



AFM Agenda 2022



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That would be great...

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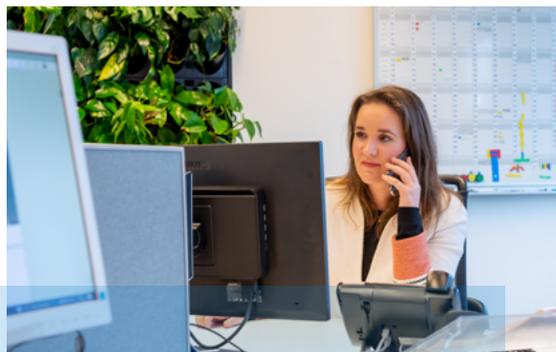
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Foreword

That would be great...



Spotify didn't exist yet in 2002, so music collections were still full of CDs. In the Netherlands, one of the best-known albums from that year is 'Muzikanten dansen niet' [Musicians don't dance] by Dutch band De Dijk. It includes the compelling track 'Dat zou mooi zijn', which can be translated as 'That would be great'. In the Dutch lyrics, De Dijk's singer Huub van der Lubbe expresses the hope that he can magically stop all suffering with a song. No more poverty, clean oceans, and a restored ozone layer.





As chance would have it, the Dutch Authority for the Financial Markets was also established in 2002. Were we able to realise Huub's wish? Our supervisory objective was ambitious. As an independent market conduct authority, we were – and still are – committed to contributing to a sustainable financial system and prosperity in the Netherlands, and to promoting fair and transparent financial markets.

The need for an AFM was underscored by the financial news on the day we were born. A small selection: a plea to facilitate a higher mortgage interest deduction for first-time buyers to make it easier for them to buy a house. Investors who stated they had little insight into how their money was being invested. And we learned about new forms of financial crime in connection with internet banking.

Provision of mortgages, transparency issues, financial criminality. These have been recurring themes in the financial sector over the years, and they are still on our supervision radar this year. Crises are another recurring feature. This Agenda, for instance, was drafted amid uncertainty about the outlook for the COVID-19 pandemic. The risks have grown more diverse over the years, however.

The role of the financial sector in improving sustainability is a top priority for European and national legislators. This development is also clearly apparent in our Agenda, whether in terms of fair pricing, integrated reporting or transparency for consumers and investors.

Digitalisation is at least as impactful, for the financial sector as well as for the AFM, its supervisor. Data and information technology are playing an increasingly important role in the sector. Familiar risks are appearing in digital form, controlled business operations are partly taking place outside the financial sector due to outsourcing, and new products (such as cryptocurrencies) and providers are emerging.

The Dutch pensions system is older than the AFM, but this pensions system is also moving along with the times. A new system is set to be introduced, based on defined contributions instead of defined benefits, with a greater focus on the preferences of scheme members and some scope for individual choices. Members and pension providers will have to make complex and impactful choices. Transparent communication and explainable schemes will help to prevent disappointments. The AFM will be supervising this in the new system.

Can you eradicate suffering with a song? Huub says he can't, but perhaps good supervision could? All suffering – no, that's impossible. But a move in the right direction... That would be great. A supervisor should certainly be able to initiate that move with policies that are connective but also fair, targeted and objective. This Agenda describes how we aim to shape such policies in 2021.

Amsterdam, 13 January 2022

Laura van Geest

Chair

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01 Key developments



Each year, the AFM conducts an analysis of external developments that affect our strategy and our Agenda. We briefly describe these developments in this chapter. For more details, please refer to our publication [Trend Monitor](#).





The macroeconomic climate

The pace of the economic recovery remains uncertain. The sentiment in the financial markets is nonetheless optimistic. This is reflected in high stock valuations, for example. The recently rising inflation outlook may temper this sentiment, however. Owing to the persistently low – and at times even negative – interest rates, the search for returns goes on. This is pushing up prices for the assets that involve greater risks. Among private citizens, the effect of low interest rates can be seen in the sharp increase in the number of investors. An aspect requiring attention in this regard is that, in their search for alternatives to saving, retail investors are selecting investment products without making a proper assessment of the risks involved.

Low interest rates are making it more attractive for businesses to take on debt. In addition, higher stock valuations and credit growth are making financial markets more vulnerable to overvaluation and sudden market shocks. This could put pressure on financial stability. Lastly, due to the persistently low interest rates, the profitability and solidity of financial institutions continues to be an area requiring attention. This mainly concerns insurers, as the low interest rates are keeping returns on investments low while long-term liabilities are increasing. This can also create tensions with respect to exercising due care in the customers' interests and a sustainable design of the business model.

Housing, employment and pensions

The housing market in the Netherlands is still overheating. The rental market features a long-term mismatch between supply and demand. High house prices and the large debts that are taken on when purchasing a property mean that households are vulnerable in the event of setbacks. First-time buyers in particular seem prepared to go to great lengths to be able to buy that coveted first home. This raises the risk that they will take on more debt than is appropriate. It is important that lending standards are carefully adjusted in order to avoid a situation in which households get into too much debt.

The high degree of flexibility in the Dutch labour market is a threat to the income security of a large group of working people, and these flexible workers have been hit particularly hard by the impact of the COVID-19 pandemic. This underscores the need for households to maintain adequate financial reserves in order to withstand economic shocks.

In the new pensions system, scheme members will have greater personal responsibility. This pensions system, on which agreement was reached in the summer of 2020 and which will come into effect by 2027 at the latest, will consist of defined contribution schemes mostly featuring variable benefits. This could significantly affect the amount of pension that is achieved. The transition to the new system in the coming years will be an extensive and complex process. The vulnerable financial position of pension funds means that the transition to the new system will be even more challenging.

Digitalisation

For both traditional financial parties and newcomers to the market, data are increasingly at the heart of business processes. Data are an important tool for improving services and profitability. But the increasing usage of data also poses risks. Concerns include ensuring high quality of data and the legitimate and careful handling of personal information. Data security and the robustness of IT infrastructure against cyber attacks require continuous attention. The trend of outsourcing digital business processes means that financial enterprises have become more vulnerable to disruptions at their service providers.

The importance of big techs for the financial sector is increasing. The technological solutions that these companies can provide offer convenience, but they also entail risks. From the point of view of investors and consumers, protection of client data requires continuous attention. In addition, there are concentration risks, for instance because the use of cloud services by financial institutions makes them dependent on a few



platforms provided by the big techs. There is still no regulation to address these risks in a structured manner. The trend of outsourcing digital business processes means that financial institutions are more exposed to incidents at their service providers. This also affects investors and consumers.

Investing in cryptocurrencies is taking off in a big way. But these investments are risky, among other things due to the huge volatility of valuation. European regulation is being prepared in response to the turbulent development of the crypto market in the form of the Markets in Crypto-Assets Regulation (MiCAR), which will set obligations for both issuers of crypto assets and crypto service providers.

Internationalisation

The AFM's regulatory framework is largely determined at the international level. There are several important European legislative processes planned for 2022, for which the AFM will contribute input through ESMA and other channels.

Moreover, supervisory convergence as a next step in European cooperation is increasingly influencing our activities. Now that digitalisation is allowing market parties to operate easily in several Member States and markets are increasingly moving across borders, supervisory convergence is becoming a more pressing issue.

Many new companies that are subject to supervision have moved to the Netherlands as a result of Brexit. Most of them operate in the capital markets, such as large trading platforms, proprietary traders, benchmark parties and investment fund managers. The Netherlands has now become one of the main European centres for trading in equities. In part due to the increasingly international character of the Dutch equity trading platforms, other kinds of financial products are now also being traded in Amsterdam, such as CO2 emission rights.

In addition, the financial services market is increasingly operating on an international basis. This can be seen, for example, in the large number of foreign financial services providers offering their services in the Netherlands by means of a European passport. This brings benefits, such as increased diversity of supply, but also disadvantages, such as an increase in the number of malicious providers. This increases the need for closer cooperation with foreign supervisory authorities.

Sustainability

Climate targets will largely set the social agenda in the decades to come. Efforts to reduce the CO2 intensity of our economy could lead to stranded assets, for example, and have negative effects on our prosperity. The financial sector will have to respond to this by properly discounting these effects in their assets and funding models. Business reporting will also have to deal with more far-reaching requirements with respect to sustainability information.

Financial enterprises have an important part to play in the sustainability transition, including by mobilising capital for sustainable investments and making decisions based on aspects of sustainability in companies' business operations. This creates potential conflicts of interest. Financial enterprises are increasingly being called to account regarding their role in the sustainability transition. Under existing regulations, parties have to provide transparency regarding their sustainability goals. At the same time, however, legislation and regulations have not yet been crystallised. Sustainability definitions and reporting standards, for example, are still in development. In the meantime, the flow of new capital into sustainable investments is increasing rapidly. This growth involves increased attention to the risk of greenwashing, due to concerns that expectations raised regarding the sustainability of investments will not actually be met.



Integrity

Money laundering and other financial criminality erode the integrity of the financial and economic system. This form of criminality is a concern for both the government and citizens. Confidence in the financial sector may also be damaged if businesses, consciously or unconsciously, become involved in malicious practices. Financial institutions have an important gatekeeping role in preventing criminals from introducing illegally obtained capital into the financial system or using the financial system to carry out illegal activities.

Supervisory landscape

'Less market, more government'. Both politicians and the public are increasingly supporting this notion. Increasing public expectations with regard to an active government solving social problems may translate into similar expectations by parties in the financial sector and the vigour with which supervisors deal with abuses.

One sector undergoing change is the audit sector. The report from the Commission on the Future of the Audit Sector (Commissie Toekomst Accountancysector) includes recommendations aimed at permanent provision of high quality, thereby justifying regained confidence from stakeholders. Some of these recommendations were incorporated into a parliamentary bill that was put up for consultation in the summer of 2021.

The new pensions system and the new supervisory duties this will entail have significant consequences for the AFM's supervision, as the change in the system will involve an expansion of our tasks. For example, the new Pensions Act sets new duties for the AFM with respect to supervision of the establishment of the risk preference of the scheme member population and introduces requirements for guidance on making choices.

Markets are increasingly moving across borders, which is leading to greater supervisory coordination in Europe. This applies both to the capital markets, which have always been internationally linked, and to the provision of financial services and the consumer markets. This will mean greater European influence on the priorities of national supervisors.

Climate targets
will largely set the
social agenda in the
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02

Strategy



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



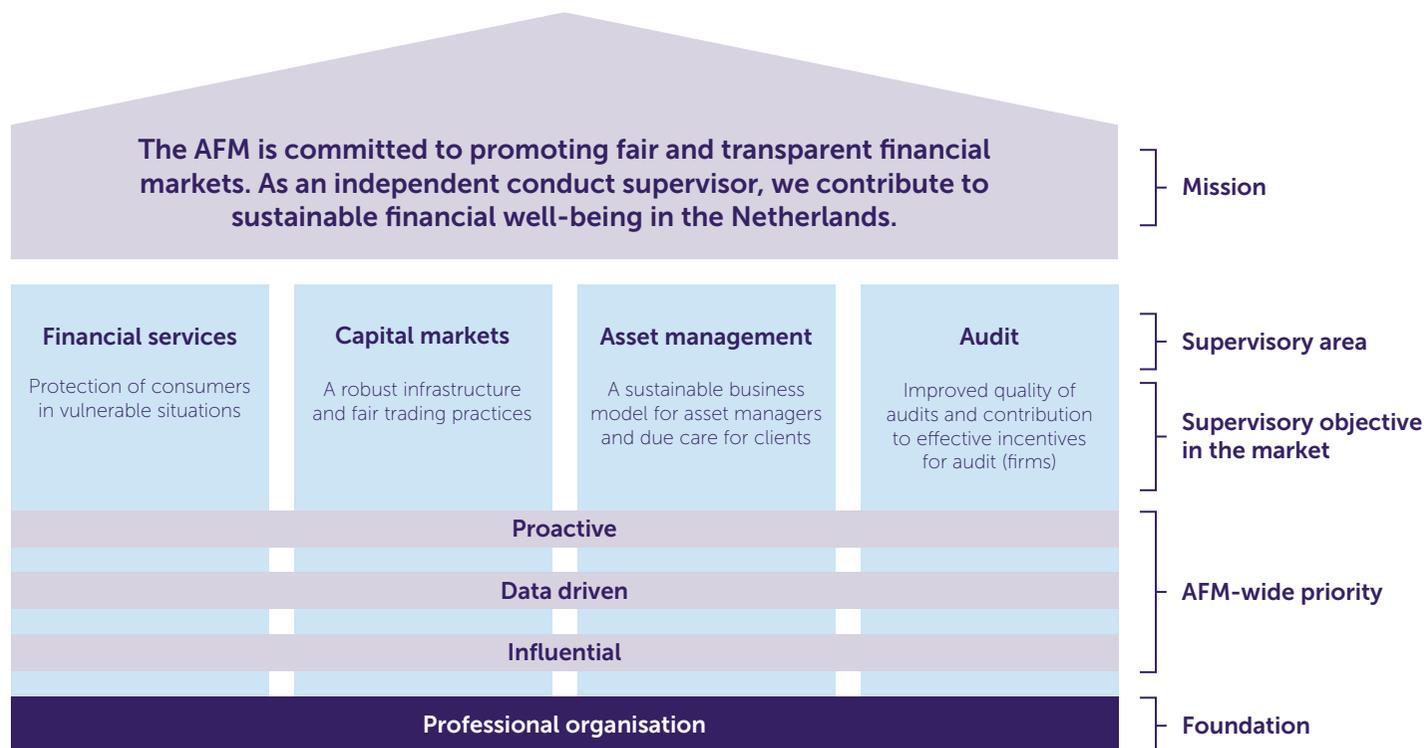


The AFM fulfils its statutory duties with its mission and its supervisory goals. The AFM's mission is as follows: 'The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct supervisor, we contribute to a sustainable financial system and prosperity in the Netherlands.'

The mission and external developments are translated into four multi-year supervisory goals for these four areas of our supervision. Our supervisory

approach is proactive, data-driven and influential where possible, and a professional organisation provides a solid foundation for attaining the supervisory objectives and mission.

As the current strategy period will expire in 2022, the AFM will renew its strategy in 2022 for the subsequent period.





03

Priorities and key activities in 2022



The AFM will give the greatest priority to six topics in 2022.





Transition to a sustainable society

The transition to a sustainable society is one of the most important challenges of our time. Sustainability aspects need to be integrated into financial products and services in a responsible and diligent manner. Consumers and investors must be able to trust that financial products and services that are promised to be sustainable are in fact sustainable.

Transition to new pensions system

Another change is the transition to a new pensions system. The new Pensions Act is expected to come into effect in 2023. The AFM supervises clear communication with realistic expectations with regard to scheme members.

Protection of retail investors

Given the growing popularity of retail investing, which is partly a consequence of the low interest rates, greater attention is required in this area as well. Investing can be a good way to build up capital for the long term. The AFM's objective is to provide reasonable protection for investors against taking excessive risks.

Continued development of duty of care

The continued development of our approach concerning the duty of care is also an important topic. If social and statutory standards change, the view on the duty of care also needs to be re-evaluated.

Preventing market abuse

In its supervision of market abuse in the capital market, the AFM will focus on improved quality of the Suspicious Transaction and Order Reports (STORs), which relay suspicions of market abuse.

Expanding supervision of audit firms

Lastly, we will devote considerable attention to expanding our supervision of audit firms. As of 1 January 2022, the AFM itself will be carrying out the full supervision of non-PIE audit firms. In addition, preparations are under way for an intensification of the supervision of PIE audit firms.

Apart from these supervisory priorities, the AFM has four internal priorities:

- Formulating the strategy for 2023-2026 and looking back on the first 20 years of the AFM's existence.
- Data-driven supervision: we will push ahead in the transition to becoming a data-driven organisation.
- IT up to standard: now that our IT has been outsourced, the organisation's digital fitness will continue to improve.
- Employership: the new system for rewards and recognition is being developed. We will utilise strategic personnel planning to remain proactive and agile as an organisation.

In this chapter, the AFM's key priorities are elaborated in terms of the supervisory areas of financial services, capital markets, asset management and audits. The strategic supervisory objectives (see Chapter 2) have been translated into priorities and ongoing activities for 2022.

Three AFM-wide issues are also addressed. These are 'sustainability', 'combating money laundering and other financial-economic criminality' and 'professional organisation'.



3.1 Supervision of financial services

Protection of consumers in vulnerable situations

Through our supervision of providers of financial services to consumers, we contribute to the sustainable financial prosperity of households in the Netherlands. In our strategy, we have opted to focus primarily on situations in which consumers are vulnerable: when consumers who are less able to protect themselves have to deal with complex products where serious long-term consequences are involved (for example mortgages).

Complexity

Investment apps, artificial intelligence and social media can assist consumers in making financial decisions. The question is whether this will always lead to the desired outcome. Digitalisation entails risks that are sometimes difficult to grasp. This is partly due to the complex IT processes, but also applies if products or services are offered by foreign parties.

Resilience

Many institutions and households appear to have weathered the COVID-19 pandemic fairly well, partly due to large-scale government support. But flexible workers and self-employed persons who are or were working in sectors hit by COVID-19 have seen their income temporarily fall off. Their financial resilience has decreased as a result.

Households with relatively high levels of debt and relatively low savings remain vulnerable to a sharp fall in the values of assets and residential real estate, and a concurrence with events known as 'life events'. In the present overheated housing market, households are taking on higher levels of debt in relation to their income. Also, more than half of first-time buyers are taking out a mortgage amounting to more than 90% of the value of the property. This development represents a risk for first-time buyers in particular, as they have not yet built-up capital.

At the same time, we are seeing that the risks of occupational disability or death are covered less often by insurance products. This can increase consumers' financial vulnerability, especially if they find themselves in vulnerable situations.

Major long-term consequences

The Dutch pensions system will be overhauled in the years ahead. Consumers will no longer be able to claim benefit entitlements. The paid contributions and investments will be leading. As a result, the risks will be placed expressly with pension scheme members and the amount of the pension to be received will become more uncertain. Members of pension schemes in the second pillar will also have greater freedom to make certain choices concerning their pension. In the new system, as well as during the transition phase, it will be important to ensure that members' interests are incorporated in the right way. For example, it is important for (new) pension contracts to be properly substantiated and tailored to scheme members. Clear and realistic communication about pensions by providers is another key requirement.



We aim to achieve the following in 2022 in the supervision of financial services:

- The pensions sector and the AFM will be prepared for the transition to the new pensions system, with a focus on scheme members' interests.
- Harmful investment products and services will be adapted or banned.
- Investors will receive reasonable protection against taking irresponsible risks. Customers' interests must be a top priority in the design of online choice environments. Providers' earnings models will not detract from this.
- Products and sales decision and advisory processes will be clear and customer-focused in a digital environment as well; the customers' interests are a top priority.
- Lending to households will be responsible. Lenders will also implement their duty of care in the management phase.

Priority 1: Safeguard members' interests in new pensions system

The new Pensions Act is expected to come into effect in 2023. The new pensions system differs fundamentally from the old, familiar system. The new system is no longer based on defined benefits, but on contributions. Scheme members will bear more risks as a consequence, partly due to variable benefits, and will need to make more complex choices. Pension providers, too, are facing impactful and complex choices. The new pension schemes should not burden members with more financial risk than they are able and willing to bear. This could lead to disappointment and misunderstanding.

The AFM is preparing the organisation of its supervision and expanding its pensions team for that purpose. During the preparation for an explainable transition, the AFM is ensuring that pension providers request information on the risks that members are able and willing to bear. The AFM also wants to see clear communication with scheme members. The expectations that are communicated concerning the pension must be realistic.

In addition to providing transparent information to scheme members on the consequences of the pension transition, it will also be necessary to bring scheme members up to speed on the complex pension issues in good time. An explainable scheme can contribute to greater trust.

Key activities

- The transition to a different system will involve an expansion of the AFM's responsibilities. These will include supervision of the insight provided to scheme members regarding consequences, the mandatory guidance on choices for scheme members and the accuracy of the scenario amounts stated in communications with scheme members.
- In parallel with the ongoing policy-driven and legislative processes, the AFM commenced preparations in 2021 for the pensions sector and the conduct supervision. This will be continued in 2022.
- Supervision of the execution of the risk preference assessment and the guidance on choices for members.
- The AFM also supervises clear communication with realistic expectations with regard to scheme members, including detailed implementation in communication plans. To this end, the AFM monitors risks and developments in the pensions market with regard to the transition and issues guidelines and guidance to pension providers, pension advisers and other parties.



Duty of care

The term 'duty of care' is not static and is partly interpreted in line with social and statutory standards. These standards are constantly changing. The nature of financial services is also evolving due to societal developments and the growing trend of digitalisation. These developments also have an impact on the protection of consumers and what may be expected of financial enterprises to help consumers reach their goals.

Activities:

- A focus on the services provided by financial enterprises during the term of a financial product or service, known as the management phase. Changes in the personal lives of consumers or in the financial markets may mean that previously selected financial solutions no longer match a customer's situation and could lead to financial problems. The AFM wants to stimulate financial enterprises to critically review and further improve their ongoing service provision to existing customers. The aim is to increase or maintain consumers' financial resilience and to ensure that they have access to a sustainable solution as soon as possible in the event of problems.
- The AFM will also enter into dialogue with the financial enterprises to examine how they can continue to support customers after the product or service has been purchased. Specific examples of this in 2022 include the Interest-only project (project Aflossingsvrij), which is aimed at establishing ongoing management at all providers. An exploratory review of the way in which insurers treat customers who have taken out life insurance and who are part of an insurer's closed-book portfolio is another example.
- Additionally, the AFM will enter into dialogue with the financial sector to examine how consumers can be stimulated to periodically focus on the maintenance of their financial situation.



Priority 2: Retail investors must be adequately protected

Increasing numbers of consumers have started to invest in recent years. They do so mainly in the form of self-directed investments, which is also referred to as execution-only. The AFM sees a number of factors that may cause consumers, particularly in the execution-only channel, to be inadequately protected and face foreseeable disappointments or financial problems.

The way in which financial enterprises offer their products and services online influences the decisions taken by consumers. Digitalisation enables providers – online and in apps – to more easily direct consumers in their choices. Additionally, consumers are increasingly basing their investment decisions on social media and reports by so-called finfluencers, who are influencers that recommend certain investments. This can cause investors to engage in conduct that may harm their sustainable financial prosperity, such as too much trading, little diversification and buying (overly) complex products, on the assumption they will earn a lot of money fast.

Also, the number of new product categories in which consumers can invest has increased. This includes, for instance, cryptocurrencies and crowdfunding. Interest in 'green' investment products is also growing, but it is often difficult for consumers to assess the accuracy of the sustainability claims of such products.

Dutch consumers can be harmed when brokers offer Contract for Differences products (CfDs) from abroad. Misleading investment advice and fraudulent investments result in financial loss. Social media channels offer a new opportunity to approach and exploit investors, from abroad. However, the current options for effective cross-border supervision of social media are limited. There are no international standards or laws and regulations. In addition, foreign providers that are licensed by another member state fall outside the scope of the AFM's supervision.

The AFM wants investing consumers to be adequately protected. Market parties must give central priority to investors' interests. Customers should be offered a suitable product, and earnings models (and associated advertisements) must not contain any unexpected costs and/or risks. A wider aim is that market parties commit to working for a diligent build-up of capital, so that the financial resilience of consumers grows, and they are accordingly better prepared for their future. We also expect market parties to keep their business operations in order and maintain sufficient control over their IT systems and the use of digital applications, such as artificial intelligence.

In 2022 we want to call for attention at the international level for undesirable digital influencing, such as undesirable online direction of consumers. In the past few years, the AFM has acquired experience in obtaining conduct insights, utilising those insights in executing its supervision, and in influencing policy. We also want to take concrete steps to strengthen cross-border supervision, in tandem with national and European supervisors.

Key activities

- We want to identify how the providers of execution-only investment services influence investors' behaviour and how they can thereby contribute to their customers' financial well-being. There will be a specific focus on the (online) direction by market parties, for example in apps, and providers' earnings models.
- We also want to call for attention at an international level for undesirable digital influencing, such as online nudging of consumers that is not in customers' interests.
- In addition, we are joining forces with the Ministry of Finance and with like-minded supervisors to ensure that our priorities and approach are reflected as much as possible in European regulations. Concrete examples of this include the *European Commission's Retail Investment Strategy* (RIS) and the *Digital Finance Package*.



Priority 3: Credit providers must ensure that loans to consumers are responsible

We ensure that products and services with material long-term effects contribute to customers' sustainable financial prosperity. For the mortgage market, this specifically means that households should be able to finance buying a home with a mortgage in a responsible manner, and that at the same time they – in most cases based on careful advice – should cover their financial risks. A consumer must in principle always be able to repay or refinance a responsible mortgage, even in the event of future setbacks.

House prices are rising because of the scarcity in the housing market and the aim to increase the sustainability of housing in the Netherlands. This is resulting in growing social and political pressure to make it possible to borrow more to buy a house. One consequence is that consumers can utilise exceptions to borrow more than the National Institute for Family Finance Information (Nederlands Instituut voor Budgetvoorlichting, or Nibud) deems to be responsible. Besides a maximum mortgage, some municipalities also offer starter loans and it is possible – in addition to the maximum mortgage amount – to borrow to improve the sustainability of the home.

The accumulation of several borrowing options, sometimes even supplemented by consumer credit, entails the risk that consumers will run into financial problems during the term of the loan or at its end. A fall in house prices or a rise in interest rates could seriously impact these consumers' situation.

With respect to consumer credit, our aim is for credit providers to ensure that consumers are given loans that are responsible, i.e. appropriate to their situation. Small loans and options to defer payment must also be provided on a responsible basis.

New consumer credit lending standards came into effect in 2021 that offer consumers improved protection against excessive borrowing. In 2022 we

will focus explicitly on assessing providers in terms of whether they comply with the new lending standards, and ensuring the safe provision of (new types of) small loans.

We expect market parties to contribute to reducing problematic debt and to strengthening the financial resilience of households. The AFM expects parties to comply with the lending standards for both mortgage loans and consumer credit.

Key activities

- Follow-up review of excessive borrowing at mortgage providers. The focus is on the factors that may contribute to irresponsible lending. Examples include incorrect application of exceptions from the lending standards, incorrect application of customisation and failure to properly take account of ongoing financial obligations such as student loans.
- Assess whether consumer credit providers comply with the new lending standards and the prohibition on excessive borrowing. This is intended to ensure that consumers are genuinely better protected.
- Review of providers of small loans. We want to know whether (regulated) products and services including 'buy now pay later', webstore credit and payment options, credit cards and overdrafts, are developed in a sound manner and provided on a safe basis.
- Together with the sector, examine whether it is possible to provide a periodical financial overview to consumers, aimed at giving them greater insight into their financial situation.
- To support our objectives, we are committed at a national and international level to pursuing necessary and desirable amendments in legislation and regulations. An example is provided by the European Consumer Credit Directive, which protects consumers against harmful practices in the consumer credit market.
- Completion and evaluation of the interest-only mortgages project. The ultimate goal is for mortgage providers to enable, on a risk-driven basis, all customers with interest-only mortgages to make a deliberate choice concerning their interest-only mortgage, and for the mortgage



providers to set up ongoing management for this group of customers. Vulnerable customers that cannot take any action should receive a customised solution.

Other theme-based activities

- Owing to the introduction of the Crowdfunding regulation, crowdfunders will become subject to a new regime with a new licence. In 2022, the AFM will process the licence applications and the associated assessments of individual persons. We will also develop a new supervisory strategy.
- Exploratory and in-depth reviews targeted at innovation in the retail market, including a review of online marketing.
- Review of compliance with requirements for the provision of information for sustainable investment products. We will carry out exploratory reviews of pension parties, including pension funds and pension insurers. This will give us insight into whether they comply with the European regulations.
- New supervisory duty with the entry into force of European legislation that enables individual and pan-European pension saving/investing with PEPPs.
- Review at market parties of the way in which they critically examine their own existing products, using scenario analyses to map potential future market and other scenarios with regard to product development.
- Review at pension providers of how scheme members' complaints about the amount of their pension are handled.
- Review of the correctness of pension information, aimed at assessing compliance with the correctness of pension amounts communicated to members. The review is aimed specifically at the quality of the pensions administered and the communication about this to members.

Ongoing activities in the supervision of financial services

The AFM will continue to devote a significant portion of its capacity to ongoing duties with respect to the supervision of financial services in 2022.

- Supervision of the developments in the payments market using the Payments Monitor.
- Supervision of advertisements by providers of financial products and services. These advertisements are required to be correct, clear and not misleading.
- Guided by signs from the market, we carry out analyses in order to identify (potential) problems in products, services, institutions and markets. For instance, the AFM continually monitors signs of harmful conduct in the non-life insurance market and performs supplementary (market view) analyses that can lead to thematic (compliance) reviews.
- To facilitate the effective execution of its supervisory duties, the AFM requests information from financial enterprises. This can be, for example, a request in the form of a regular report or ad hoc in connection with a thematic review. If any personal data are involved, the AFM will duly comply with the General Data Protection Regulation (GDPR). To this end, the AFM takes various measures to safeguard the proportionate nature of a request for information. The AFM also enters into consultation on this with the Dutch Data Protection Authority (Autoriteit Persoonsgegevens).
- We follow innovative developments in the management phase of the provision of financial services to consumers. We assess applications that are submitted through the InnovationHub and verify compliance with the requirements of the duty of care in the case of new service delivery concepts.
- Granting licences to financial service providers so that they can commence their activities.
- Assessing the suitability and reliability of policymakers at financial institutions.



3.2 Supervision of the capital markets

A robust infrastructure and fair trading practices

Supervision of the capital markets has faced far-reaching changes in the past few years. In addition to the introduction of new regulations, more parties have come to the Netherlands as a consequence of Brexit. These developments have led to an expansion of our responsibilities and to an increase in the number of parties that are subject to supervision. This in turn is providing us with more supervision data and causing the international role of the AFM to grow.

The introduction of the Markets in Financial Instruments Directive (MiFID) has led to competition between various trading platforms. Trading platforms and other trading forums are now competing for order flow. This has changed the market structure.

Against this background, the AFM is updating its capital market supervision. Our focus in this regard is on sustainability, data quality and information quality and digitalisation. International cooperation is also a top priority for us.

Sustainability:

The capital markets play an important role in the sustainability transition. The desired transition to a sustainable economy calls for major investments in technology, infrastructure and networks. The capital that is available via the capital markets enables governments and enterprises to undertake these sustainable investments. In addition, financial institutions are contributing to the transition by promoting greater transparency in prospectuses and transparency on the integration of sustainability risks in investment portfolios.

A significant development in the capital markets relates to benchmark managers. The amendment of the Benchmark Regulation was one of the action items in the EU plan for financing sustainable growth. To ensure

that investors actually know whether they are using a green benchmark, benchmark administrators are now obliged to state how the ESG factors are incorporated into their benchmark methodologies. New ESG legislation also requires prospectuses to provide transparency on sustainability performance and other sustainability aspects.

In addition, the advent in the Netherlands of derivatives trading in European CO2 emission rights (on the ICE Endex trading platform) has an impact on the AFM's supervision. Trading in emission rights derivatives (options and futures) is now subject to our supervision of institutions and conduct. We focus in particular on detecting market abuse.

Data quality and information quality:

Data increasingly form the basis of business processes. The use of data entails risks, such as good data security and safeguarding data quality. This means, among other things, that the IT organisation must be protected against cyber attacks. The parties themselves are responsible for high-quality and reliable information in the market.

Digitalisation:

Digitalisation has led to the increasing use of complex trading algorithms. These algorithms are used by proprietary traders, among other parties. But 'complex' can change into 'uncontrolled', for example if the algorithms are not programmed or tested carefully enough. An uncontrolled algorithm can harm the efficiency and trust of capital markets. This is especially the case if the logic behind the algorithm or the relationship between algorithms is not transparent. A focus on sound management and controls by the investment enterprises that engage in algorithmic trading is therefore important.

In connection with digitalisation, the AFM is also concerned about the developments in cryptocurrency trading that pose risks, such as a lack of transparency, market manipulation and (other) forms of criminal activities. The AFM is therefore committed to the formulation of legislation in this area (e.g. MiCAR).



We are also closely following the developments around Decentralized Finance (DeFi) and Distributed Ledger Technology (DLT), as these new technologies may fundamentally change the capital markets landscape.

International influence and cooperation:

We work with our fellow supervisors at the national and international level to detect and address risks and potential harmful conduct in the capital markets. In addition, together with the Ministry of Finance and in an international context, we are committed to policies for further integration of the European capital markets and improved accessibility of these markets, including for small and medium-sized businesses. We continue to advocate for initiatives that increase the transparency of capital markets and combat their fragmentation. We also promote initiatives to adequately include (third-country) parties that operate in the EU in the scope of European supervision.

We aim to achieve the following in 2022 in our supervision of capital markets:

- Capital market parties will be prepared for compliance with sustainability regulations. Examples include CO2 emissions derivatives trading, the EU climate benchmarks and ESG benchmarks.
- Data quality and information quality will increase, specifically for the MiFID2/MiFIR transaction data and STORs.
- Capital market parties will be able to manage the effects of digitalisation.

Priority 1: Compliance with new sustainability regulations

Our supervision in the area of sustainability focuses primarily on CO2 trading, the ESG benchmarks and sustainability information in prospectuses. The AFM also places an emphasis on transparency on sustainability risks at listed entities.

Since mid-2021, 95% of CO2 emissions derivatives trading in the Netherlands takes place on ICE Endx. The AFM exercises supervision on this pursuant to its mandate regarding market abuse and trading platforms.

Owing to the EU Low Carbon Benchmarks package of legislation, the ESG benchmarks are a top priority in the market and at supervisors. Benchmark parties are required to ensure that findable and understandable information about ESG elements in benchmarks is available. It is also important for all material information about sustainable bonds to be included as specifically as possible in the prospectus. This enables investors to make well-informed investment decisions.

Key activities

- Review and supervision of investment enterprises and trading platforms in CO2 emissions derivatives trading with a focus on compliance with their internal control and reporting requirements.
- Together with other European supervisors, we will develop sustainability criteria for benchmarks, with the aim of preventing greenwashing.
- Supervision of compliance with the ESG criteria in prospectuses. In this respect, we will apply the recommendations in the AFM's Green bond position paper in assessing prospectuses.
- Supervision of compliance with the Sustainable Finance Disclosure Regulation (SFDR) by capital market parties.



Priority 2: Improved data quality and information quality

The MiFID/MiFIR transaction data are an important source for the AFM's supervision, in particular the supervision of market abuse. These data allow us to intensify our transaction reporting supervision.

Good quality and quantity of Suspicious Transaction and Order Reports (STORS) are very important for investigations and supervision of market abuse. The quality and quantity of STORs are still moderate. We are seeking to increase the level by means of data-driven detection by institutions themselves and proactive supervision by the AFM.

In 2022, we will more frequently assess prospectuses on the basis of a risk assessment of the offer. The diversity of prospectuses for various types of financial instruments (e.g. equities, SPACS, bond issues and non-listed issues) makes risk-based assessment possible.

Key activities

- In our transaction reporting supervision, we focus primarily on the NTRS data reporting by relevant institutions.
- The AFM promotes better quantity and quality of STORs. This is done, for example, by engaging in dialogue with the institutions that are subject to supervision on the quality of their notifications and compliance with the notification requirement.
- We are examining text mining technologies in addition to more risk-driven prospectus supervision. Text mining uses recognition of passages in prospectuses to assess whether the statutory requirements have been complied with. This technology is expected to lead to more efficient – and therefore, for the parties involved, quicker – assessment of prospectuses.
- In the context of ESMA, we are aiming for an EU framework for cross-market order book surveillance.

Consolidated tape

The AFM is a proponent of a consolidated tape (CT) for equity and bonds. This ultimate electronic access to total market data provides greater transparency, and therefore leads to fair, solid and efficient markets. A CT will result in less fragmented price and other information in the European markets, will help create a proper internal European market and will improve the possibilities for monitoring execution quality (best execution) for securities holders and investors. At present, market information in the EU is fragmented and many parties are exempted from reporting obligations. To contribute to the introduction and implementation of a CT, we will continue, jointly with the Ministry of Finance, to propagate our recommendation across the EU. We stimulate initiatives of market parties in this area.



Priority 3: Effects of digitalisation under control

Trading and other algorithms are assuming increasingly complex forms in the capital markets. As a result, the logic behind algorithms and the relationships between algorithms are becoming more difficult to understand. Statutory conditions for use for algorithms apply to both platforms and investment enterprises. The AFM is examining the effect of these algorithms on the market (volatility of certain assets and the liquidity of the market) and whether using them can disrupt the integrity and robustness of the market.

The AFM also continues to monitor trading in cryptocurrencies and closely follows developments around DeFi and DLT.

Key activities

- Follow-up review of the use of algorithms, with a focus on interpreting the risks and the self-supervision by institutions while developing their algorithms.
- Monitoring of developments in the crypto market with a view to derivative instruments that may be within the scope of the AFM's supervision, partly to prepare for the entry into force of MiCAR (see also Chapter 1, under digitalisation).

Ongoing activities in capital markets supervision

The AFM will continue to devote a significant portion of its capacity to ongoing duties with respect to the supervision of capital markets in 2022.

- Transaction reporting supervision in connection with SFTR, EMIR, Securitisation and MiFID/MiFIR.
- Multi-asset surveillance supervision with a view to detection.
- Assessing external signs of market abuse and carrying out investigations into market abuse.
- Real-time supervision of timely publication of inside information.
- Thematic and institution-specific supervision at licensed institutions, such as proprietary traders, trading platforms, benchmark parties and clearing and settlement parties.
- Dealing with alerts, requests for exemptions and enforcement, and responding to questions from consumers and market parties.
- Supervision of prospectuses.
- Supervision of public offerings.
- Supervision of notification obligations for issuing institutions in areas such as financial reporting, issued capital, publication of inside information, substantial interests, short positions and transactions by senior managers.
- Monitoring, together with DNB, progress of the IBOR transition at financial institutions (pension funds, asset managers and insurers).



3.3 Supervision of asset management

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

Our supervision of asset management contributes to the proper operation of the market: a market that is future-proof. We also protect the interests of investors and consumers who directly or indirectly have placed their money with asset managers. To this end, we supervise the market of collective and individual investments as well as the players in this market. These are investment fund managers (AIF and UCITS), depositaries and investment enterprises, jointly referred to as 'asset management parties'. We fulfil this task with an awareness of all societal challenges.

The Dutch asset management sector is extensive: more than €1 trillion assets under management and more than three hundred asset management parties that are subject to supervision. And the market is set to grow even more. Due to the persistently low interest rates on savings, asset management is playing an increasingly important role in building up private capital. This is because consumers are seeking other ways to grow their funds and looking to asset management parties to do so.

We have several focus areas for future-proofing the asset management sector. The most important of these are:

- the impact of sustainability and the sustainability transition
- the impact of and necessary changes in connection with the pension transition
- the outsourcing of key tasks by asset management parties
- the management of liquidity risks

We are also monitoring the impact of developments in the asset management market with regard to consolidations and future-proofing of small players, so that the management of assets is safeguarded in accordance with investors' expectations.

The transition to a sustainable society is one of the most important challenges of our time. With the extensive assets under management, the asset management sector can play an important role in achieving this. This role is both complex and diverse. The sector is faced with ever-growing numbers of investors seeking to invest 'sustainably', for example. It must also deal with new legislation and regulations requiring asset management parties to be transparent about their sustainability goals, as well as with upcoming new legislation and regulations that seek to interpret what exactly is sustainable. Greenwashing must be prevented.

There is a risk that not all asset managers will be able to successfully fulfil their role in the sustainability transition. This may be the case when it comes to the integration of sustainability risks in their risk management and the degree of transparency on sustainability features and sustainability goals. As a result, asset management parties may fail (or be unable) to deliver on their (expected) sustainability claims, or could be left with stranded assets.

Under the present market conditions, the management of liquidity risks also requires greater attention. An increasing amount of investments are being made in illiquid assets. Illiquid assets cannot readily be converted into cash. Real estate is an example of this. The most important reason for parties to invest in illiquid assets is their attractive risk-return ratio. There is a risk that these illiquid assets will be valued incorrectly. This may for instance lead to incorrect provision of information and losses for investors. Parties can also be restricted in their transactions by the illiquidity of markets. This could result in the parties being unable to adapt their portfolio even if this is desirable or necessary. As a consequence, expected returns cannot be achieved.

In addition, outsourcing in the asset management sector continues to grow. This can relate to financial accounting, compliance, risk management and portfolio management. Outsourcing can offer many advantages, such as greater efficiency, better service provision and lower costs. But it also



involves risks. Enterprises' business operations must be designed in such a way that risk management, separation of capital, investment processes and customer processes are appropriate for the scope, complexity and risk profile of the activities. Additionally, enterprises must implement controls to monitor, manage and minimise outsourcing risks.

We aim to achieve the following in 2022 in asset management supervision:

- The asset management sector will be transparent about the sustainability features and sustainability goals of its financial products.
- The asset management sector will integrate risks in connection with the sustainability transition into (the risk management of) its business operations.
- The asset management sector will ensure adequate management of liquidity risks.

Priority 1: Increasing sustainability awareness in the sector

Asset management parties must manage potential business risks that may arise as a consequence of the sustainability transition. Otherwise, this could harm the future robustness of the institution itself, the ultimate investors and the stability of the sector. Market parties must be transparent about the sustainability features and sustainability goals of their financial products. Additionally, asset management parties must integrate risks in connection with the sustainability transition into (the risk management of) their business operations. Important guidelines are provided by the Sustainable Finance Disclosure Regulation (SFDR) and the planned Regulatory Technical Standards (RTS). The AFM also focuses on other topics related to sustainability that affect custodians, such as the use of the EU taxonomy and the recent sustainability-related amendments in legislation for custodians (AIFM/UCITS).

Key activities

- Follow-up review of the implementation of the SFDR by investment fund managers. In this respect, we will review whether management companies have adopted the recommendations in the 2021 AFM report and correctly implemented the ESMA technical standards (which will come into force in 2022).
- Review of how asset management parties have incorporated the sustainability risks entailed by the sustainability transition into their business operations. This will involve reviewing whether the sustainability risks have been incorporated into their risk management.
- Monitoring sustainability developments, including in the area of new legislation and regulations, while contributing at a European level to the development of (European) policy.
- Contact with key stakeholders, including (representatives of) market parties via dialogue and round-table discussions. Providing direction and guidance to market parties to be able to comply with the new regulations.



Priority 2: Controlled liquidity risks in asset management sector

We are seeing an increase in illiquid assets in portfolios. This can be a concern in times of market stress, when investors will in fact seek to withdraw capital. There must be no mismatch between ‘investor liquidity’ (frequency with which an investor can enter and exit) and asset liquidity (extent to which assets that are invested in can be converted into liquidity).

Key activities

- Review and analysis of the availability of instruments for liquidity management at asset management parties and compliance with ESMA’s stress testing guidelines by investment fund managers.
- Analysis of the mismatches between types of assets in a portfolio and exit options/exit frequency for investors.
- Review of and contribution to (e.g. through dialogue or guidance) the preparation of asset management parties for the necessary adjustments in their business operations due to the pension transition.

Ongoing asset management supervision activities

The AFM will continue to devote a significant portion of its capacity to ongoing duties with respect to asset management supervision in 2022.

- Supervision of outsourcing: every asset management party must have set up its business operations such that risk management, separation of capital, investment processes and customer processes are aligned with the scope, complexity and risk profile of the activities. We expect market parties to implement controls to monitor, manage and minimise outsourcing risks.
- Assessing licence applications, changes, fund reports and other notifications and registrations.
- Dealing with alerts and other legally mandatory notifications.
- Influence and enforcement with regard to individual institutions.
- Assessing assurance reports and annual reports.

- Formulating policy in collaboration with other EU supervisors, including the formulation of a macro-prudential framework for portfolio managers. We will also advise at ESMA level – and vis-à-vis the Ministry of Finance – on new EU rules (such as the AIFMD, ELTIF and MMF reviews).
- Preparing market parties and the AFM’s own supervision for new legislation and regulations, such as the Investment Firm Directive and the Investment Firm Regulation.
- Participation in relevant international bodies (ESMA, BoS, IPISC, IMSC, IOSCO, ESRB and ECB), thus contributing to the resolution of international issues and ensuring that the Dutch perspective is sufficiently represented.
- Supervisory convergence: contributing to and carrying out peer review planned by ESMA (of supervision of depositaries and CSA (Common Supervisory Action) on asset valuation).



Financial stability

The AFM has a duty to ensure financial stability as part of its conduct-of-business supervision. This is a requirement under the Financial Supervision Act (Wft) and under the IOSCO standards. Risks to stability in the capital markets and the asset management market must be identified in good time. It is also important that we know when financial institutions are getting into difficulties and when their clients could be affected. The AFM is also a member of the Financial Stability Committee (FSC). This FSC is chaired by DNB and also includes the Netherlands Bureau for Economic Policy Analysis (CPB) and the Ministry of Finance. Together with other supervisors in the financial sector, the AFM aims for a solid, well-functioning financial system: a system in which markets function properly, financial institutions are sound and customers have access to the right products.

Key activities

In order to effectively fulfil our role for financial stability, we carry out activities such as the following, which lead to external statements when necessary.

- Development and execution of a liquidity stress test among Dutch asset managers. This enables us to closely review their resilience to shocks in the money and capital markets. This includes a focus on the sometimes extensive portfolios of interest rate derivatives.
- On the basis of the framework developed by ESMA in 2021, the AFM will monitor leveraged financing at asset managers and examine whether measures are required in this regard.
- The AFM will analyse how the emergence of cryptocurrencies and new digital technologies (e.g. in securities settlement) impacts the financial system. In doing so, we will focus on the matters for which the AFM is responsible.
- Review of the effect of sustainability information on relevant markets. To this end, we will examine whether information also leads to an increase in sustainable investment and whether too much demand can lead to a green bubble.
- The AFM will analyse what bottlenecks may arise in the various money markets (such as the repo market, money market funds and commercial paper). This may occur at times of stress, for instance. We will also look at how these bottlenecks can be addressed, with a particular focus on the systemic risks.
- In addition, the housing market will continue to be a priority in 2022, as rising prices entail the question of whether there is overvaluation in the housing market. The AFM will analyse, from a macro-perspective, which policy options contribute to a balanced housing market.
- In terms of policy, the AFM will actively participate in various ongoing discussions on financial stability at a European level. These include the discussion on the location of systemically important clearing institutions, the development of macro-prudential instruments within asset management and improved regulation of money market funds.



3.4 Supervision of audit firms and financial reporting

Improved quality of statutory audits and promoting connectivity between financial and non-financial reporting

The AFM wants to see statutory audits attain a permanently high level of quality. The audit opinion provides assurance on the reliability of reporting by enterprises. This is important for all users. Statutory audits are audits of listed companies and medium-sized and large SMEs, for example. We want the links in the chain of reliable and relevant financial and non-financial reporting (such as audit committees, shareholders, retail investors/other investors and other stakeholders) to fulfil their role properly. Equal and correct information for market participants is a crucial precondition for fair and transparent financial markets. Good reporting contributes to the quality of investment decisions.

The importance of non-financial reporting is growing. The AFM advocates good connectivity between financial and non-financial reporting by enterprises. This will better enable investors to make a connection between an enterprise's non-financial performance and risks (social, environmental, ethical) and the impact of this on the future financial performance of the enterprise. Non-financial information concerns not just doing the right thing, but also properly reporting what you do and how that affects the financial position, the environment and climate, and the future earnings of the enterprise.

We are seeing the growing influence of digitalisation within the reporting chain. As from 2022, enterprises will be required to prepare an iXBRL version of their financial statements and have these registered with the AFM. Digitalisation also impacts both the business operations on which enterprises report and the audit performed by audit firms. Auditors must be keenly aware that this may lead to a new category of cases of fraud, and they must take adequate action in case of any signs of this.

Audit firms are also changing as a result of digitalisation. Technology and data analytics are being deployed on a larger scale in the performance of statutory audits. This may entail vulnerabilities in areas such as management of the IT environment and susceptibility to cybercrime.

As from 2022, the AFM will itself carry out the supervision of more than 260 non-PIE audit firms. A number of recommendations from the Committee on the Future of the Audit Sector (Commissie Toekomst Accountancysector, or CTA) have been incorporated into a parliamentary bill for which the consultation process has been completed. The bill still needs to be reviewed by the House of Representatives and the Senate. The phase-in pathway for implementation extends until 2024. During that period, we will also develop a better view of the risks for permanently assuring quality in this segment.

We aim to achieve the following in 2022 with respect to the supervision of audit firms and reporting:

- Better connectivity between non-financial and financial reporting.
- Better insight into the risks of non-PIE audit firms in order to stimulate the quality assurance of the statutory audits they perform.
- Demonstrable permanent quality of statutory audits at PIE audit firms.



Priority 1: Better connectivity between non-financial and financial reporting

We stimulate connectivity between non-financial information (NFI) and financial reporting in financial statements. New, overarching NFI standards are essential to promote consistency in reporting NFI. New European regulations for a large group of enterprises, known as the Corporate Sustainability Reporting Directive (CSRD), will apply to financial years from 2023. It is important that all enterprises which are subject to these rules ensure they are properly prepared for this in good time.

Key activities

- Preparing enterprises and the supervision for new NFI regulations, including CSRD and the EU taxonomy regulation.
- Supporting and influencing, both nationally and internationally, the development of standards for NFI by entities such as ESMA and the IFRS Foundation.

Priority 2: Better insight into the risks relating to audit quality at non-PIE audit firms

From 1 January 2022, the AFM will carry out the direct supervision of all non-PIE audit firms. Our supervision of compliance with the standards in the Audit Firms Supervision Act (Wta) will be conducted on the basis of a phase-in model. We can exercise our supervision more effectively when we have more data and more insight into the risks.

Our starting point for 2022 is to expand our knowledge of the non-PIE segment and to obtain more insight into the risks. Our supervision will be directed primarily at stimulating the ability to learn in the sector and working on improvements that contribute to permanent quality assurance. In addition, we will seek to limit the risks that obstruct attaining such quality and will develop strategies for future risk mitigation.

Key activities

- Increasing our knowledge of the non-PIE segment and obtaining more

insight into the risks through both institution-specific and overarching reviews.

- Data requests at organisation level and at the level of statutory audits.

Priority 3: Demonstrably permanent quality of statutory audits at PIE audit firms

In order to examine whether PIE audit firms are 'in control' of quality, the AFM intends to carry out reviews with greater frequency. Political decision-making on this has yet to take place, however. The updated supervision will be carried out as soon as the expansion of the cost framework for this has been confirmed. More data points will be requested from the audit firms as well. We will prepare the parties concerned for these changes.

Key activities

- We will stimulate PIE audit firms to permanently assure quality and we will carry out both institution-specific and overarching reviews of elements of this assurance. In doing so, we will also focus on topics that require attention in this segment.
- We will prepare PIE audit firms for an updated supervision methodology. We can further refine our risk-based supervision by working on a more data-driven basis.

Ongoing activities in supervision of audit firms and financial reporting

The AFM will continue to perform its ongoing activities in 2022 in the supervision of audit firms and financial reporting:

- Granting licences to audit firms; tests for reliability and suitability.
- Desktop reviews of annual reporting by listed enterprises.
- Continuous dialogue with audit committees with the aim of strengthening their role in relation to the quality of financial reporting and the statutory audit.
- Ongoing supervision of compliance with the Audit Firms (Supervision) Act (Wta) and following up on alerts and incidents.



3.5 AFM-wide issues

3.5.1 Sustainability

Increasing the sustainability of the financial sector is a top priority for European and national legislators. The year 2022 will also be characterised by the further development of (European) initiatives and the elaboration and implementation of measures already introduced, such as the Sustainable Finance Disclosure Regulation (SFDR), the Taxonomy, the proposal for an EU Green Bonds Standard, and the Corporate Sustainability Reporting Directive (CSRD).

The variety of new regulations means that in 2022, market parties and supervisors will continue to be faced with the challenge of preparing for these new obligations. At the same time, market parties must already comply with certain transparency requirements, as consumers and investors must be able to trust that financial products and services that have been promised to be sustainable are actually sustainable.

In this regard, it is important that:

- Companies provide reliable and accessible information on sustainability factors in their business operations.
- Financial institutions integrate sustainability aspects in their business operations, product development, risk management and investment decisions and are transparent in this respect.
- Consumers are adequately informed and advised on sustainability factors and therefore get a financial product that is appropriate to their needs.

The AFM will step up its efforts in the field of sustainability in 2022.

The priorities and activities (see Chapter 3) for the various areas of our supervision detail how the legislation and regulations will be implemented and how this will impact the activities of the various sectors.

Key activities

- In 2022, the AFM will continue to assist the financial sector in implementing the new legislation and regulations in order to achieve (greater) transparency on the degree of sustainability of investments.
- Review of compliance with the Sustainable Finance Disclosure Regulation (SFDR).
- Contributing to the development of sustainability reporting, especially the Corporate Sustainability Reporting Directive (CSRD).



Our vision of sustainability at a glance

Important role for the financial sector

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



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

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



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



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



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

Risks prioritised in the AFM's supervision of sustainability



Shocks in the valuation of financial instruments



Lack of information



Information is not reliable, standardised and comparable



Greenwashing

Principles of the AFM's supervision of sustainability



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

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

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



3.5.2 Combating money laundering and other financial and economic criminality

Combating money laundering and financing of terrorism

Combating money laundering, the financing of terrorism and other financial-economic criminality is of essential social importance. When financial enterprises and audit firms play any undesirable part in criminal or unethical conduct, this undermines trust in the financial sector. Financial enterprises have an important role in preventing such financial or economic criminality. This role is reflected in the following responsibilities, among others:

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

This gatekeeper role is laid down by law in the Money Laundering and Terrorist Financing (Prevention) Act (Wwft) and the Sanctions Act 1977 (Sw). The AFM's tasks include the supervision of compliance with this legislation, in close cooperation with national and international partners. In doing so, the AFM works to combat and prevent financial-economic criminality and other unethical conduct in the financial sector, including through effective enforcement of regulations.

Key activities

- By means of requesting information from financial enterprises and drawing up risk models, we supervise compliance with the regulations that are intended to combat money laundering, the financing of terrorism and breaches of international sanctions. With the aid of these risk models, the AFM proactively detects where risks apply.

- Within our risk-driven approach, we carry out reviews that are aimed at combating and preventing breaches of regulations to prevent money laundering and financing of terrorism. Where necessary, we will take enforcement action aimed at ending the breach or changing the culture of the organisation concerned.
- Financial-economic criminality often takes place across borders. International cooperation on combating money laundering and the financing of terrorism is therefore a priority for 2022. We actively take part international collaborations such as the AMLSC. We are additionally involved, in consultation with the Ministry of Finance, in the development of new European regulations, such as amendments to the AML directive and the proposed establishment of a European anti-money laundering authority (the European Commission's AML package). Where possible, we will prepare our supervision for new European regulations in 2022. Lastly, we will organise supervisory colleges for financial enterprises with foreign establishments in order to exercise supervision jointly with foreign supervisors, and take part in supervisory colleges that are organised by foreign supervisors.
- In addition to intensifying international cooperation directed at combating financial-economic criminality, the AFM also aims to strengthen cooperation with national partners such as DNB, the national police, the Public Prosecution Service, the Fiscal Intelligence and Investigation service and the Tax & Customs Administration, by jointly carrying out reviews and projects. The Financial Expertise Centre (FEC) plays an important role in this regard.

Other integrity supervision

The AFM's other integrity supervision is aimed primarily at combating malicious conduct in the investment market and combating integrity violations at audit firms. Where necessary, we will take enforcement action and – if there are grounds for doing so – reassess the properness of key officers at financial enterprises and audit firms.



Key activities

- The integrity of the digital domain in the investment market is strengthened by combating integrity violations in the execution-only environment. Influencing in this regard is targeted at parties that, with or without a European passport, engage in malicious conduct and thereby harm investors. The extent to which certain malicious investment services are provided via social media is also being investigated.
- The AFM carries out risk-driven integrity supervision of audit firms. This is done by means of data-optimisation and segmentation of audit firms on the basis of risk models. We aim to tighten and expand these risk models.
- The AFM combats unethical conduct in the audit sector by carrying out institution-specific and thematic reviews. These reviews focus on combating and preventing financial-economic criminality. Where necessary, the AFM will take enforcement action aimed at ending breaches and changing the conduct and culture at the organisations involved.
- The AFM further aims to combat unethical conduct in the audit sector by carrying out and participating in theme-based projects directed at proactively detecting, combating and preventing risks of fraud and corruption and the facilitation thereof.

Digital Operational Resilience Act (DORA)

Digitalisation and innovation lead to more cyber risks, including in the financial sector. The European Commission has therefore put forward a proposal for a regulation to increase the sector's digital resilience: DORA. These future regulations will also strengthen the supervisory mandate of supervisors and European supervisory authorities. This will apply, for instance, to the supervision of the IT aspects of financial enterprises' controlled business operations. In 2022, the AFM will prepare its supervision and the market for the introduction of these new regulations.

3.5.3 Professional organisation

We will continue to work on the development of our organisation in 2022. The main focus will be on further revising and improving our supervision. To ensure that we can continue to carry out our tasks in the years ahead, work is under way on further positioning the AFM as an attractive employer in the labour market. This includes offering our employees training and courses through our Supervision Academy. Developing into a data-driven supervisor continues to be a key priority, as evidenced by efforts such as offering data analysis courses. Attention is also being devoted to vitality, giving feedback and continuous improvement.

In addition, we are developing a new rewards and recognition system with forms of rewards and recognition that match our employees' motivation. We will further prioritise development, internal mobility and long-term employability (strategic personnel planning). This will provide possibilities for greater customisation and focus on individual growth.

The Future Leadership Program (FLP) gives our management talent the possibility to advance to key positions in the organisation. This enables us to ensure internal progression while retaining knowledge and developing management skills. We work based on an appreciative approach in which there is room to learn from mistakes. This dovetails with the learning culture at AFM.



The COVID-19 pandemic gave a major impetus to remote working. We aim to provide a working environment in which employees get the best out of themselves and each other, and work with a focus on results and efficiency. It is important to remain in touch with the AFM, colleagues and contacts outside the AFM. We do however have clear agreements in place regarding how we want to work with each other. These agreements form the basis for our new work concept Working@AFM. We ensure a work climate in which employees feel safe, empowered and at home, and where everyone can be themselves without exception. We see the modified way of working as a direction in which to grow. Along the way, we will of course assess, evaluate and make adjustments if necessary. Various changes have now been made in terms of facilities and IT to assist employees with the new work concept.

Professionalisation of supervision, working on a multidisciplinary basis and process improvement

Efforts aimed at the renewal and professionalisation of our supervision are continuing at full speed. In addition to more data-driven working, we are also devoting attention to working on a multidisciplinary basis and improving processes. The AFM's working approach remains the foundation for focusing on results, efficiency and continuous improvement of the organisation. Our IT services have been outsourced to an external supplier. Work is fully under way on the internal coordinating organisation, including optimisation of management and further rationalisation and professionalisation of the IT landscape.

The quality of our supervision is being increased through more and better use of data and more in-depth insight into market developments. In this respect, we are in touch with our stakeholders and we will ensure increasingly efficient data exchange.

We want to be and remain a predictable supervisor. The focus in this regard is on improving the processing times of our statutory tasks, non-recurring actions and enforcement. As from 2022, the invoices for these actions and our ongoing supervision will be sent digitally instead of by post. The year ahead will include further integration of the Data-driven supervision programme within our supervision and an organisational expansion as a result of the new tasks in our supervision of the audit sector and new tasks that arise from the new pensions system.

A risk management framework has been developed to identify and manage operational risks. Supported by the central risk function, the departments have performed risk self-assessments which served as the basis for drawing up risk overviews for each portfolio as well as a risk overview for the organisation. Control measures have been formulated for the key operational risks; these are reported to the Executive Board and the Audit Committee every four months.

Open Government Act (Wet Open Overheid, Woo)

The Open Government Act (Wet Open Overheid, Woo) will come into effect in 2022. The AFM is implementing measures to comply with the requirements of this new legislation, including both the active duty of disclosure and the passive duty of disclosure, insofar as permitted under non-disclosure obligations pursuant to other legislation. The AFM is organising its digital information in such a way that disclosure requests and other requirements concerning openness can be complied with in a timely manner.

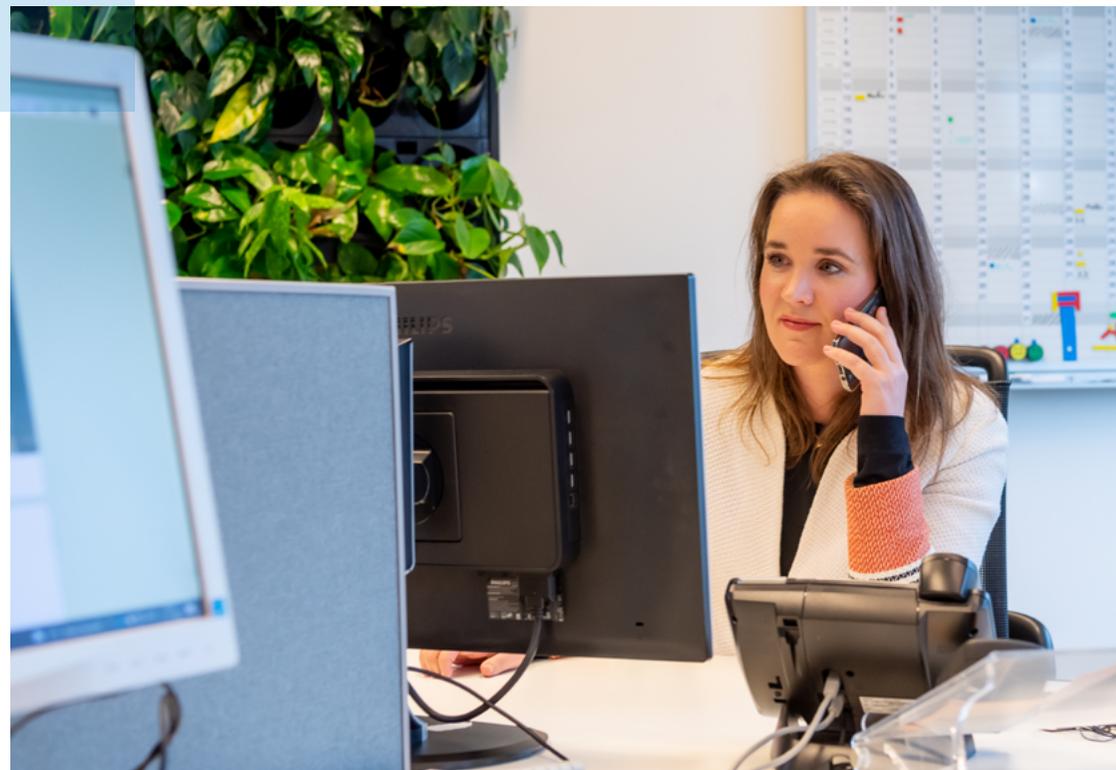
04

Finances in 2022



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

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





Cost framework

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

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

External cost framework 2021-2024 (in millions)	2020	2021	2022	2023	2024
Basic amount (based on budget for 2020)	106.2	105.9	105.9	105.9	105.9
Known expansion of remit		3.0	4.6	6.1	7.1
Strengthening data-driven supervision		3.5	3.5	3.5	3.0
Savings		1.7-	3.1-	3.4-	3.7-
New base amount		110.7	110.9	112.1	112.3
Mandatory cost reductions		0.4-	0.8-	1.2-	1.6-
Salary adjustment*		0.8	2.1	3.5	4.9
Price adjustment*		0.6	1.3	1.9	2.5
Budgetary framework		111.7	113.5	116.2	118.1
Contingencies		1.5	2.0	3.0	4.0
Multi-year framework		113.2	115.5	119.2	122.1

* The salary and price adjustments for 2023-2024 are estimated at 1.9%

Table 4.1 - Cost framework (EUR x million)



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

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

Including adjustment for salaries and prices, the cost framework for 2022 comes to €113.5 million, excluding an item for contingencies of €2.0 million.

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



Budget

The budgeted total expenses for 2022 are equal to the 2022 budgetary framework and 2% higher than the budgeted expenses in 2021.

Expenses per type	Budget for 2021	Budget for 2022	Difference compared to B2021	Actual result for 2020
<i>Salary expenses</i>	57.0	59.9	5%	55.7
<i>Social security costs</i>	7.5	7.9	5%	7.1
<i>Pension expenses</i>	11.9	12.8	7%	14.1
<i>Temporary hires</i>	8.0	3.6	-55%	6.3
<i>Other employee expenses</i>	4.5	3.7	-16%	2.4
Employee expenses	88.9	87.9	-1%	85.6
Premises costs	4.6	4.8	4%	4.1
Consultancy expenses	2.6	5.3	100%	4.0
IT expenses	11.6	10.5	-10%	8.3
General expenses*	2.7	3.5	29%	2.5
Amortisation	1.4	1.6	17%	1.2
Financial income and expenses	0.0	0.0	-	0.0
Total expenses	111.7	113.5	2%	105.7
<i>*of which contribution to ESMA</i>	<i>1.0</i>	<i>1.0</i>		

Table 4.2 - Expenses by type (EUR x million)



Total expenses will increase by €1.8 million. This is largely due to higher salary expenses, social insurance contributions and pension costs on the one hand, and lower IT expenses on the other. In addition, there has been a shift from the cost type 'temporary personnel' to 'consultancy expenses'.

The increase in the salary expenses, social insurance contributions and pension costs is due to a higher number of internal FTEs (1%) and an increase in the average costs per FTE due to salary changes (4%). The increase in pension costs is also attributable to an addition to the Pension Ruling provision that had not been included in the 2021 Budget.

The costs of temporary personnel are falling sharply. However, this is largely attributable to a shift of IT change capacity from the cost type 'temporary personnel' to 'consultancy expenses' as a result of the IT outsourcing. To a minor extent, the decrease is caused by the elimination of temporary additional capacity for IT renewal in the 2021 Budget.

The IT expenses in the 2022 Budget are lower due to savings and the elimination of the temporary transition expenses due to the outsourcing in 2021.

Deployment of FTEs (incl. temporary personnel)	Budget for 2021	Budget for 2022	Difference compared to B2021	Actual result for 2020
Financial services	178	178	0%	176
Capital markets	86	79	-8%	85
Asset management	42	42	1%	39
Audits	56	65	14%	49
Subtotal for four areas of supervision	361	363	0%	349
Direct supervision support*	184	188	2%	172
Other divisions**	173	147	-15%	172
Total	718	698	-3%	693

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

**These are the executive divisions.

Table 4.3 - Specification of FTEs



The number of FTEs will decrease by a 3% overall to 698 FTEs in the 2022 budget. This is the result of an increase in the number of FTEs employed (+8 FTEs) and a decrease in temporary personnel (-28 FTEs).

Overall, the total number of FTEs within the four supervisory areas will remain roughly the same. The number of budgeted FTEs for capital markets will decrease, partly due to a different mix of salary scales and the specific targets set. By contrast, the increase in the number of FTEs in the audit supervision department is due to the further expansion of the supervision of non-PIE audit firms.

The increase in the number of FTEs in direct supervision support is due to the further strengthening of data-driven supervision within the AFM.

The largest decrease in the number of FTEs is within the other departments and relates to the budgeted capacity for IT renewal. This decrease is largely due to a shift from the cost type 'temporary personnel' (FTEs) to the cost type 'consultancy expenses' (no FTEs) as a result of the IT outsourcing.

Investments	Budget for 2021	Budget for 2022	Difference compared to B2021	Actual result for 2020
Renovations	2.1	0.7	-65%	0.3
Inventory	0.7	0.5	-31%	0.3
Computer equipment & standard software	-	1.9		0.6
Total investment	2.7	3.1	13%	1.2

Table 4.4 - Investments (EUR x million)



As a result of the developments regarding working from home and the necessary organisational restructuring this entailed, for the time being we do not expect any significant investments in renovations in 2022. The 2022 Budget does however contain necessary replacement investments for new computer equipment.

From budget to levies

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

Under the Wbft, the costs of supervision on the BES Islands (Bonaire, St. Eustace and Saba) pursuant to the Financial Markets (BES Islands) Act (Wfm BES) and the Money Laundering and Terrorism Financing (BES Islands) Act (Wwft BES) have to be reported separately. As a result, a distinction is made between the income and expenses on the basis of the Wbft (Table 4.5) and the income and expenses for supervision of the BES Islands (Table 4.6).

Wbft operating difference	Budget for 2021	Budget for 2022	Difference compared to B2021	Actual result for 2020
To be settled with market parties from previous years	unknown	unknown		-0.5
Wbft expenses	111.2	112.9	2%	105.3
<i>Market contribution for non-recurring services</i>	8.7	8.9	2%	7.0
<i>Market contribution to ongoing supervision</i>	102.5	104.0	2%	97.1
<i>Fines and penalties to be settled with market parties</i>	-	-		2.5
<i>Fines and penalties due to the government</i>	-	-		2.4
Income	111.2	112.9	2%	109.0
Operating difference	0.0	0.0		3.7
To be set off next year	0.0	0.0		3.2
<i>Of which to be settled with the market in following year</i>	0.0	0.0		0.8
<i>Of which due to the government</i>	0.0	0.0		2.4

Table 4.5 - Wbft operating difference (EUR x million)



The AFM recoups these costs under the Wbft from the market in two ways: through annual levies for its ongoing supervision expenses and through a fee per activity.

The fees for non-recurring activities, such as licence applications and assessments of management board members, are set by ministerial regulation and are in principle fixed for five years. The budgeted income in 2022 amounts to €8.9 million, which is slightly higher than in the budget for 2021 (€8.7 million).

The market contribution for ongoing supervision consists of the budgeted expenses under the Wbft less the budgeted fees for non-recurring activities. Since the fees for non-recurring activities are in principle cost-effective, the budgeted expenses are equal to the budgeted income from non-recurring activities. The expenses covered by an annual levy charged to market parties in 2022 will amount to €104.1 million. This contribution from the market is

BES operating difference	Budget for 2021	Budget for 2022	Difference compared to B2021	Actual result for 2020
Expenses	0.6	0.6	0%	0.4
<i>Market contribution to ongoing supervision</i>	0.0	0.0	0%	0.0
<i>Market contribution for non-recurring services</i>	0.0	0.0	0%	0.0
<i>Government contribution</i>	0.6	0.6	0%	0.4
Income	0.6	0.6	0%	0.4
Operating difference	-	-		0.0-

Table 4.6 - BES operating difference (EUR x million)

€1.5 million more than the market contribution for ongoing supervision in the 2021 budget (€102.5 million), mainly due to the increase in costs. This contribution from the market for ongoing supervision excludes amounts carried forward from previous years. The amount carried forward from previous years will be determined upon adoption of the 2022 financial statements. The total amount to be levied is allocated across 16 categories of institutions subject to supervision according to fixed percentages. These percentages are in principle fixed for a period of five years and are included in Appendix 1A to the Bbft.

Income from fines and penalties is not estimated but is passed on to the overall market through the operating difference up to a maximum of €2.5 million. The surplus is transferred to the Ministry of Finance.

Operating differences occur every year as a result of differences between budgeted and actual expenses and income. Operating differences are settled with the market in the year after they arise on the basis of the fixed percentages that applied in the previous year (Appendix 1A to the Bbft).

The costs for the supervision of the BES Islands are equal in the 2022 Budget to those in the 2021 Budget. The funding of the supervision of the BES Islands is arranged in the Financial Markets (BES Islands) Act (Wfm BES) and the Money Laundering and Terrorism Financing (BES Islands) Act (Wwft BES). The fees for non-recurring supervisory duties and for ongoing supervision are stated in the underlying Financial Markets (BES Islands) Regulation. The fees are not set on a cost-effective basis. The government therefore reimburses expenses to the extent that this contribution from the market is not sufficient. The budgeted market contribution is very limited and is equal to zero when rounded to the nearest million.

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Appendices



Appendix – External KPIs

The AFM uses a control cycle for internal control and external reporting. The processes of planning (including strategic planning), implementation, direction and reporting are detailed in this cycle. The financial preconditions are taken into account for that purpose. The issue of whether the AFM is 'on track' is assessed based on various interim measurements.





Dashboards are used to provide information on progress and prospects, partly on the basis of Key Performance Indicators (KPIs). These are measurable indicators that show how the business is performing and/or whether the objectives will be achieved. External interested parties are informed about the progress.

In this Agenda, we list the activities we will carry out based on the 10 key themes that have been defined by the Executive Board for 2022. The AFM gives account of the results and effects of its efforts in its annual report.

The list of KPIs is more concise than in previous years. The scope has been scaled back to the essence of the most important (supervision) themes and activities. In addition, the list has been supplemented with several AFM-wide objectives based on the vision of being a 'professional organisation'.

Area	Objectives	Priorities	Explanatory notes / Activities
Supervision	1 Protection of consumers in vulnerable situations	1.1 Transition to the new pensions system	The AFM will prepare the organisation of its supervision and expands its pensions team for this purpose. During the preparation for the transition, the AFM will ensure that social partners and pension providers make a well-substantiated decision regarding which pension contract they opt for, which is in line with factors such as what members can and want to bear. The AFM also supervises clear communication with realistic expectations with regard to scheme members, including implementation in communication plans.
		1.2 Retail investing	Partly due to factors such as the ongoing low interest rate environment and increasingly easy accessibility, investing is growing in popularity. In the year ahead, the AFM will focus on the protection of vulnerable investors, by looking at factors including the online choice environment, distribution of (new) investment products that may not be appropriate for the target group, cost (transparency) and the impartiality of information available online. We will also consider the earnings model and associated conflicts of interest. Jointly with other European supervisors, we will combat cross-border fraud and irresponsible risks in investing.
		1.3 Duty of care	The AFM will continue to develop its risk methodology in this area, based on the risks to customers' interests. We devote special attention to the provision of services during the term of financial products and services, known as the management phase. The AFM will enter into dialogue with the financial sector to examine how consumers can be stimulated to focus periodically on the maintenance of their financial situation.

Area	Objectives	Priorities	Explanatory notes / Activities
Supervision	2 A robust infrastructure and fair trading practices	2.1 Strengthening capital markets supervision	The AFM will update the capital market supervision with a focus on: i) sustainability (such as supervision of CO2 emissions derivatives trading, via benchmark regulation and ESG reporting), ii) improving information quality and data quality (such as quality of MiFID2/MiFIR transaction data, information via the notification requirement regarding market abuse STOR - Suspicious Transaction and Order Report and a more risk-driven prospectus supervision) and iii) digitalisation (such as the development of trading via algorithms and monitoring developments in cryptocurrency).
	3 Higher quality of audits and contribution to effective incentives for auditors and audit firms	3.1 Renewal of supervision of audit firms	The AFM will carry out the supervision of non-PIE audit firms itself. In addition, preparations are under way for an intensification of PIE supervision. We are implementing a new supervision methodology for our non-PIE supervision and preparing this for our PIE supervision.
General	4 AFM-wide supervisory priorities	4.1 Sustainability	AFM will contribute to the new European sustainability regulations and influence them based on its vision. The AFM is also assisting the sector in preparing for the upcoming rules (the AFM is working to advance the development of Level 2 SFDR standards, contributing via minFin to the council negotiations on a definitive proposal regarding the CSRD and the EU Green Bonds Standard, and working on a vision on sustainability claims for financial products and institutions). The AFM ensures diligent implementation by the sector of the sustainability regulations, by focusing in its supervision on safeguarding and improving (correct) provision of information in light of the sustainability claims and by monitoring the extent to which the sector has integrated the risks into the risk management framework.
		4.2 Strategy for 2023-2026 and first 20 years of the AFM's existence	The AFM Strategy for 2023-2026 will be drawn up in 2022. This will provide direction for the AFM in the period ahead. In addition, the AFM will celebrate the first 20 years of its existence, internally and externally, with a look towards the future. Including an external stakeholder event mid-June.
		4.3 Data-driven supervision	In 2022, the present programme for data-driven supervision will be integrated within the AFM organisation. The AFM's transition towards becoming a more data-driven supervisor will thus continue at full speed.

Area	Objectives	Priorities	Explanatory notes / Activities
General	5 Professional organisation	5.1 Promotion of quick and careful admission of market parties and persons	The aim is to deal with 100% of licence applications and personal testing within the statutory term.
		5.2 IT house in order	Our IT house is being put in order through outsourcing. The organisation's digital fitness will be increased by improving the internal coordinating organisation and rolling out new workstations. We are taking further steps in portfolio management and technical support for the levy process. This should result in the realisation of transparent and predictable delivery of IT services.
		5.3 Employership and pensions	The AFM is promoting the new way of working (partly as a result of the COVID-19 pandemic) with a focus on workstation flexibility and the new system for rewards and recognition. Adequate attention will continue to be devoted to the various components of the AFM pensions file. We dedicate considerable time and energy to the training and development of our employees by: training them in the necessary competences, promoting cooperation and making use of resources such as the AFM Methodology and standardised processes.
		5.4 Effective cost control	The AFM ensures that its costs remain within the established cost framework/budget.



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