2. Capital markets

THIS CHAPTER IN 1 MINUTE

- Geopolitical tensions create uncertainty, which can lead to **disruptions in capital markets**.
- The **rise in the use of AI** increases the risk of market manipulation. The number and scale of **cyberattacks** is growing, which increases the need to strengthen digital resilience.
- There is a risk of **structural undervaluation of climate risks** due to declining sustainability pressure in combination with increasing climate change.
- International dependence on the US makes the EU vulnerable; a **more integrated capital market would contribute to the EU's autonomy**.

This year, attention was drawn to some Chinese funds that are traded on Nasdaq. Retail investors worldwide were approached on social media to invest in these funds, which resulted in a price explosion. Subsequently, the shares were dumped en masse. Among other things, fake videos of analysts were used to convince investors to buy the stock.

Share price development Regencell Bioscience Ltd

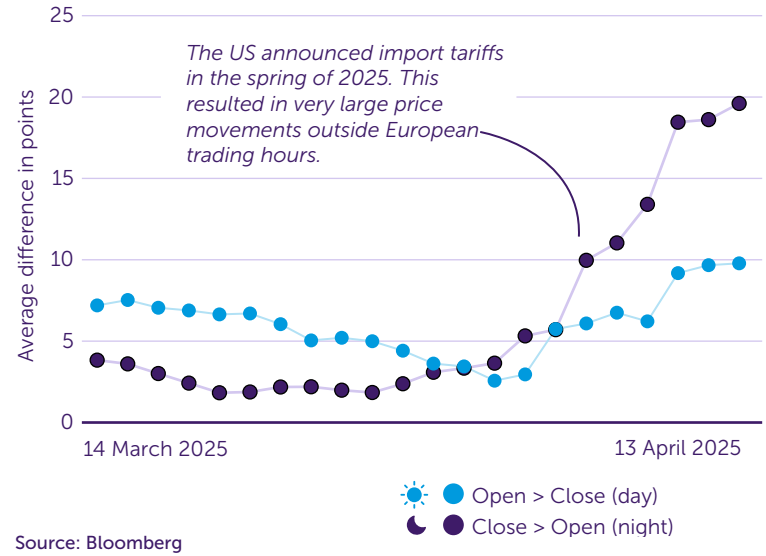
Source: Bloomberg

General developments

Increasing geopolitical tensions are creating more uncertainty in global financial markets. This increases the risk of disruptions in European and Dutch capital markets. Geopolitical tensions have risen sharply and are expected to remain high in the longer term. These geopolitical tensions and an increasingly fragmented global economy pose risks to the stability of capital markets. Particularly worrying is the risk that international (supervisory) cooperation will disappear, and with-it expectations of stable future legislation. Sudden shifts of capital to safe havens such as gold may create liquidity risks. Continued uncertainty may reduce confidence in capital markets, hampering the role of capital markets in the economy. For crucial market parties, this may increase the pressure on controlled and ethical business operations.

In the face of political and economic uncertainty, investors are reacting faster and more strongly to news, which directly affects capital flows. Uncertainty about economic policy is at its highest level in years. When there is great uncertainty, corrections in stock markets are usually twice as large as in quiet times.[33] This is reinforced by the increasing speed of information processing by trading algorithms. High volatility increases the risk of disruption within the financial system. Rapid price movements can lead to problems for market participants or disruptions in the financial infrastructure. Around the time of the US announcement of import tariffs, it became apparent that very large price movements regularly took place outside European trading hours (Figure 2.1). As a result, market participants were potentially less able to reduce risks. In addition, we see that the increased political and economic uncertainty is leading to a shift in capital flows – especially from the US to other investment regions, such as Asia or Europe. This has effects on valuations of various financial assets, such as the dollar and US government bonds. More unstable services could affect confidence in the European capital markets.

Figure 2.1 The price movement as a result of turbulence in the financial markets in the spring of 2025 mainly took place outside trading hours on the Amsterdam exchange.



Source: Bloomberg

Digitalisation

Geopolitical tensions increase the risk of cyberattacks and sabotage of vital parts of the capital markets, such as trading platforms and clearing houses. States with offensive cyber capabilities that are ill-disposed towards the EU pose a realistic threat of incidents such as cyberattacks, sabotage of internet or electricity networks or combinations of these. When such attacks occur, they can lead to (temporary or long-term) system outages at crucial players in the capital markets, such as trading platforms, central counterparties, brokers or data providers. As a result, essential functions such as trading, clearing and settlement are disrupted or disabled. In the short term, this results in illiquidity, abrupt price disruptions and operational downtime. In the longer term, a structural loss of confidence affects the stability and resilience of European capital markets.

33 'https://www.dnb.nl/media/vlepwg0u/81981_dnb_ofs-voorjaar-2025_tg2.pdf', DNB, May 2025.

The increased threat highlights the need for market participants to further strengthen their digital and operational resilience. Active preparation for various scenarios, including through backup strategies, is important in this regard, not only in the IT domain but for the company as a whole, in areas such as communication, energy and critical personnel.

Because many market participants are dependent on a small number of digital service providers, concentration risks arise. Increasingly, technological power lies with a select few American big techs. In addition, there are several tech parties which, although smaller, can control the largest share of the market for one specific component. Dependence on such parties entails a risk of failure that financial institutions often cannot overcome individually. This may even lead to risks to financial stability.

Dealing with third-party risk is not a new issue, but it is taking on new dimensions due to advancing technological developments and geopolitical tensions. Increasing dependencies, geopolitical and rapid technological developments in the field of AI, for example, are reasons for institutions and the regulator to further assess the risks and risk management and address any problems.

Generative AI increases the risk of misleading messages that are difficult to spot. Investors are more likely to get information from social media. Generative AI makes it easier to produce credible looking but misleading content. This technology is also being deployed by state actors or criminal networks with geopolitical, strategic and financial motives, making the information landscape increasingly diffuse and difficult to trust.

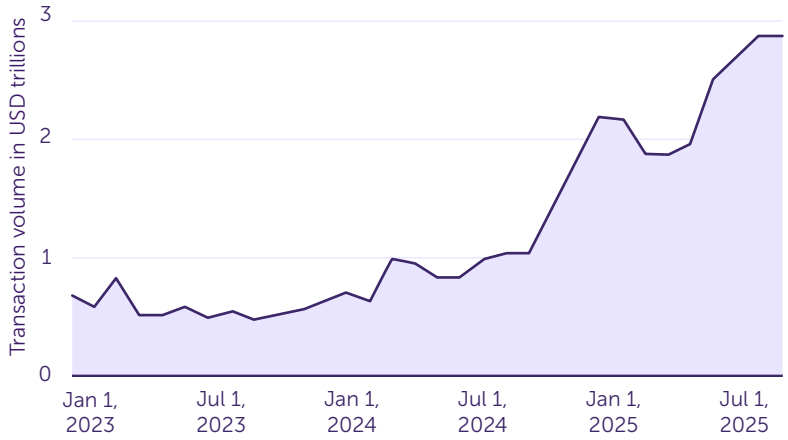
The advent of generative AI also increases the risk of market manipulation. Investors also increasingly rely on social media for financial information. This increases the risk of basing investment decisions on incorrect or manipulated information. In addition, AI-driven trading strategies are becoming increasingly complex, making detection of prohibited practices such as spoofing or layering more difficult. Alternative trading platforms such as dark pools make it more difficult to detect market manipulation. All of this can lead to losses, damaged confidence and distorted pricing.

The role of crypto assets in the traditional financial system continues to grow. Stablecoins such as USDC and USDT are now widely used for cross-border payments, and their role as a bridge between crypto and the traditional financial system is becoming increasingly prominent. Large institutions such as BlackRock tokenise government bonds through blockchain platforms, while crypto ETFs lower the threshold for retail investors. In fact, according to the Financial Stability Board, we are approaching a tipping point where crypto could pose a systemic risk.[34] At the same time, central banks such as the Federal Reserve are recognising the potential of DeFi and tokenisation and are attempting to integrate these innovations into their policies. The rise of regulated stablecoins and the institutional adoption of blockchain technology indicate that crypto is no longer a parallel system, but an increasingly important part of the financial ecosystem. This therefore warrants supervision of comparable quality.

We see increasing interconnectedness between regular financial institutions and crypto providers. Partly due to new legislation, we first see increasing interest among traditional financial institutions in entering the crypto market. In addition, there are crypto companies that apply for a regular licence to operate an organised trading facility (OTF) or a multilateral trading facility (MTF) for crypto derivatives or acquire a party with a regular licence. Finally, we are seeing increasingly concrete and extensive attempts by traditional financial institutions to support their regular trading activities with tokenisation and distributed ledger technology (DLT). This cross-fertilisation creates opportunities for integrated, full-service offerings to customers, but also means that consistent regulation and supervision are just as important as for regular financial services.

34 See, for example: 'https://www.bloomberg.com/news/articles/2025-06-12/crypto-nearing-tipping-point-toward-systemic-risk-fsb-s-knot-says', Bloomberg, June 2025.

Figure 2.2 Global stablecoin transaction volume is increasing rapidly.



Source: Chainanalysis

Stablecoins are increasingly being used both in the EU and globally (Figure 2.2). By definition, these are intertwined with the traditional financial system, as the value of a stablecoin is pegged to a specific currency and backed by other stable investments, such as government bonds, commodities and other currencies. In the US, their use is further encouraged by the Genius Act, while in the EU steps have already been taken with the entry into force of the Markets in Crypto-Assets Regulation (MiCAR). Among other things, MiCAR sets rules for stablecoins. The existence of different standards for similar stablecoins can lead to ambiguity and risks, for example when it comes to the certainty of repayment.

Sustainability

The sustainability transition requires changes in the financial system; this inherently entails uncertainty. The ecological space (emissions, deforestation, freshwater use) to develop business activities is scarce. In the current financial system, investment decisions do not automatically take this into account. This leads to fundamental tension between social value and financial valuation. For the time being, this will continue to manifest itself in uncertainty, discussions about structural change and shock adjustments. This is reflected in valuations, in the development of regulations, in the requirements that investors themselves set for investments and information and also in the public debate. Major social transitions are erratic. The latest exponent of this is the downgrading of policy ambitions for sustainability in the US, with increasing calls in Europe to do the same.

Growing uncertainty about policy direction is hampering long-term decisions by investors and providers. The regulations on sustainability reporting, taxonomies and other measures have been in full development for some time and are being simplified in some respects and apply to fewer companies, partly due to the changing sentiment surrounding the sustainability transition. Transparency helps market participants to develop consistent strategies and make investment choices that create value in the long term. This is especially true for investments in the energy transition and other ESG-related sectors, where returns often only become visible in the longer term. Reduced transparency ultimately increases the risk of inefficient resource allocation, greenwashing and reluctance on the part of market participants to make necessary investments. In the worst case, this leads to wait-and-see behaviour among investors, slowing down the financing of sustainable initiatives.

Due to weakened rules and increasing climate risks, there is a danger that these risks will be structurally underestimated in financial valuations. The lack of clarity about simplified sustainability rules, such as the CSRD and the ESRS, may allow companies to report risks less accurately. This is mainly due to the uncertainty that arose during the revision of the ESRS about the requirement to provide quantitative estimates of the expected financial effects of sustainability risks. Because a realistic assessment of climate risks can have a negative impact on their value, companies have an incentive to present a less clear picture. For the time being, however, the AFM does not see any weakening in Dutch issuers' reporting on sustainability. Adequate reporting is important, because if physical climate risks manifest themselves or are recognised, sudden revaluations and price shocks can occur. Less reliable valuations do not contribute to investor confidence in the capital markets.

Internationalisation

The rapidly evolving geopolitical landscape and the challenges of climate change and technological developments are leading to major financing needs. The European Commission estimates that €750-800 billion will be needed annually to finance innovation and the sustainability transition. A strong European capital markets union is needed to generate sufficient (risk-bearing) capital to make investments. The European Commission has announced that it will come up with 22 legislative and non-legislative actions from the second half of this year to create a Savings and Investments Union (SIU), which will then be negotiated.[35] The proposals are partly based on Mario Draghi's report, which focuses on the EU's competitiveness.[36]

Risks to the fair, orderly and transparent functioning of capital markets increase when parties are highly dependent on a few dominant chain partners. Past financial crises, such as the 2008 financial crisis, the 2022 LME nickel crisis or the bankruptcy of Archegos in 2021, show how unexpected events can disrupt the capital market through concentrations and dependencies. The problem is often not in one institution, but in the interaction of dependencies, such as invisible concentration, technological dependencies and herd behaviour. Since such crises are difficult to predict, supervisors can use scenarios and risk hypotheses in addition to more static stress tests. Testing scenarios — both quantitative and qualitative — will make institutions and capital market infrastructure more resilient. It is important that not only technical measures are taken, for example compliance with legislation such as DORA, but that attention is also paid to strengthening the strategic thinking of financial institutions. Rehearsing crisis situations, such as cyberattacks or sudden capital restrictions, can strengthen the robustness of European capital markets.

The EU's capital markets are closely interconnected with capital markets in third countries in terms of capital flows. The Letta report notes that EU citizens collectively save €33 trillion and that they currently invest €300 billion annually in the US, for example in American ETFs.[37] For institutional investors, the trend of investing in the US is no different. DNB reports that Dutch pension funds invested €293 billion in non-financial companies in the US in Q4 2024, compared to €97 billion in the EU and €23 billion in the Netherlands.[38] Conversely, the largest number of transactions in AEX shares are carried out by parties from the UK.[39] Geopolitical developments consequently have a major impact on the EU capital markets.

35 'https://eur-lex.europa.eu/legal-content/NL/TXT/HTML/?uri=CELEX:52025DC0124', European Commission, March 2025.
36 'https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en', European Commission, September 2024.
37 'https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf', European Council, April 2024.
38 'https://www.dnb.nl/en/general-news/statistical-news/2025/dutch-pension-funds-invest-more-in-us-companies-than-in-european-companies/', DNB, March 2025.
39 'https://www.afm.nl/nl-nl/sector/actueel/2025/jun/pb-state-capital-markets', AFM, June 2025.

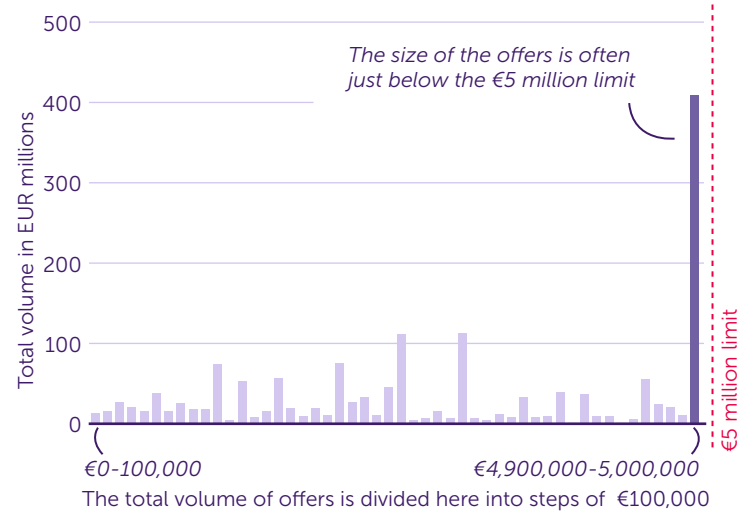
Differences in regulations between Europe and other power blocs increase the risk of an uneven playing field. Recently, we have seen the US under President Trump taking a course in which it is less of a partner of Europe. At the same time, the US is committed to deregulating financial markets and reducing the powers of supervisory institutions. Financial regulation in the UK is also developing apace due to the British government's efforts to promote the competitive position of the City. These developments in countries with which the European capital market is highly interconnected and on which it depends increase the likelihood of an uneven playing field between the EU and internationally competitive markets. Fragmentation and sometimes sluggish regulatory convergence within the EU contribute further to this. In order to reduce these last two disadvantages compared to other markets, it is necessary to get the SIU off the ground. The SIU will not be enough, however. Comprehensive economic reforms are also needed for an attractive European investment climate.[40]

European data centralisation is an essential part of further integration of European capital markets. Data centralisation means that potential financial risks and cross-border market abuse are detected earlier and better. After all, most players in the European capital markets operate internationally. In addition, access to a high-quality national data set remains necessary to keep data-driven supervision of the Dutch capital markets sharp and to improve it.

Integrity and criminal behaviour

Issuers of securities may abuse the exemption from the prospectus requirement to mislead investors and raise large sums. The prospectus exemption offers opportunities for rogue issuers of securities to give misleading information about risks, returns or spending goals. Since 2020, more than 1,600 exempt offers have been reported with a total value of more than €2 billion. It is striking that many offers are just below the €5 million exemption limit, which suggests that the size often seems to be determined by the limit rather than by the financing requirement (Figure 2.3). The AFM receives signals about abuses on a structural basis. Since 2020, more than 300 signals have been received, leading to 78 investigations and 35 measures, including four reports of fraud or embezzlement. Important risk factors are the focus on private investors (85% of the offers), the frequent use of bonds, investments in objects such as real estate instead of SME activities, promised high returns and the accumulation of offers. Although the expected increase of the exemption limit to €12 million is in line with the aim of a better functioning and more integrated capital market, it also increases the risk of abuse and the potential damage.

Figure 2.3 The size of the offers is often just below the exemption limit of €5 million.



Source: AFM

40 'https://www.afm.nl/~/profmedia/files/publicaties/2024/trendzicht-2025/aantrekkelijke-europese-kapitaalmarkten.pdf', AFM, November 2024.

Risk Map for **Capital markets**

The risk maps describe risks that may arise or accelerate as a result of the above trends and developments.

Risk assessment

Risk magnitude

- High
- Raised
- Very high

Probability of materialisation in the next two years

- ↗ Increase
- → Remain the same
- ↘ Decrease

Keyword	Specific risk	Risk drivers	Importance
Developments in international capital markets	Rising tensions between the US, Europe and other regions of the world could undermine the existing international economic and financial order. This increases the risk of sudden and profound changes ('black swans') and hence serious disruption and instability in the European and Dutch capital markets. Examples of such changes include an accelerated decline in the dollar's role as a global reserve currency and changes in coordination between regulators worldwide.	• Digitalisation • Internationalisation	↗
Digital operational resilience	Sharply increasing threat of cyberattacks and physical sabotage on critical infrastructure due to geopolitical tensions. This increase is related to deteriorating geopolitical relations and growing assertiveness of hostile states such as Russia and North Korea.	• Digitalisation • Internationalisation	↗
Control of algorithms	Investors are increasingly relying on social media and online platforms for financial information. At the same time, the rapid rise of generative AI is making it easier to produce credible-looking but misleading content. This technology is also being used by state actors and organised networks with geopolitical or strategic motives. This may lead to distorted price formation and greater potential for market manipulation and abuse.	• Digitalisation • Geopolitical developments	↗
Effectiveness of supervision	In the EU, there are growing calls for burden reduction and simplification of existing rules in the areas of digitalisation and sustainability. This is reflected, for example, in the announcement of an Omnibus package of amendments to the CSRD. It is further reinforced by the shift in US policy on deregulation. These divergent developments may lead to reduced compliance and regulatory arbitrage.	• Digitalisation • Geopolitical developments	↗
Control of algorithms	The use of AI in the financial sector is growing rapidly. Trading strategies and decision-making are increasingly being delegated to machine-learning systems, reducing human intervention. The rise of generative AI allows the development of fully autonomous processes and businesses operating outside traditional governance and oversight structures. This development increases the likelihood of unpredictable and uncontrolled (trading) behaviour in capital markets.	• Digitalisation • Internationalisation • Laws and regulations	↗
Climate risk and capital markets	Climate change is continuing apace, while sustainability pressure is waning. Strong anti-ESG sentiment in the US is making businesses more cautious in their sustainability policies. At the same time, the EU is working to simplify and modernise regulations, including on sustainability. Meanwhile, physical climate risks, such as flooding and drought, are demonstrably increasing. This contradiction increases the risk of climate impact being structurally underestimated in the financial system.	• Digitalisation • Internationalisation • Laws and regulations	↗

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Risk Map for **Capital markets**

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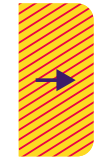
Keyword	Specific risk	Risk drivers	Importance
Chain dependence	Vulnerability of the capital markets due to chain dependence on dominant parties. In certain parts of the capital market chain, a limited number of players have a relatively large amount of market power. This concentration of market power increases the vulnerability of the system. There is an increasing likelihood that market participants will be highly dependent on a limited number of service providers, with little or no realistic alternatives in the event of disruptions or outages.	• Digitalisation • Internationalisation	
Robustness of market forces	Fragmentation of liquidity and weakening of regulated markets may lead to distortion of the price formation process. The increasing fragmentation of the capital market means that orders can be executed in many possible ways. There is a strong likelihood that market participants, driven by cost advantages, will execute orders on less regulated or opaque marketplaces. This may put pressure on price discovery and the effectiveness of supervision and price discovery.	• Digitalisation • Preservation