

Keynote Trading Amsterdam

Hanzo van Beusekom, 21 april 2022

[Alleen de gesproken tekst geldt]

How to deal with (the) three challenging C's

- Ladies and Gentlemen, Thank you for the invitation. After Ronald Gerritsen in 2012 and Gerben Everts in 2019, I am the third AFM board member to be allowed to attend this event. Quite an honour.
- And it is good that we can see each other in person again, after two years of online discussions
 - In order to jointly reflect on the events of the past year.
 - But above all to look forward together to the challenges ahead.
- Because the capital markets... It sounds like a simple concept, but as specialists, we know that it is an undivided ecosystem with a complex structure in which many players play their part.
- Not only regulated markets and trading platforms, but also, for example, brokers, dealers, asset managers, hedge funds, technology providers, advisers, supervisory bodies and regulators.
- In 2019, my predecessor Gerben referred to the post-Brexit period as capital markets 2.0. And he ended his key note with the prophetic words that the Dutch capital market is on its way to becoming a real heavyweight player in Europe.
- Now that three years have passed, we can see to what extent he was right:
 - After Brexit, many financial entities actually chose the Netherlands to serve the European continent from here.
 - The AFM granted no fewer than 68 Brexit licenses.
 - In Amsterdam, the daily trading volume in shares almost quadrupled to 8 billion euros.
 - Amsterdam has superseded London as the European equity trading centre, with almost 30% of European share trading now taking place via Amsterdam.
 - A Dutch capital market that hosts most of the bond trading on platforms in Europe.

- Since mid-2021, 95% of CO2 emission trading in the Netherlands takes place on ICE Endex, one of the world's largest energy futures and options exchanges.
 - And last but not least not to mention the new legislation and many directives that have come into effect since Brexit. Think of IFR/IFD for investment firms, CSDR, SFTR and the ongoing debate about clearing location policy.
 - Just to name a few.
- In short: the Dutch capital market and thus European capital markets have entered a new phase.
 - And now that the UK regulator, the FCA, has left the EU, we feel more responsible than ever to ensure that these capital markets remain transparent and robust.
 - This is a responsibility that also rests on your shoulders. Because with a sound and knowledgeable supervisory authority we can go a long way to further accomplish a healthy eco-system; with prudent market players we can even accomplish a flourishing eco-system in which all different participants have their part, and the AFM as forester of the public interest.
 - But I will first address the role we play as a supervisory authority. Let's say as the forester of the public interest.
 - More specifically, I would like to dwell today on the challenging 3Cs that have been in the spotlight a lot in the past year: Cyber, Crypto and Consolidated Tape. Challenges for the future in which market players and supervisor should work closely together to achieve common goals.
 - So how to deal with three challenging C's, going forward?

Cyber

- So let's start with cyber.
- Data is increasingly at the heart of business processes for both traditional financial players and newcomers. Most probably yours as well.
- The trend towards outsourcing digital business processes makes financial firms even more vulnerable because a disruption can also occur at the service provider.

- We have seen increasing cyber threats across all sectors, as evidenced by annual cyber security analyses by our European partners like the European Union Agency for Cyber Security (ENISA) and our national partners like the Dutch National Cyber Security Centre (NCSC).
- Furthermore, analyses show that cyber attacks are becoming more sophisticated, their potential impact is mounting, and that cyber attacks are becoming more bespoke, in other words, financial institutions are being targeted more specifically.
- With possible consequences:
 - Organisations cannot continue their work, personal data is leaked and facilities may break down.
 - How unpleasant would it be if you could no longer trade because the stock exchange was down, your strategies had been leaked or you were unable to access your capital? Or because your trading algorithms have gone haywire?
 - And in the worst case, a cyber attack can bring down the entire financial system.
- The digital world is our society's nerve centre. It is therefore of the utmost importance that the infrastructure of the digital world is in good order.
- And remains so! Capital markets must remain robust.
- I therefore hope that you do not sit still when it comes to increasing the resilience of your sector and your business.
- In any case, we don't. Data security of and the resilience of IT infrastructure of the sector against cyber attacks has our continuous attention.
- Both at the European and national level.
- Europe is currently preparing regulation, called the Digital Operational Resilience Act (DORA). These will hopefully come into effect at the end of 2022, beginning of 2023.
- DORA is part of a large package of rules and strategies to make European financial markets more resilient and secure.
 - DORA lays down a framework for financial enterprises to manage their ICT risks.
 - But also a framework for testing the resilience of companies by means of so-called *ethical hacking*.

- And new rules on the use and supervision of third parties in the ICT field will be introduced. This includes parties such as Amazon and Microsoft.
- Moreover, the classification and reporting of ICT incidents will become more uniform so that the approach to cyber resilience becomes more risk-driven.
- To sum up, for the AFM and other competent authorities, DORA will provide the mandate and tools to retain effective and impactful supervision in the digital age.
- So what are you to expect from the AFM?:
 - Periodic publications, such as the publication of our principles for information security, in which we outline our expectations regarding the behaviour of financial institutions in the field of information security;
 - The Threat Intelligence Based Ethical Red-programme (TIBER-programme), in which the AFM and the Dutch Central Bank support financial institutions in testing their resilience to advanced cyber attacks, and
 - Frequent supervisory audits into information security and cyber security.

Crypto

- Let's move on to the second C: Cryptos. The development of the cryptos, obviously, has our attention.
- On the one hand given the rise of this digital means of payment. On the other hand, crypto currencies are not in themselves subject to the supervision of the AFM.
- Not yet.
- But, of course, we are not blind to the potential risks accompanying the trade in cryptos. These include a lack of transparency, market manipulation and (other) forms of criminal activity
- In addition: with the introduction of MiCAR, some of the cryptos will be subject to our supervision.
- To zoom in on MiCAR:
- MiCAR is designed to complement existing legislation. It is intended to cover companies that issue crypto-assets or provide services in relation to crypto-assets. This increasingly significant market currently falls largely outside the scope of existing supervision regulation.

- MiCAR can roughly be divided into four parts:
 - The authorisation requirements for issuers of crypto-assets and the corresponding obligations for the types of tokens covered by the regulation (asset-referenced tokens, e-money tokens and, as a catchall, utility tokens and other tokens).
 - The second section covers the authorisation requirements for providers of services related to crypto-assets.
 - The third part contains rules to prevent market abuse
 - The last part deals with the competent authorities and their competences. (mandate?)
- Next to issuance of tokens, the provision of services of crypto-assets will be regulated. Some examples of services that need authorization are: providing advice on crypto-assets, receiving and executing orders in crypto-assets; custodian activities, operating a crypto-asset trading platform; offering exchange services where crypto assets are traded against fiat money or other crypto assets.
- Effective supervision of cryptos will require supervisory cooperation both within the Netherlands and on the European level.
- Are we then going to interfere with all your crypto-business like a strict new sheriff in town?
- Fate is largely in your hands.
- It's okay if you want to use cryptos for your own wholesale trade. We have seen the positive impact of electronic market makers on the equity markets by reducing spreads and providing liquidity. Is this something that could work for the crypto markets as well?
- Remember, cryptos for consumers are accompanied by considerable risks and are strongly discouraged by AFM. We regard them as speculation, not as an investment.
- It was not without reason that we haven't issued several warnings, lastly in March. This was directly aimed at consumers. Cryptos are not suitable as a means of payment and/or investment.
- But implicitly the warning also applies to you.
- Don't catch too many retail people in your net. No doubt the 'FOMO and overoptimistic' consumers think they can obtain a lot of knowledge from the many forums on the internet, but they cannot compete with the vast knowledge of professionals like you.

- The claims about crypto profits are what you hear at a birthday while eating the cake. But consumers who lose thousands of euros get hurt. They are silent.
- And do not engage in pump and dump or other various forms of market manipulation. With Gamestop we have seen, and this is still in debate, the effects of this phenomenon. However there are numerous cases we are all familiar with. Bottom line is that a small group has earned a lot, but many more have lost money.
- Simply put, we currently lack a solid mandate on the prevention of market abuse or other forms of adverse practices in this segment, but that does not mean that it is free-for-all. We do expect that common sense and restraint will prevail over the opportunity to make a quick buck by cutting corners or outright illegal behaviour.
- To sum up, it may be a nice quick profit for your business, but it is not good for the sector in general. So I would advise you to think sector-wide as well. Think the big picture looking forward. Think the flourishing eco-system I mentioned earlier in which all market participants have their part. And responsibility. Much healthier in the long run.

Consolidated Tape

- Which brings me to the third challenging C....The Consolidated Tape, better known as CT
- Let me repeat again. Transparency is key in ensuring that markets are fair, sound and efficient. Hence the AFM strongly advocates the implementation of a consolidated tape for equity and bonds.
- We believe a consolidated tape will result in less fragmented price information, as well as other relevant information, in the European markets.
- Because market information in the EU is currently (too) fragmented
- A CT will also help in creating a real European Capital Markets Union, improve the level playing field and will improve opportunities for monitoring execution quality (best execution) for market participants and investors.
- There are numerous ways to waive or defer transparency, and we have ongoing debates about data quality, reference data and ambiguity around reporting instructions for pre and post-trade data.
- At the same time, we have to be ambitious and let perfect not become the enemy of good while keeping the overall goal of the CT in mind.
- The CT is not aimed at jeopardizing or competing with current data franchises; it is about getting the right level of transparency through consolidation of price and

transaction information in the EU markets and providing better insights in execution quality for investors. Nothing more, more nothing less.

- I am convinced that through the numerous use cases we have identified, the CT will bring benefits for all types of market participants, be it trading venues, sell-side, buy-side and retail investors.
- In our MiFIR review, we proposed a series of transparency improvements to work towards meaningful transparency and lay the foundations for a consolidated tape.
- We are pleased to see that the consolidated tape is at the heart of the European Commission's MiFIR review proposals and are hopeful that that the co-legislators agree on the regulatory framework later this year.
- But as always the devil is in the detail.
- Key is that during the creation of the CT all stakeholders are involved with different preconditions concerning data quality and standards, a feasible commercial model, governance and so on.
- And by stakeholder I also mean you.
- We are therefore pleased to see the level of stakeholder engagement on the CT and an emerging consensus on the need of a CT.
- We have six fintechs in our innovation hub that have developed CT proof of concepts, we are working with the sector to look at data quality issues for the bond CT in detail and aim to do that for other asset classes as well.
- We are confident that a CT will emerge within the next two years if we get it right. Now is the time to deliver.

Ladies and Gentlemen,

- Gerben spoke about capital markets 2.0 in 2019. And he was right.
- I don't know if he foresaw all these developments, but he believed that Brexit would cause an upheaval.... He was right about that. And you obviously anticipated that too.
- But 'anticipated' is not enough to make the capital markets robust and transparent.
- There are important steps to take.
- Today I have gone through the three challenging C's
 - the emergence and tackling of cyber,

- the rise and tackling of cryptos,
 - and the struggle for the representation of fair prices by means of the consolidated tape.
- Let me be clear: the flourishing eco-system relies on prudent market participants. We can legislate and regulate all we want, but the real success lies in sensible behaviour from the market players.
- And sensible means:
 - Think not only of your own interest, but in the interest of the wider financial sector in the long run (the flourishing ecosystem).
 - And also think – where applicable – of the consumer. Specialists like you always know more than non-professional market participants who are less informed.
- If not, the thriving ecosystem could turn into a barren desert with a grumpy old ranger
- And that is the last thing you and I have an appetite for.
- Thank you for your time. Have a nice day!