pandemic. The service costs recharged for 2018 and 2019 have also been adjusted.

The item IT expenses has been reclassified from internal costs to external outsourcing costs as a result of the outsourcing of IT in 2020. The net IT expenses were virtually in line with the budget. The increase of €1.3 million compared to 2019 is also due to the outsourcing of IT, and includes a

reclassification of the employee expenses for the IT employees to external outsourcing costs.

General expenses were €0.8 million less than budgeted, among other things due to lower travel and accommodation costs due to the pandemic and a lower contribution to a provision for uncollectable claims as a result of better-than-expected payment behaviour.

Fees for the certifying auditor

The fees for the audit by the certifying auditor are included in the general expenses item.

The analysis of these fees by type is as follows:

	2020	Budget 2020	2019
Fees for audit of the financial statements	188	200	180
Fees for other non-audit services	-	-	- 1
Total fees for the external auditor	188	200	179

The fees for the certifying auditor include the estimated costs for the activities relating to the current reporting year.

g. Financial income and expense

	2020	Budget 2020	2019
Interest expense	-	30	77
Interest income	15	30	86
Total financial income and expense	-14	0	-9

h. Costs of supervision

The table below summarises the total actual costs, the budgeted costs and the costs in the previous financial year, expenses, divided by statutory framework.

	2020	Budget 2020	2019
Total Wbft	105.304	105.781	104.874
Total BES	399	446	615
Total costs of supervision	105.703	106.227	105.488

Under the Wbft, the costs of supervision on the BES Islands (Bonaire, St. Eustace and Saba) pursuant to the BES Islands Financial Markets Act (*Wet financiële markten BES*, or 'Wfm BES') and the Money Laundering and Terrorism Financing (BES Islands) Act (*Wet ter*

voorkoming van witwassen en financieren van terrorisme BES, or 'Wwft BES') must be disclosed separately.

The difference between the budgeted and the actual costs are shown in items d to g.



Notes to the statement of financial position

(figures in € x 1,000, unless indicated otherwise)

i. Property, plant and equipment

The development of this item was as follows:

	2020	2019
Balance at 1 January	3.931	2.562
Investments	946	2.414
Depreciation	- 1.211	- 1.041
Divestments	-	- 4
Balance at 31 December	3.665	3.931

Expiring total of property, plant and equipment written off

Acquisition value	844	-
Depreciation	- 844	-
Cumulative acquisition value	34.269	32.480
Cumulative depreciation	- 30.604	- 28.549
Carrying amount at 31 December	3.665	3.931

The specification is as follows:

	At 31 December 2019	Investments	Depreciation	Divestments	At 31 December 2020
Rebuilding	1.536	586	- 269	-	1.853
Inventory	1.201	169	- 329	-	1.040
Computer equipment & software	1.194	191	- 613	-	772
Total property, plant and equipment	3.931	946	- 1.211	-	3.665

The item 'rebuilding' concerns capitalised costs of architectural changes to the offices leased by the AFM. The item 'computer equipment &

software' concerns capitalised costs of standard hardware and software.

j. Debtors

	2020			
	< 43 days	43-75 days	> 75 days	Total
Debtor balances consisting of levies classified by age	16.124	3.826	1.420	21.370
Debtor balances consisting of fines and orders for incremental penalty payments classified by age	-	-	1.047	1.047
Provision for risk of inability to collect				- 1.622
Balance of debtors item at 31 December 2020				20.794

	2019			
	< 43 days	43-75 days	> 75 days	Total
Debtor balances consisting of levies classified by age	21.144	1.237	704	23.085
Debtor balances consisting of fines and orders for incremental penalty payments classified by age	-	-	1.150	1.150
Provision for risk of inability to collect				- 1.936
Balance of debtors item at 31 December 2019				22.300

The above division for classification by age has been chosen because it reflects the collection process. Levies have a payment term of 42 days and are referred for collection if necessary if payments are not made.

The balance of the provision for risk of inability to collect of €1.6 million (2019: €1.9 million) is made up of €0.6 million (2019: €0.8 million) in levies and €1.0 million (2019: €1.1 million) in fines and orders for incremental penalty payments imposed.

The item 'provision for the risk of inability to collect' for levies is determined using the static method. The percentage of levies for which no payment had been received within 12 months was unchanged in 2020 at 0.225%.

Income from fines and orders for incremental penalty payments is recognised as income once the following two facts apply: (a) they are declared irrevocable and (b) the AFM has actually received the amounts imposed. Until actual receipt of payments imposed and declared irrevocable by the AFM, these amounts are presented under 'provision for risk of inability to collect'.

k. Other receivables, accrued income and prepaid expenses

	2020	2019
Prepaid rent	170	161
Miscellaneous prepaid expenses	948	1.792
Levies to be invoiced and other items	9.724	8.887
Other prepayments and accrued income	782	525
Balance of current receivables, accrued income and prepaid expenses at 31 December	11.624	11.365

The item 'Levies to be invoiced and other items' in 2020 of €9.7 million is due to significant delay in the implementation of the link between the new levy system for ongoing supervision and the source system CRM. This led to substantial delay in the requests for measurements for the purpose of the 2020 levies due to the COVID-19 pandemic. In certain categories of the levies

for ongoing supervision, it is also the case that some of the measurement data for 2020 have not yet been received. An estimate for these levies for ongoing supervision yet to be imposed is included based on the measurement data for the previous year. A number of levies for specific activities yet to be imposed are also included.

l. Cash and cash equivalents

	2020	2019
Current account Rabobank	117	9
Balance of cash at 31 December	117	9

m. Provisions

	2020				2019
	< 1 year	1-5 year	> 5 year	Total	Total
Provision for transitional arrangements employees	24	77	-	101	134
Former Wabb reserve	-	-	279	279	279
Provision for reassessment of interest-rate derivatives	-	-	-	-	574
Provision for IT strategy	486	811	-	1.297	1.061
Provision for other legal proceedings	-	-	-	-	585
Provision for pension ruling	24	2.173	-	2.197	-
Balance of provisions at 31 December	535	3.060	279	3.874	2.633

The development of the provisions was as follows:

	2020	2019
Provision for transitional arrangements employees		
Balance at 1 January	134	146
Interest accrual	- 1	- 1
Revised calculation due to adjustment of various parameters	1	2
Release	- 20	-
Paid out	- 13	- 13
Balance at 31 December	101	134
Former Wabb reserve		
Balance at 1 January	279	279
Balance at 31 December	279	279
Provision for reassessment of interest-rate derivatives		
Balance at 1 January	574	1.526
Release	- 230	- 318
Used	- 344	- 634
Balance at 31 December	-	574
Provision for IT strategy		
Balance at 1 January	1.061	1.086
Contribution	743	717
Release	- 187	- 210
Used	- 320	- 532
Balance at 31 December	1.297	1.061
Provision for other legal proceedings		
Balance at 1 January	585	-
Contribution	61	585
Release	- 5	-
Used	- 641	-
Provision for pension ruling	-	585
Voorziening pensioenarrest		
Contribution	2.197	-
Balance at 31 December	2.197	-



The item 'Provision for transitional arrangements for employees' concerns potential or actual claims for compensation for differences in employment benefits of personnel transferring to the AFM as part of a transfer of supervision and rights of employees under an agreed transitional arrangement that are still in force for a limited group of employees.

The 'former Wabb reserve' (Insurance Brokerage Business Act, or *Wet Assurantiebemiddelingsbedrijf*) was formed in 2006 from a sum of €0.9 million from the Social and Economic Council (*Sociaal Economische Raad*, or SER). This provision is formed to cover employment law claims made at the time of the transfer of a number of employees of the SER to the AFM on 1 January 2006, in connection with the coming into effect of the Financial Services Act (*Wet financiële dienstverlening*). Any unused part of this remaining will be repaid to market parties in due course.

The 'Provision for reassessment of interest-rate derivatives' is formed for the actual obligation of the AFM to supervise correct settlement of the reassessment of cases involving interest-rate derivatives. The AFM's supervision of the banks and external case assessors in 2020 was intensive, and involved the use of external expertise to some extent. As a result, there was a withdrawal from the provision of €0.3 million in 2020. Part of the 'Provision for reassessment of interest-rate derivatives' was released, as greater use was made of internal supervision experts in the revision of the provision than was taken into account in the previous year. This provision was settled in 2020.

The AFM Executive Board established the implementation of the new IT strategy, approved it and communicated to the AFM employees in August 2018. The IT strategy comprised the engagement of an outsourcing partner, the transfer of the management of the AFM's IT applications and IT landscape to an outsourcing partner and the formation of a management organisation at the AFM.

The 'provision for IT strategy' was formed because of the actual obligation that existed as a result of the new IT strategy and concerns the non-recurring costs related to the realisation of

this strategy. The transition and implementation plan was adjusted in line with current insights in 2020. The transition period covers a period of one year, which is expected to be completed in May 2021.

The principles of the IT transition were revised as a result of the contracted offer by the legally delegated party. This led to new information becoming available in 2020. Based on this new information, the estimates and assumptions in relation to the provision for IT strategy made in 2019 were adjusted during the current financial year. Firstly, this led to a contribution to the provision of €0.7 million in 2020. Secondly, the change led to a release from the provision of €0.2 million. This was mostly because the implementation of the IT transition was realised later than planned, meaning there were lower (temporarily) double costs for software licences.

The 'provision for other legal proceedings' is formed for current proceedings relating to legal disputes, and includes the costs of external legal assistance. This provision was settled in 2020.

The 'provision for Pension ruling' is formed for a current legal proceeding relating to a difference of opinion regarding the application of the AFM pension scheme on 1 January 2016, and includes the costs of external legal assistance.

The AFM pension scheme was amended on 1 January 2016, with the aim of migrating to a more affordable scheme that was more in line with usual market practice. Ultimately, some scheme members started legal proceedings against this change, as they felt they would be disproportionately disadvantaged by the change. The AFM's arguments were fully upheld by the sub-district court, after which the scheme members concerned lodged an appeal, which ruled partly against the AFM.

The AFM Executive Board decided to initiate cassation proceedings at the Supreme Court. The Supreme Court is expected to rule on the case in approximately 18 months to 2 years.

n. The financial relationship between the AFM and the Ministry of Finance

This is as follows:

		2020	2019
Current account Ministry of Finance	See balance sheet: Current liabilities	- 16.823	- 20.893
Rental guarantee account		688	688
Still due (repayable) to Ministry of Finance		- 42	-
Ministry of Finance	See balance sheet: Current assets	-	193
		- 16.177	- 20.012

The Ministry of Finance current account concerns a current account relationship with an overdraft facility agreed with the Ministry of Finance. The overdraft facility at 31 December 2020 was €70.0 million. No charge is made for the unused part of the facility.

The rental guarantee account is provided by the Ministry of Finance and serves to cover an ongoing guarantee provided by the Ministry to the lessor of the AFM's office premises in 2018.

The guarantee amounts to €0.7 million, and remains in force from 01 January 2018 to 31 March 2026 (three months after the maturity date of the lease extended on 1 January 2018). This account is recognised under 'Financial non-current assets'.

The item 'Still due (repayable) to Ministry of Finance' relates to the government contribution for BES supervision (Caribbean Netherlands) to be repaid of €0.4 million, and is presented under current liabilities.

o. Operating balance to be settled

	2020	Budget 2020	2019
Operating balance Wbft to be settled with the market from previous year (A)	- 528	-	5.751
Levies for ongoing supervision	97.134	96.992	87.325
Levies for non-recurring procedures	6.972	8.790	8.769
Fines and orders for incremental penalty payments to be settled with market parties	2.500	-	2.500
Fines and orders for incremental penalty payments due to the State	2.396	-	721
Total income Wbft	109.002	105.781	99.315
Total expense Wbft	105.304	105.781	104.874
Operating balance Wbft in current year (B)	3.698	-	- 5.558
Operating balance Wbft to be settled in following year (=A+B)	3.169	-	193
Of which to be settled with the market in following year	773	-	- 528
Of which due to the State	2.396	-	721

A positive sum to be settled means a receivable to market parties and/or the State from the AFM. The operating balance to be settled and the comparative figure are recognised under current liabilities in these financial statements.

Operating differences occur every year due to differences between budgeted and actual expenses and income.

Section 8 Wbft states that the AFM that the AFM will not pay the proceeds of fines and orders for incremental penalty payments amounting to €2.5 million or less per year to the State. This realised income of up to €2.5 million is set off against the levy for ongoing supervision. From the income from fines and orders for incremental penalty payments of €4.9 million in 2020, €2.5 million will be set off against the levies for ongoing supervision in the following year. The remaining €2.4 million will be paid to the State. The amount of €0.8 million under

'to be settled in the subsequent year with the market' will be repaid to the market and is the result of:

1. an amount to be settled from 2019 (€ -0.5 million);
2. higher than budgeted income from levies for ongoing supervision (€0.1 million);
3. lower than budgeted income from levies for non-recurring procedures (€ -1.8 million);
4. lower than budgeted costs (€ +0.5 million);
5. income from fines and orders for incremental penalty payments not budgeted for to be settled with the market (€ +2.5 million).

The income for ongoing supervision was in total €0.4 million lower than the amount to be levied for 2020. This consists of € -0.5 million to be settled from 2019 (#1) and € +0.1 million higher than budgeted income in 2020 (#2).

Operating balance BES	2020	Budget 2020	2019
Levies	10	15	16
Government contribution BES	389	431	599
Total costs of supervision	399	446	615
Total expense BES	399	446	615
Operating balance BES	-	-	-

The government pays the costs of BES supervision (Caribbean Netherlands) to the

extent that the levy income is not sufficient. The operating difference is therefore nil.

Recapitulation of operating balance to be settled	Balance at 31 December 2020	Balance at 31 December 2019
To be settled with the market in 2021 (2020 respectively)	773	- 528
To be settled with the government in 2021 (2020 respectively)	2.396	721
Balance of operating balance to be settled at 31 December	3.169	193

The proposed appropriation of the operating balance is stated in the appendix 'Other

Information'.

p. Other payables and accruals

	2020	2019
Unused vacation days and overtime	3.260	3.027
Liabilities related to pensions	3	3
Non-recurring expenses payable due to switching pension administrator	530	761
Other expenses payable	2.846	2.996
Balance sheet value of other payables and accruals and deferred income as at 31 December	6.640	6.787

The item 'vacation days not taken and overtime' increased by €0.2 million, because less leave was taken during the COVID-19 pandemic. The item 'Other costs due' consists mainly of invoices for goods and services not yet received, individual transition-related payments agreed with employees and income from fines imposed that are not yet declared to be irrevocable. This item was unchanged at year-end 2020 on the balance at year-end 2019.

The AFM pension scheme was placed with the pension provider 'De Nationale APF' on 1 January 2018. €0.5 million of the item 'Non-recurring costs payable for transfer to pension provider' concerns purchase invoices not yet received in relation to the transition to the pension provider 'De Nationale APF' and the costs of liquidation of 'Stichting Pensioenfonds AFM'.

Liabilities not shown in the statement of financial position

Multi-year financial obligations

The liabilities can be specified as follows:

	< 1 year	1-5 year	>5 year	Total
Leases	3.021	11.973	-	14.994
Office equipment	43	119	47	210
Other lease contracts	26	50	-	75
Total liabilities not shown in the statement of financial position	3.090	12.142	47	15.279

A guarantee of €0,7 million was issued to the lessor of the office premises of the AFM on 1 January 2018 in relation to the extended lease

that commenced on that date. The guarantee was provided by the Ministry of Finance.



Unrecognised liabilities

Claims for liability

Maatschap QI Collectief (MQIC)

The Maatschap Quality Investments Collectief (MQIC) has appealed against the ruling of the Court of Amsterdam on 22 August 2018, in which a claim of €200 million by MQIC was rejected in the first instance. MQIC is a Belgian partnership that represents mostly Belgian residents who were injured parties as a result of purchasing life settlements products from Quality Investments (QI) between 2007 and 2011. MQIC takes the view that the AFM was seriously deficient in the performance of its supervisory duties with respect to QI and that it acted in contravention of its statutory duty and the standard of care to which it is subject. MQIC argues that the participants represented by MQIC suffered losses as a result estimated by MQIC at over €193 million. The Court of Amsterdam rejected the claims of MQIC in a ruling on 22 August 2018. MQIC has appealed against this ruling. The oral hearing of the appeal took place on 29 January 2021, and the ruling is expected on 13 April 2021.

AFM in appeal in cassation against ruling by the Court of Amsterdam over unilateral application of the AFM pension scheme

The AFM pension scheme was amended on 1 January 2016, with the aim of migrating to a more affordable scheme that was more in line with usual market practice. Ultimately, some scheme members started legal proceedings against this change, as they felt they would be disproportionately disadvantaged by the change. The AFM's arguments were fully upheld by the sub-district court, after which the scheme members concerned lodged an appeal, which ruled partly against the AFM.

On 4 November 2020, the Court of Appeal at Amsterdam, hereinafter referred to as 'the Court', ruled that the AFM had a substantial interest in unilaterally amending the pension scheme and the related pension agreement. However, the Court also ruled that the amendments made had gone further than permitted on the basis of the ban on impairment of previously accrued claims in Section 20 of the Pensions Act (*Pensioenwet*, or PW).

In the Court's opinion, the following elements of the AFM pension scheme (among others) should not have been unilaterally changed on 1 January 2016:

- The obligations of the employer on the basis of the administration agreement of 2014:
 - a. Obligation to rectify the employer's contribution, equal to 10% of the annual pension contribution;
 - b. Obligation of the employer to pay the administration costs for overruns in excess of €700,000;
 - c. Obligation of the employer to make an additional contribution in the event of a change to the principles of the fund other than the actuarial interest rate;
- Introduction of a contribution cushioning system in the pension scheme applying from 1 January 2016 that could be to the disadvantage of all beneficiaries.

The AFM Executive Board decided to initiate cassation proceedings at the Supreme Court. The Supreme Court is expected to rule on the case in approximately 18 months to 2 years.

No provision has been formed for the elements stated above, since it is not considered likely that the Supreme Court will rule against the AFM on these elements. The AFM has submitted adequate complaints against the Court of Appeal's ruling that are considered likely to succeed.

In the unlikely event that the Supreme Court rules against the AFM on these elements, this could lead to an additional loss item of between €15 million and €30 million for the AFM.

Indemnities

The Board of Trustees of Stichting Pensioenfonds AFM and Stichting Pensioenfonds AFM are indemnified by the AFM against all possible claims brought by current or former AFM employees on the basis of their pension agreement with the AFM after the introduction of the 2016 Pensions Agreement and the group transfer of accrued benefits to 'De Nationale APF'. Proceedings relating to the transition of the AFM Pension Fund to 'De Nationale APF' are not expected to lead to an outflow of assets.



Affiliated parties

AFM Pension Fund

Until year-end 2017, the AFM placed its pension scheme with the Stichting Pensioenfonds Autoriteit Financiële Markten (the AFM Pension Fund). The AFM terminated the administration agreement with the AFM Pension Fund on 1 January 2018. The AFM Pension Fund is in liquidation. For the transactions relating to the liquidation of the AFM Pension Fund, see the following sections in the financial statements:

- Item p. Other payables and accruals;
- Unrecognised liabilities, indemnities.

The transactions with the AFM Pension Fund were effected on a commercial basis.

Ministry of Finance

The AFM is a non-departmental public body (NDPB). The Minister of Finance has the following powers with respect to the AFM by law and under its articles of association:

- The right of approval with respect to the established or amended profile description formulated by the Supervisory Board for members of the AFM's Executive Board;
- Appointment of members of the AFM's Executive Board by means of Royal Decree;
- The power to suspend members of the AFM's Executive Board and to dismiss members of the AFM's Executive Board by Royal Decree if they no longer meet the requirements for the exercise of their duties or have seriously failed to perform their duties;
- The right of approval of the remuneration for members of the AFM's Executive Board established by the Supervisory Board;
- The assignment of new duties. The Executive Board of the AFM carries out an implementation test for this purpose, which is submitted to the Minister of Finance after approval by the Supervisory Board;
- The Chair and the members of the Supervisory Board are appointed by the Minister of Finance and a member of the Board may be suspended or dismissed by the Minister in case of unsuitability or incompetence in their position. The Supervisory Board is also tasked with formulating a profile description for the Supervisory Board. The establishment or amendment of this profile description is subject to approval by the Minister of Finance;

- Setting the remuneration of the members of the Supervisory Board, taking account of the WNT;
- Attending the advisory panel of the AFM;
- Approval of the AFM's budget and the AFM's annual financial statements;
- Determining the appropriation of a positive balance on liquidation if the Executive Board of the AFM resolves to dissolve the Stichting Autoriteit Financiële Markten;
- The right to inspect the audit procedures conducted by the certifying auditor of the AFM;
- The right of approval regarding proposed amendments to the articles of association of the AFM.

For further details of the transactions with the Ministry of Finance, see the following items in the financial statements:

- Item b. Fines and orders for incremental penalty payments, Fines and orders for incremental penalty payments due to the State;
- Item c. Government contributions, total BES;
- Item n. The financial relationship between the AFM and the Ministry of Finance.

The transactions with the Ministry of Finance were effected on a commercial basis.

Ministry of Social Affairs and Employment

The Minister of Social Affairs and Employment has the following powers with respect to the AFM by law and under its articles of association:

- Approval of the AFM's budget and the AFM's annual financial statements with respect to elements relevant to the Ministry of Social Affairs and Employment;
- Attending the advisory panel of the AFM;
- The right to inspect the audit procedures conducted by the certifying auditor of the AFM.

No material transactions took place between the Ministry of Social Affairs and Employment and the AFM.



Actual figures for 2020, budget for 2020 and 2021

(Figures in EUR x 1,000)

	2020	Budget 2020	Begroting 2021
Income			
Levies	104.116	105.797	111.169
Fines	4.592	-	-
Orders for incremental penalty payments	304	-	-
Government contributions	389	431	580
Total income	109.401	106.227	111.750
Expenses			
Employee expenses	85.632	84.801	88.896
Depreciation costs on non-current assets	1.211	1.207	1.350
Other operating expenses	18.874	20.219	21.523
Total expense	105.717	106.227	111.770
Financial income and expense	- 14	-	- 20
Total expense	105.703	106.227	111.750
Operating balance	3.698	-	-

The table above gives an overview of the budgeted and actual figures for 2020 and the income and expenses budgeted for 2021.

The 2021 budget is available on the AFM website (www.afm.nl) in the 'Agenda.2021'.

The total sum to be levied by the AFM in 2021 is €110.4 million. This is the balance of the estimated levies in 2021 of €111.2 million less the operating balance in 2020 of €0.8 million to be settled with the market (see proposal for appropriation of the sum to be settled in 'Other Information').

Amsterdam, 12 March 2021

Management

L.B.J. van Geest, Chair
H.L. van Beusekom
J.R. Heuvelman

Supervisory Board

M.J. van Rijn, Chair
Prof. W.M. van Dolen
W.E.M. de Jong, LLM
R.G.J. Langezaal RM
D.W. Voetelink

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Other information



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Independent Auditor's Report

To: The Supervisory Board of the Dutch Authority for the Financial Markets

A. Report regarding the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 of Stichting Autoriteit Financiële Markten (AFM) in Amsterdam.

In our opinion, the financial statements included in this annual report give a true and fair view of the financial position of the AFM at 31 December 2020 and the result for 2020 in accordance with Title 9, Book 2 of the Dutch Civil Code (BW), the Financial Supervision (Funding) Act (*Wet bekostiging financieel toezicht*, Wbft), the Non-Departmental Public Bodies Framework Act (*Kaderwet zelfstandige bestuursorganen*), Section 1.2 of the Financial Supervision Act (*Wet op het financieel toezicht*, or Wft), the Financial Markets (BES Islands) Act (*Wet financiële markten BES*) and the provisions under and pursuant to the Senior Executives in the Public and Semi-Public Sector (Standards for Remuneration) Act (*Wet normering bezoldiging toefunctionarissen publieke en semipublieke sector*, WNT).

The financial statements comprise:

1. the balance sheet as at 31 December 2020;
2. the statement of income and expenditure for 2020;
3. the statement of cash flow for 2020; and
4. the notes, comprising a description of the accounting policies and other explanatory information.

Furthermore, we are of the opinion that the 'Accountability Report on Lawfulness of Financial Management' (*Verantwoording rechtmatig financieel beheer*) gives a true and fair view of the lawful collection and spending of funds by the AFM.

Basis for our opinion

We conducted our audit in accordance with Dutch law, which includes the Dutch Accounting Standards, the Audit Protocol on Financial Re-

porting for the AFM (*Controleprotocol financiële verantwoording AFM*) and the WNT Audit Protocol Regulation (*Regeling Controleprotocol WNT 2020*) fall. Our responsibilities on the basis of the above are described in more detail in the section entitled 'Our responsibilities for the audit of the financial statements'.

We are independent of the AFM as required in the Regulation on the Independence of Auditors in Assurance Engagements (*Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten*, ViO) and other independence regulations that are relevant to the engagement in the Netherlands. We have also complied with the Code of Conduct and Professional Practice for Accountants Regulation (*Verordening gedrags- en beroepsregels accountants*, VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional opinion, we have determined the materiality for the financial statements as a whole at € 2,114,000. The materiality is based on 2% of size of the total expenditure, as prescribed in the Audit Protocol on Financial Reporting for the AFM. With regard to the audit of the WNT information included in the financial statements, we have applied the materiality requirements laid down in the WNT Audit Protocol Regulation 2020.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that we would report misstatements in excess of €211,400 identified during our audit to the Board, as well as smaller misstatements that in our view are relevant for qualitative reasons.



Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the audit committee. However, the key audit matters are not a comprehensive reflection of all matters discussed.

We have designed our audit procedures in relation to these key issues in the context of the audit of the financial statements as a whole. Our findings with regard to the individual key audit matters should be viewed in this context, and not as separate opinions on these matters.

Provision for pension ruling

On 3 November 2020, the Amsterdam Court of Appeal ruled in a procedure brought against the AFM regarding a change to its pension scheme. The Court of Appeal ruled against the AFM, and the AFM has since brought an appeal to the Supreme Court. A provision has been recognised in the financial statements 2020 for the outcome of this pension ruling. The financial statements include an additional disclosure regarding the recognised provision and on the uncertain outcome of the legal proceedings under the item 'unrecognised liabilities'. We assessed the provision on the basis of the substantiations presented and tested it against the reporting requirements.

Levies

Income from levies is by far the largest category of income. Levies comprise of annual levies imposed on the enterprises subject to supervision (for ongoing supervision), as well as fixed amounts linked to the processing of applications and registrations (non-recurring procedures). The AFM performs manual checks to establish that the levies have been accounted for correctly and in full. We have evaluated and tested the results to establish whether we can endorse these measures. In addition, we performed additional procedures in relation to correct, complete and timely registration in the levy accounts and the substantiation of levies yet to be invoiced.

Senior Executives in the Public and Semi-Public Sector (Standards for Remuneration) Act (Wet Normering bezoldiging topfunctionarissen publieke en semipublieke sector, WNT)

As a non-departmental public body, the AFM is subject to the WNT. We have audited the section entitled 'Remuneration of the Executive Board and Supervisory Board'. We also established whether the disclosure meets the requirements set out in the WNT. We performed our procedures in accordance with the procedures set out in the WNT Audit Protocol Regulation 2020.

Compliance with non-cumulation provision in WNT not audited

In accordance with the WNT Audit Protocol Regulation 2020, we have not audited the non-cumulation provision in Section 1.6a of the WNT and Section 5(1)(n) and (o) of the WNT Implementing Regulation. This means that we have not audited whether or not the remuneration of a senior executive may have exceeded the standard as a result of possible employment as a senior executive at other institutions subject to the WNT, or whether the required disclosure in this respect is correct and complete.

Engagement

We were engaged by the Supervisory Board as the auditor of Stichting AFM on 2 July 2013, as of the audit of the financial year 2013, and we have operated as the external auditor since that financial year. We annually confirm the agreements made and terms applying in relation to the audit of the financial statements.



B. Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information, consisting of the report of the Executive Board, the report of the Supervisory Board, and other information.

Based on the following procedures, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all the information required under Title 9, Book 2 BW.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we have complied with the requirements in Title 9, Book 2 BW and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the other information, including the report of the Executive Board and the other information, in accordance with Title 9, Book 2 BW.

C. Description of responsibilities regarding the financial statements

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for the preparation and the fair presentation of the financial statements in accordance with Title 9, Book 2 of the Dutch Civil Code (BW), the Financial Supervision (Funding) Act, the Non-Departmental Public Bodies Framework Act, Section 1.2 of the Financial Supervision Act, the Financial Markets (BES Islands) Act and the provisions under and pursuant to the Senior Executives in the Public and Semi-Public Sector (Standards for Remuneration) Act (WNT).

The Executive Board is also responsible for rendering accountability with respect to the lawfulness of the collection and spending of funds, as set out in the Audit Protocol on Financial Reporting for the AFM.

In this context, the Executive Board is also responsible for such internal control as the Executive Board determines is necessary to enable the preparation of financial statements that are free from material misstatement due to fraud or error.

When preparing the financial statements, the Executive Board must consider whether the foundation is in a position to continue its activities as a going concern. Based on the above-mentioned reporting standards, the Executive Board must prepare the financial statements on the basis of the going concern assumption unless the Executive Board is proposing to dissolve the foundation. The Executive Board must disclose events and circumstances that could reasonably cast doubt on the foundation's ability to continue its activities as a going concern in the financial statements.

The Supervisory Council is responsible for the supervision of the foundation's financial reporting process.

Our responsibilities for the audit of the financial statements



Our responsibility is to plan and perform our audit engagement so as to obtain sufficient and appropriate audit evidence for the opinion that we are to issue.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not

detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit

procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is given in the appendix to our auditor's report.

The Hague, 12 March 2021

Auditdienst Rijk T.A. van Tiel RA

Appendix to the auditor's report

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, . but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Executive Board and the related disclosures in the financial statements;
- concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, , establishing whether there are events and circumstances that could reasonably cast doubt on the entity's ability to continue its activities as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements. If such disclosures are inadequate, we are required to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may cause an entity to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures therein; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Due to the measures in relation to Covid-19, we performed more of our procedures remotely during our audit. This has made it more difficult for us to make certain observations, as a result of which certain signals may have been missed. In the planning of our procedures, we considered the risks associated with this and we planned and performed additional procedures where this was necessary. We therefore believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We also confirm to the Supervisory Board that we have complied with the relevant ethical provisions with regard to independence. We also communicate with the Board regarding all relations and other issues that reasonably could affect our independence and regarding the related measures to safeguard our independence.

We determine the key matters of our audit of the financial statements on the basis of all the matters we have discussed with the Supervisory Board. We describe these key audit matters in our auditor's report audit statement unless this is prohibited by legislation or regulations or, in extraordinarily rare circumstances, not communicating the matter is in the public interest.

Appropriation of the operating balance

In accordance with Section 13(2a) of the Financial Supervision (Funding) Act (Wbft), the amount to be settled for 2020 in respect of 2021 of €0.8 million, as stated in item o of the financial statements, will be fully included in calculating the amount to be charged to the market for 2021.



Appendix 1

External KPIs

Performance management at the AFM is based on our objectives with the use of dashboards to provide information on progress and prospects on the basis of Key Performance Indicators (KPIs). Our dashboards are structured on the basis of performance agreements with managers, department heads and members of the Executive Board. Teams hold weekly meetings to discuss progress on realisation of their targets. Department heads and members of the Executive Board discuss performance in relation to the key performance targets for the AFM on a monthly basis. This approach contributes to a balanced and predictable management cycle.

In its [2020 Agenda](#), the AFM has listed the activities to be performed, as well as the social objectives we strive to achieve. The framework for the list of KPIs in the 2020 Annual Report is based on the classification in the Agenda.

For each proposed supervisory activity, this appendix states the commitment made by the AFM and the results thus achieved, along with a score. In line with the Agenda, these are listed per area of supervision and for the focus area of 'professional organisation'. This is a summary account of our key activities in 2020, as stated in our 2020 Agenda.



1 Protection of consumers in vulnerable situations

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

Activities

- + Providers of consumer credit ensure that consumers are given loans that are appropriate to their situation by applying and implementing the evaluated standards for consumer loans. The AFM tests whether credit providers are observing these standards by entering into a dialogue regarding a provider's business operation and policy and may initiate a file investigation. Compliance will be enforced where necessary by the conduct of investigations.
- + Through the System Change Steering Group, the group engaged in preparation and the technical operational connections, the AFM is contributing to the formulation of the new pension system, thus safeguarding the interests of individual participants.
- + Instituting data-driven supervision of insurance products, among other things through cooperation with the Centre for Insurance Statistics.
- + Developing methodologies for investigation and enforcement of serious violations in the digital domain.
- + Mortgage providers apply the AFM strategy for dealing with interest-only mortgages.
- + Based on risk prioritisation on the basis of product criteria, complete at least two integral product governance reviews as a result of which companies make changes to products and/or distribution to bring them in line with the customer's interests.

Score:

Remarks

- + Regarding the new pensions system, the AFM argues strongly for an explainable system that is more transparent and personal. Protection of scheme members and observance of the duty of care can grow along with the new system. The AFM wishes to see the new legislation reflect the characteristics of scheme members, offer good guidance and that the choices available in the transition to the new system are explainable.
- + A market and risk inventory for non-life insurance has been provided for risk-based supervision. The CVS is one of the data sources. Our initial experience is that this strengthens our ability to spot signals earlier. Examples are changes in legal aid insurance and travel insurance.
- + Review of product governance were carried out in 2020. We entered into dialogue, published guidance and monitored the market with the aim of increasing compliance by the parties involved. The AFM's reviews in this area included mortgage, insurance and investment products. Measures have been taken at parties with shortcomings.
- + The NVB and Vfn amended the lending standards for consumer loans in consultation with the Nibud and the AFM. This has led to more accurate assessment of the financial position of customers, and loans therefore are more in line with what people can afford. Due to the pandemic, the new lending standards will be implemented later than planned.
- + The approach to interest-only mortgages has been rolled out to all providers. More than 580,000 customers have been approached and approximately 30% have taken an affordability test.



1 Protection of consumers in vulnerable situations

1.2 An efficient organisation at financial services providers

Activities

- + Completed reviews of professional competence, remuneration and culture.
- + Quantification of risks in the consumer market.
- + Completed review of investor protection at investment firms in their business operations and processes.
- + Supervision of the operation of Compliance and Audit that leads to the quality of Compliance and Audit being at a level that the institution is 'self-auditing'. A maturity card and benchmark will be applied, followed by a test based on selected criteria.

Score:



Remarks

- + We made two requests for portfolio data from the ten largest banks and credit providers. We developed a data dashboard on this basis with the aim of obtaining insight into developments and risks in the consumer credit market.
- + The AFM checked to establish that over 200 financial services providers had the required diplomas. This revealed that 57 institutions did not have some or any of the diplomas that are required. If it does not have a diploma, a service provider must hand in its licence for the advisory process concerned. A press release has been published on this issue.
- + With a new methodology, the AFM surveyed the impact and structure of the compliance function at investment firms and management companies of collective investment schemes. The companies surveyed estimated the maturity level of their compliance function. Some of the companies surveyed introduced improvements immediately in response to the initial findings. Guidance has been published to urge companies not involved in the survey to improve their compliance function.
- + Based on the AFM's supervisory mandate, expectations were formulated for both the maturity of compliance departments and the contributions that audit departments can make to protecting customer interests. A large number of financial companies were then tested against these criteria by means of a self-assessment. This will continue in 2021.



1 Protection of consumers in vulnerable situations

1.3 A position of influence in the supervision of financial services

Activities

- + The AFM is intensifying its cooperation with foreign supervisors: By accumulating a data position and in order to address common supervisory problems. For its supervision of European passport holders. To share knowledge with respect to reviews, influence and enforcement on a permanent basis. To contribute to a Common Supervisory Action.
- + The AFM is continuing the cooperation in EIOPA and IAIS for dealing with common supervisory problems. The AFM has an active role both nationally and internationally through its participation in working groups, so that we direct our efforts in a timely and proactive fashion to bring European priorities in line with the priorities of the AFM.
- + The AFM contributes to a Common Supervisory Action (CSA) by conducting a supervisory review in which the subject of the review is prioritised and determined by ESMA (costs). This review is expected to take place in Q3 and Q4, with the findings being reported to ESMA in Q4-Q1 (2021).

Score:

Remarks

- + The AFM's supervision of integrity is strengthened by its further active participation in the ESMA Enforcement Network, in which the AFM and European supervisors have shared practical examples in relation to investigation and enforcement. We have also been a member of the Anti-Money Laundering Standing Committee (AMLSC) since the beginning of 2020. Among other things, this committee – part of the European Banking Authority – discusses recommendations and proposals for strengthening and further harmonisation of European money-laundering supervision. At national level, AFM Chair Laura van Geest has been appointed as Chair of the Financial Expertise Centre (FEC).
- + The AFM has contact with various foreign supervisors in connection with shortcomings in compliance with legislation and regulation, including shortcomings in relation to MiFID (for example, on product governance and information provision).
- + EIOPA issued an external publication on POG in 2020, for which the AFM contributed its expertise.
- + ESMA finally chose suitability rather than cost as an issue for the CSA in 2020. The review of this is on schedule and will be completed in 2021.



2

A robust infrastructure and ethical trading

2.1 Institution-oriented and data-driven supervision of the capital markets

Activities

- + Conduct of two reviews and evaluation of whether capital markets are in control of their operational and IT (OPIT) risks, and that their defences against cyber attacks are adequate.
- + Development of data dashboards to enable monitoring of current transactions and orders on trading platforms in each institutional category.
- + Strengthening European cooperation with fellow supervisors by exchanging data on capital markets institutions on a regular basis. Signals and notifications will be investigated with useful information obtained from foreign supervisors. This will enable more effective supervision of institutions active in multiple countries.

Score:



Remarks

- + Through the conduct of several (AFM-wide) projects, insight has been obtained into the operational and IT risks to which companies are exposed. Recommendations have been made in this area for mitigating risk.
- + The development of data dashboards at institutional level is providing better insight into trading at the parties in the financial infrastructure.
- + Investigations of market abuse by institutions operating in several countries have been initiated, as a result of better use of signals from third parties, in combination with self-generated signals.

2.2 Reliable information for the market

Activities

- + Closer cooperation with foreign fellow supervisors in investigations of market abuse. With a focus on commodities and commodity derivatives and bonds. This will be with respect to professional competence and the conduct of collective reviews at European (ESMA) level, including reviews of the dissemination of price-sensitive information through news and market sources, and of market manipulation.
- + Intensifying supervision of the timely and correct provision of required information and data by market parties with the use of data-driven signals and the conduct of investigations of market abuse.

Score:



Remarks

- + Knowledge with respect to investigations of market abuse is exchanged with certain foreign supervisors and, where possible, escalated for enforcement purposes.
- + Limited progress was made in the area of making the supervision of transaction reporting and notifications and surveillance supervision with data-driven tooling operational. Nonetheless, possibilities have been created for making relevant supervisory information more accessible for reviews and analysis within the AFM.

**2**

A robust infrastructure and ethical trading

2.3 International influence

Activities

The AFM has international influence due to:

- + Its publications, such as at least four position papers on issues relating to the capital markets.
- + Participation in supervisory organs established for supervision of trading platforms, recovery and resolution institutions and benchmark managers.
- + Participation in ESMA policy groups in the field of the capital markets: SMSC, MISC and PTSC and their related working groups.

Score:



Remarks

- + With its publications on MIFID and the supervision of the IBOR transition, the AFM contributed to providing guidance to the market, as well as the AFM's view on the development of the capital markets.
- + Based on advice from ESMA, the European Commission is considering new proposals for the supervision of market abuse. This advice was generated in policy groups in which the AFM takes an active part.
- + The international supervision of trading platforms and clearing institutions included consideration of cross-border mergers and acquisitions (such as Euronext and EuroCCP) this year.

**3**

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

3.1 A properly functioning chain of asset management parties

Activities

- + Identifying the major risks in the chain as a result of outsourcing or the use of external staff by market parties in the asset management chain. These risks are then mitigated through influence and/or enforcement.
- + Conduct of a review of the cost structures used by asset management parties.

Score:



Remarks

For the supply chain of asset management parties to function optimally, it is important that the sector adequately manages the risks arising from the delegation of tasks, especially in view of the fact that around 90% of the sector delegates one or more tasks, and the extent of this delegation is expected to increase. Our first review (The Supply Chain in View (Keten in Beeld) - 2019) revealed that the sector does not have adequate controls in place. In a letter to the sector in 2019, we requested companies to provide information on the matter and to introduce measures. The Supply Chain in View (Keten in Beeld) 2.0 is a sequel. The market was prepared for our new survey in October 2020 by means of sessions with members of the industry organisations Dufas and VV&A. Our aims are twofold: (1) to establish the extent to which the previous recommendations have been followed, and (2) to obtain a thorough impression of the extent of delegation to provide insight into the concentration and control risks resulting from delegation of tasks in the sector. Additionally, we expressly raised the issue of delegation within ESMA, which has led to ESMA also explicitly including the issue in its policy statements.

A review of the cost structures used by institutions was planned for 2020. This was not carried out, as we did not wish to impose a further burden on the sector during the COVID-19 pandemic. This review has been rescheduled for 2021.



4

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

4.1 Review of the efforts to increase quality at PIE audit firms

Activities

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

Score:



Remarks

- + Our review of progress in the effort to increase quality at PIE audit firms is continuing into 2021.
- + The development of a renewed (data-driven) approach to supervision is integrated in the approach being developed for non-PIE audit firms. This will continue in 2021.

4.2 Strengthening the role of audit committees

Activities

- + Conduct of an exploratory review into how audit committees fulfil their roles in the process of selection and evaluation of audit firms.
- + Organising meetings between the AFM and audit committee members in order to strengthen the dialogue.

Score:



Remarks

An exploratory review was conducted in 2020. The findings were shared with members of audit committees during a webinar on 1 December 2020. An external publication will be issued in February 2021.

**4**

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

4.3 Influence in national and international discussions

Activities

- + Contributing to discussions relating to how to adequately address vulnerabilities in the structure of the audit sector. Preparing for recommendations from the CTA and participating in the development of supervision and supervisory methodologies where relevant.
- + Cooperation with other supervisors in European organs or regulators for the Big 4 audit firms.
- + Participating in international debates in IFIAR and CEAOB among others and leading the IFIAR Task Force on Internationally Relevant Developments in Audit Markets (IRDAM).
- + Participating in international debates in ESMA and IOSCO, among others.

Score:

Remarks

- + The AFM has prepared for the recommendations from the CTA. This preparation contributed to decision-making at the Ministry of Finance on the transfer of practical supervision of non-PIE audit firms to the AFM with effect from 1 January 2022. This will be taken into account in the development of a revised (data-driven) supervisory methodology.
- + The AFM chaired the IFIAR task force IRDAM (internationally relevant developments in audit markets). An internal report was distributed within IFIAR in December 2020. An external publication is expected to follow in Q2 2021.

4.4 Improving integrated reporting and developing data-driven supervision of reporting

Activities

- + Conduct of a review of the application of aspects of integrated reporting.
- + Development of a supervisory approach to reporting based on data-driven techniques.
- + Preparation for the introduction of the ESEF.

Score:

Remarks

All the preparations for reporting in accordance with the ESEF requirements have been completed. A review of the need of investors for non-financial information in the context of integrated reporting was carried out in 2020. An external publication will follow in Q1 2021.

**5****Overall Professional organisation****5.1 Promotion of quick and careful admission of market parties and persons****Activities**

Decisions with respect to licence applications or the testing of persons are made within the statutory allotted time period in 90% of cases. With a management target of dealing with 100% of applications within the statutory time period.

Score:**Remarks**

On average, 80% of the licence applications and tests in 2020 were completed within the statutory allotted time period (including both complex and non-complex applications). This was partly due to the high number of cases and fewer available personnel due to the pandemic, as a result of which tests were centralised in a new expert term in 2020.

5.2 A data-driven supervisor**Activities**

Data-driven supervision will be embedded in the organisation by:

- + pilot studies with reference to data-driven supervision;
- + automation of supervisory processes;
- + structural design of the central data management function and of data management;
- + making the data infrastructure robust;
- + attracting the necessary new skills and expertise.

Score:**Remarks**

The AFM focused on making specific supervisory processes or elements thereof more data-driven in 2020. One actual example of this has been the redesign of our proactive supervision of investment providers that apply potentially unethical earnings models. Processing times can be shortened by enriching signals at an early stage, enabling the AFM to take action in a more targeted and (if necessary) more differentiated manner. Another example is the creation of a clear impression of pension providers on the basis of data they have themselves provided. This enables us to identify market-wide risks on the basis of trends or other indicators. The AFM has also carried out reviews and pilot studies to obtain insight into specific themes such as excessive lending and mortgages.

**5****Overall Professional organisation****5.3 Continuous improvement of supervisory and other processes****Activities**

- + The AFM regularly evaluates its own work and works with other supervisors in this respect. The findings form the basis for continuous improvement and are shared with employees by means of seminars and targeted training.
- + The AFM ensures that its methodology, which is focused on the short-term adjustments needed to achieve its objectives and introduce improvements in its supervisory and other processes, is embedded and continually developed.

Score:**Remarks**

- + In the past year, we concentrated again on strengthening our processes and data-driven working.
- + Many of the ICT services was outsourced in 2020, namely the standard services, which include office automation and infrastructure management.
- + A number of processes were further optimised and digitalised, such as employee expense claims, the procurement process, levies, etc.
- + There was further progress towards data-driven working in 2020 (see 5.2). The technical basis has been further strengthened, with in-built functions realised in close consultation with the users.

5.4 Generally positive opinion of the professional stakeholders regarding the effectiveness, knowledge and competences of the AFM supervisors on the basis of a stakeholder survey**Activities**

The AFM regularly evaluates its supervision and conducts stakeholder surveys. We are continually in dialogue with our stakeholders, such as the Ministries of Finance and Social Affairs and Employment, the European institutions and the financial sector and its representatives. Together with them, we try to identify the major risks and achieve structural solutions.

Score:**Remarks**

In financial services, in concert with the Dutch Association of Authorised Insurance Companies (the NVGA) among others, we tried to clearly state our expectations regarding product development to the authorised agents market.

In the field of the capital markets, we discussed trends and supervisory techniques for market abuse with our fellow supervisors. Our supervision of asset management (AM), we discussed the implementation of sustainability legislation and regulation and the risks of delegation with (among others) the industry association Dufas (and the European industry organisation EFAMA). In the audit sector, our activities included the organisation of a round table meeting with PIE audit firms and the NBA on the quality of statutory audits.

**5****Overall Professional organisation****5.5 Continuous development of own staff****Activities**

We develop our staff through (i) training them in the necessary competences, (ii) promoting cooperation, (iii) making use of resources such as the AFM Methodology and standardised processes.

Score:**Remarks**

- + We continued our investment in the training and development of our staff in 2020 as well. This included offering courses on subjects such as data-driven working and outward mindset, and power classes on mental resilience and adaptability. We also continued to devote attention to the development of our management through the Future Leader Programme and leadership courses. Both the introductory programme and the courses offered by the Supervision Academy have been conducted almost entirely online.
- + In 2020, we devoted maximum effort to facilitating good employership during the COVID-19 pandemic.
- + We undertook various activities in relation to diversity and inclusivity, such as collaboration with organisations acting as intermediaries for persons distanced from the labour market, mentoring programmes and participation in the Talent to the Top foundation.

5.6 Effective cost control throughout the AFM**Activities**

The AFM ensures that its costs remain within the established cost framework.

Score:**Remarks**

The AFM's costs remained within the framework and the budget in 2020.



Appendix 2

Abbreviations

ACM	The Netherlands Authority for Consumers & Markets (<i>Autoriteit Consument & Markt</i>)	BMR	Benchmarks Regulation
ADR	The National Audit Service (<i>Auditdienst Rijk</i>)	BO	Investment firm (<i>Beleggingsonderneming</i>)
AIFM	Alternative Investment Fund Managers	CAIM	Common Audit Inspection Methodology
AIFMD	Alternative Investment Fund Managers Directive	CSSF	The French Commission for Surveillance of the Financial Sector (<i>Commission de Surveillance du Secteur Financier</i>)
ASIC	Australian Securities and Investments Commission	CEAOB	Committee of European Auditing Oversight Bodies
AMF	The French financial markets conduct authority (<i>Autorité des Marchés Financiers</i>)	CER	Committee on Emerging Risks
AML	Anti Money Laundering	CFT	Combating the Financing of Terrorism
AMLD4	Anti Money Laundering Directive 4	CFTC	Commodity Futures Trading Commission
AOV	Occupational Disability Insurance (<i>Arbeidsongeschiktheidsverzekering</i>)	CMU initiative	The European Capital Markets Union initiative
AP	The Dutch Data Protection Authority (<i>Autoriteit Persoonsgegevens</i>)	COO	Chief Operating Officer
AQTF	Audit Quality Task Force	CSDR	Central Securities Depositories Regulation
Awb	The Dutch General Administrative Law Act (<i>Algemene wet bestuursrecht</i>)	CTA	Committee on the Future of the Audit Sector (<i>Commissie toekomst accountancysector</i>)
BaFin	The German financial markets conduct authority (<i>Bundesanstalt für Finanzdienstleistungsaufsicht</i>)	DNB	The Dutch central bank (<i>De Nederlandsche Bank</i>)
BI	Collective investment scheme (<i>Beleggingsinstelling</i>)	DUFAS	Dutch Fund and Asset Management Association
Big 4	The 4 largest audit firms: KPMG, PWC, EY, Deloitte	EAIG	European Audit Inspection Group
		EBA	European Banking Authority
		EECS	European Enforcement Coordination Sessions



EIOPA	European Insurance and Occupational Pensions Authority	IFIAR	International Forum of Independent Audit Regulators
ELTIF	European Long Term Investment Funds	IFRS IC	International Financing Reporting Standards Interpretation Committee
EMIR	European Market Infrastructure Regulation	IFRS TRG	IFRS Transition Resource Group for Revenue Recognition
ESMA	European Securities and Markets Authority	IOSCO	International Organisation of Securities Commissions
ESRB	European Systemic Risk Board	IOSCO CER	IOSCO Committee on Emerging Risk
FCA	Financial Conduct Authority (the UK financial markets conduct supervisor)	KBC	Giving Central Priority to Customers' Interests (<i>Klantbelang Centraal</i>)
FEC	Financial Expertise Centre	KFD	QFS, or Quality of Financial Services (<i>Kwaliteit Financiële Diensten</i>)
FinCoNet	International Financial Consumer Protection Organisation	KGI	PSI, or Price-Sensitive Information (<i>Koersgevoelige informatie</i>)
FINRA	Financial Industry Regulatory Authority (USA)	KID	Key Investor Document
FIOD	Fiscal Intelligence and Investigation Service (<i>Fiscale Inlichtingen en Opsporingsdienst</i>)	LTV	Loan-to-value
FISMA	Federal Information Security Management Act	MAR	Market Abuse Regulation
FIU	Financial Intelligence Unit	MiFID II	Markets in Financial Instruments Directive II
FSC	Financial Stability Committee	MJA	Multi-year Agenda (<i>MeerjarenAgenda</i>)
HFT	High Frequency Trading	MMOU	Multilateral Memorandum of Understanding
IAASB	International Auditing and Assurance Standards Board	NBA	The Netherlands Institute of Chartered Accountants (<i>Nederlandse Beroepsorganisatie van Accountants</i>)
IAIS	International Association of Insurance Supervisors	NRVT	The Netherlands Register of Property Valuers (<i>Nederlands Register Vastgoed Taxateurs</i>)
IASB	International Accounting Standards Board		
IDD	Insurance Distribution Directive		
IESBA	International Ethics Standards Boards for Accountants		



NVB	The Dutch Banking Association (<i>Nederlandse Vereniging van Banken</i>)	SFTR	Securities Financing Transactions Regulation
NVGA	The Dutch Association of Authorised Insurance Companies (<i>Nederlandse Vereniging van Gevolgmachtigde Assurantiebedrijven</i>)	SRA	The Dutch Association of Chartered Accountants (<i>Samenwerkende Registeraccountants en Accountants-Administratieconsulenten</i>)
OECD	Organisation for Economic Cooperation and Development	STORS	Suspicious Transaction and Order Reports
OM	PPS, or Public Prosecution Service (<i>Openbaar Ministerie</i>)	TRS	Transaction Reporting System
PIE	Public Interest Entity	UCITS	Undertakings for Collective Investment in Transferable Securities
OTSI	Institution subject to supervision (<i>Ondertoezichtstaande instelling</i>)	VKM	TCO, or Total Cost of Ownership (<i>Vergelijkende Kosten Maatstaf</i>)
OTSO	Company subject to supervision (<i>Ondertoezichtstaande onderneming</i>)	Wta	The Dutch Audit Firms (Supervision) Act (<i>Wet toezicht accountantsorganisaties</i>)
PCAOB	Public Company Accounting Oversight Board	Wft	The Dutch Financial Supervision Act (<i>Wet op het financieel toezicht</i>)
PRIIPS	Packaged Retail and Insurance based Investment Products	WNT	The Dutch Senior Officials in the Public and Semi-Public Sector (Standards for Remuneration) Act (<i>Wet Normering Topinkomens</i>)
PSD2	Payments Services Directive II		
PUO	PPO, or Pension Provider Organisation (<i>Pensioen Uitvoerings Organisatie</i>)	Wwft	The Dutch Money Laundering and Terrorist Financing (Prevention) Act (<i>Wet ter voorkoming van witwassen en financieren van terrorisme</i>)
SA	Self-assessment		
SEC	Securities and Exchange Commission	ZBO	NDPB, or Non-Departmental Public Body (<i>Zelfstandig bestuursorgaan</i>)



Autoriteit Financiële markten (AFM)
The Dutch Authority for the Financial Markets
Postbus 11723 | 1001 GS Amsterdam

Telephone
+31 020 797 2000

Fax
+31 020 797 3800

www.afm.nl

Follow us: →

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