



Supervision in transition

AFM Agenda 2019

management summary

January 2019





Foreword



Economic growth in the Netherlands is continuing, and is providing a healthy economic climate for consumers and investors. At the same time, we have political uncertainty – due among other things to Brexit – and there are other developments, such as digitalisation and the transition to a sustainable society.

Brexit in particular could have a huge impact on the financial markets and the AFM. We are preparing for various Brexit scenarios. It could be that 30% to 40% of the European capital market (shares and bonds) will come to the Netherlands. This would mean that trading platforms and trading within the EU would be concentrated in Amsterdam. This will have both financial and operational consequences for the AFM that are difficult to estimate at this time, but which clearly will be significant.

This Agenda for 2019 builds on our priorities from our Multi-Year Agenda 2016-2018. The developments mentioned above determine the focus of our supervision. The AFM is also investing in strengthening and improving its supervision. The areas to be

strengthened include data-driven supervision and digital research. We also use insights from behavioural economics and we pay close attention to conduct and culture. Sustainability is another theme that is receiving increasing attention.

Lastly, we are continuing to work closely with supervisors in other countries and participate in international forums. The international dimension of our work continues to gain in importance. We will thus take another step towards our ultimate goal in 2019: to be a technology and data-driven supervisor that anticipates, connects and cooperates across borders.

In other words, our organisation and our supervision are changing along with the developments in our society. That is the reason for the title of our Agenda for 2019: **Supervision in transition.**

On behalf of the Executive Board,

Merel van Vroonhoven
Chair





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The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands. The AFM has set itself the objective of becoming a demonstrably ground-breaking supervisory authority by 2022. To achieve this, the AFM set itself three priorities for the period from 2016 to 2018:

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

Our Agenda 2019 builds on these priorities. The top 10 risks listed under priority 1 last year have now been converted into seven focus areas, which will receive extra attention in 2019.

In priority 2, we will continue to strengthen and renew our supervision. We will also continue to increase the effectiveness, efficiency and adaptability of our organisation.

The AFM identifies three major trends that underlie the focus areas for financial markets and financial consumers alike.

The AFM considers political uncertainty in the financial markets to be the most important of these trends, naturally with Brexit as the main source of this uncertainty. The AFM expects Brexit to have significant consequences for the Dutch capital markets and for our supervision. For this, we will have to invest in IT and take on more staff. The preparations for Brexit have already required supervisory capacity in 2018. The upscaling of capacity needed as a result of Brexit is expected to be significant. The AFM also expects to have to make additional investments in IT, and is developing various scenarios to gain greater insight into the effects of Brexit on its supervision. The uncertainty around

Brexit means that its consequences cannot be fully addressed in this Agenda.

The second and third trends respectively are the digitalisation of the financial sector and the transition to a sustainable economy and society.

Priority 1: Reducing undesirable risks in the financial markets through regular and thematic supervision

Based on the trends identified, the following focus areas have been defined:

1. supervision of new parties and markets as a result of Brexit
2. prevention of irresponsible use of technology and data
3. dealing with unsuitable financial products
4. attention to sustainability in the financial sector
5. addressing market risks in the capital markets
6. permanent improvement of the quality of audits
7. combating money laundering and other financial-economic criminality

Supervision of new parties and markets as a result of Brexit

The AFM notes that parties - mainly trading platforms and trading parties - wish to relocate to the Netherlands as a result of Brexit. This is shown among other things in the increase in the number of licence applications.

The AFM is preparing for various Brexit scenarios. It could be that 30% to 40% of the European capital market will come to the Netherlands. This will involve both the equity and the bond markets. This will require more ongoing supervision by the AFM.

One risk of a hard Brexit is that broker dealers and a large part of the market infrastructure is located in the United Kingdom (UK), and these parties could lose their access to the financial markets in the European Union (EU). If this happens, they will no longer be able to service their clients in the Netherlands and the rest of Europe, or only at higher cost.

There is also a risk of supervisory arbitrage and fragmentation. The risk of



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supervisory arbitrage by financial enterprises will increase if there is competition between supervisory authorities to attract British financial parties. Furthermore, most of the activities in the UK will be out of reach for European supervisors.

Key activities in 2019:

- + The AFM is assessing licence applications from various Brexit parties, including trading platforms, proprietary traders and benchmark providers.
- + The AFM is investing in IT in order to be able to process the volume of transaction data.
- + The AFM is accumulating knowledge and expertise on the new (or future) licensees, including trading platforms and trading parties, in order to assess the risks for its supervision involved with these parties. The AFM will also engage staff for both IT and its supervision.

Prevention of irresponsible use of technology and data

The ongoing digitalisation of the financial sector is leading to new providers, products and distribution channels.

Key activities in 2019:

- + The AFM is studying the online decision-making environments of various providers of investment products, in which digital influence is an important element. The AFM is also studying automated advice provided on other products, such as mortgages, pension products and disability insurances. The AFM continues to work on its approach to crypto currencies and ICOs. We are evaluating the legislation needed in consultation with the Dutch Central Bank (DNB) and supervisory authorities in other countries.
- + The AFM is studying the increasing use of (customer) data and the risks for solidarity in the insurance sector by means of an exploratory review, which will clarify the risks with respect to consumers being undesirably uninsurable.

Dealing with unsuitable financial products

In 2019 the AFM will focus mainly on investment products, interest-only mortgages, loans in the consumer credit market and non-life insurance.

Key activities in 2019:

- + The AFM will urge mortgage providers to prompt consumers with an interest-only mortgage to take action to avoid financial problems in the future.
- + The AFM will take measures if it emerges that credit providers are not doing enough to prevent excessive borrowing. The AFM will also encourage a situation in which loans are suitable in terms of type, term and amount.
- + The AFM will review at least two types of investment product in 2019, and will intervene appropriately if these products are harmful for consumers, including the possibility of prohibiting certain products.

Attention to sustainability in the financial sector

The financial sector has an important role in the achievement of international sustainability goals, since it can facilitate and accelerate sustainable finance. The attention to sustainability in the financial sector has led to an increasing offering of financial products and services that are sustainable in nature. It is important that transparency is provided on sustainability risks so that investors can base their decisions on correct information.

Key activities in 2019:

- + The AFM will review a number of listed companies with respect to the application of integrated reporting.
- + We will review the information provided on sustainable investment products and will take enforcement action if needed if this information turns out to be incorrect, unclear or misleading.

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Addressing market risks in the capital markets

Apart from the consequences of Brexit, the AFM's supervision of the capital markets in 2019 will focus mainly on the effects of the following market risks for investors: limited liquidity, monetary adjustments by the ECB with the potential for heavy selling of bonds and the internationalisation and fragmentation of the capital markets.

Key activities in 2019:

- + The new data we will have available, partly due to MiFID II, will enable us to gain greater insight into the risks in the capital markets.
- + The AFM will review the risks involved in the transition to new interest rate benchmarks.
- + The AFM will take enforcement action in cases involving trading with inside information or market manipulation.

Permanent improvement of the quality of audits

Reliable financial reporting, accompanied by an objective assessment by an auditor, is an essential precondition for an effectively operating financial system. Progress has been made in recent years, but the quality of statutory audits performed by audit firms has still not improved enough and the change of culture in the sector is not happening fast enough.

Key activities in 2019:

- + The AFM will review the progress of the change processes, quality safeguards and the quality of statutory audits in all or some PIE audit firms.
- + The AFM will engage in a dialogue with major stakeholders at national and international level on the factors that positively and negatively affect the quality of statutory audits.

Combating money laundering and other financial-economic criminality

Financial enterprises have an important role in preventing financial-economic criminality in general, and money laundering in particular. Confidence in the financial sector is undermined if financial enterprises are involved in financial-economic criminality. Audit firms also have a role in signalling financial-economic criminality.

Key activities in 2019:

- + The AFM will enforce the requirements placed on investment firms, collective investment companies and financial service providers under the Money Laundering and Terrorist Financing (Prevention) Act (Wet ter voorkoming van witwassen en financieren van terrorisme) and the Sanctions Act.
- + We review the properness of policymakers and co-policymakers and that licensees operate their businesses in an ethical and controlled manner on the basis of the Financial Supervision Act (Wet op het financieel toezicht) and the Audit Firms (Supervision) Act (Wet toezicht accountantsorganisaties) (for financial enterprises and audit firms) and take enforcement action where necessary.
- + The AFM reviews compliance with the obligation of investment firms and collective investment companies to notify unusual transactions and the use of the systematic integrity risk analysis (SIRA) by licensees.

Ongoing supervision

Another important task for the AFM concerns the supervision of the application of the recovery framework for reassessing interest rate derivatives by banks and the activities of the external case assessors. The banks are reassessing all the cases falling within the scope of this framework in order to ensure that eligible SME clients receive compensation. The external case assessors check that the banks are applying the recovery framework correctly. The interest rate derivatives case is a long term case for many of the SMEs involved. It is important that the banks make every effort to resolve this case with due care as quickly as possible.

Many changes are expected in the area of pensions in the coming years. A new pension system will of course affect the members of pension schemes. The AFM supervises the provision of information to scheme members and that the guidance offered to them regarding the available options is appropriate.



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Supervision involves much more than enforcement by means of formal measures such as fines. Influence may be a far more effective and efficient way of resolving difficult issues. Enforcement however is the cornerstone of our supervision. In 2018, we began a trial whereby we centralised expertise in relation to enforcement within our Enforcement Unit. The Enforcement Unit will support supervisory divisions in the investigation of violations of the law and the related enforcement action, with the aim of increasing decisiveness and quality. We will evaluate this trial in 2019.

Priority 2: Strengthening and renewing supervision through focused investment in technology and methodologies

Our supervision needs to be strengthened and renewed if we are to become a demonstrably ground-breaking supervisor by 2022. Our Multi-Year Agenda 2016-2018 describes how we intend to achieve this technological and methodological renewal, with the main focus areas being data-driven supervision, consumer behaviour and conduct and culture. We will continue in this direction in 2019.

Key activities in 2019:

- + We will intensify our data-driven supervision, among other things by setting up an analytical environment to ensure that the data obtained by the AFM is of reliable quality.
- + The AFM will study which credit warnings are effective, now that it is established that the current warning ('Please note! Borrowing money costs money', or 'Let op! Geld lenen kost geld') has not had the desired effect.
- + The AFM will study the extent to which compliance departments at larger financial organisations have an influence on giving central priority to the customer's interests.

Priority 3: Increasing the effectiveness, efficiency and adaptability of the AFM's organisation

Our Multi-Year Agenda 2016-2018 describes how we intend to further professionalise our organisation in order to be able to realise our ambitions.

We have focused mainly on strengthening our management, risk management, process control and cost control. Increasing the skills of our staff and attracting talented people have also been priorities in recent years. These aspects of our business remain as important as ever. New tasks will be added in 2019 that will further improve our organisation's effectiveness, efficiency and adaptability. Brexit will also affect our business operation (especially in ICT and HR policy).

Key activities in 2019:

- + Further strengthening of ICT, so that we can further shape our ambition to become a data-driven supervisor. An outsourcing of ICT initiated in 2018 will accordingly be developed further next year.
- + We will attract new talent and train this talent, for instance through our data science traineeship.

Social accountability

In this Agenda, we have set out the activities we will carry out in 2019, including the social objectives we are pursuing. As a supervisor, we certainly want to render account for the results of our efforts.

We have assigned key performance indicators (KPIs) to our objectives, and present them in the appendix. A review of our performance relating to them will be part of our annual report for 2019.



Mission

The AFM is committed to promoting fair and transparent financial markets. As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

Vision

By 2022, the AFM will be a proven, ground-breaking supervisor

Priority 1

Reducing undesirable risks in the financial markets

Social objective:

- + Financial enterprises give central priority to the interests of their customers
- + Vulnerable consumers are protected against future problems
- + Society can justifiably have confidence in the quality of financial reports and statutory audits
- + The capital markets function fairly and transparently
- + The financial sector is not misused for criminal activities

Priority 2

Strengthening and redefining our supervision

Social objective:

- + The AFM is a technology-driven and data-driven supervisor
- + The AFM is a thought leader in conduct supervision

Priority 3

Increasing the effectiveness, efficiency and adaptability of the organisation

Social objective:

- + The AFM carries out its supervision efficiently and effectively

Business operation

Social objective: The AFM carries out its supervision efficiently and effectively

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Finance

The AFM has a wide range of tasks. We have to make difficult choices to remain within our budget. This means that our supervision is risk-driven. Our seven focus areas show where we see the greatest risks and where we will focus our supervision in 2019. We are also investing in data-driven supervision in order to strengthen and renew our supervision so that this becomes more effective and more efficient. We are investing in an efficient and adaptable organisation that can realise the ambitions of the AFM.

The budget for 2019 combines the investment plans that are necessary with the tasks set by the Ministry of Finance (that will increase to 7% in 2020). Measures were taken during 2018 to ensure that the AFM remained within the agreed cost framework, also as a result of the exceeding of the budget in 2017. These measures will also apply in 2019. All the divisions of the AFM have been assigned an efficiency procedure for 2019. This means that with no change in policy, each division's costs will decline.

The resources needed for preparing for Brexit have led to an increase in costs of € 7.7 million in 2019 and € 5.2 million in 2020. The Minister of Finance has specifically earmarked an additional amount for Brexit to be added to the cost framework as part of the flexible shell. The ultimate outcome of Brexit and the reaction of market parties could mean that this initial addition to the cost framework is not sufficient. The AFM and the Ministry of

Finance will accordingly discuss the developments relating to Brexit and the AFM's preparations for Brexit on a quarterly basis. A review may, if necessary and after approval from the Minister of Finance, in sufficient time lead to an additional increase of the cost framework in 2019.

The levies will be adjusted by the Minister of Finance to reflect shifts in the market so that the costs of Brexit are shared fairly. The contribution from the market for these costs will be included in the levies on the relevant enterprises subject to supervision according to this future calculation. On balance, this will lead to the estimated costs in 2019 being higher than the estimated costs in 2018 (+9%). The increase in the cost framework is due to new tasks, Brexit and an annual salary and price adjustment.

The workforce will increase by 8% compared to 2018 as a result of the additional deployment of FTEs on new tasks and Brexit, the further development of data-driven supervision and external hires for the implementation of the IT strategy and flexible hires of change capacity for IT projects. The increased time pressure on the upscaling for Brexit combined with the scarcity of talent could mean that more external capacity will have to be added than currently estimated.

No estimate has been made for the years after 2020 due to the uncertainties in relation to Brexit. The projection for 2021 accordingly does not include an estimate of FTEs or the costs for Brexit.

<i>Key figures</i>	<i>Budget 2018</i>	<i>Budget 2019</i>	<i>Difference compared to B 2018</i>	<i>Projection 2020</i>	<i>Projection 2021</i>	<i>Actual 2017</i>
Total expense	98.6	107.6	9%	106.0	103.0	102.2
Average number of FTE (incl. external hires)	662	714	8%	698	652	642





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