DET KONGELIGE
FINANSDEPARTEMENT

Royal Ministry of Finance

The Minister of Finance

HE Dr. Daniel Risch
Prime Minister of the Principality of Liechtenstein

Your ref	Our ref	Date
	19/3797	11 May 2021

Dear Dr. Risch

In reference to the letter of 6 May 2021 from Prime Minister Erna Solberg, please allow me to join the Prime Minister in extending the highest regard and warm congratulations on your appointment as Prime Minister of the Principality of Liechtenstein.

Through the European Economic Area Agreement we have many common interests. I find that close cooperation is vital for the efficient management of the Agreement and greatly benefits both our markets. Our experts enjoy very close cooperation on an ongoing basis, which together with strong political support has generated real progress in the EEA financial services dossier over the past years. I look forward to a continued close political and technical dialogue to underpin an efficient daily administration of the Agreement, allowing it to thrive in the years to come.

In this letter I would like to draw your attention to two strong Norwegian priorities: the timely incorporation and EEA entry into force of the Banking Reform Package in 2021, and the Covered Bonds Package in 2022.

On the first matter, regarding the timeline for incorporation and entry into force of the Banking Reform Package (CRR2, CRD5 and BRRD2) in the EEA Agreement, this is now a matter of urgency for Norway.

As I am sure you are aware of, the main elements of CRR2 will apply in the EU from 28 June 2021, while CRD5 and BRRD2 entered into force in the EU in June 2019. CRR2 introduces a range of important regulatory amendments to the capital requirements

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framework, including the revised SME supporting factor and the new infrastructure supporting factor. Due to the outbreak of the Covid-19 pandemic, the EU advanced the date of application of these supporting factors to 28 June 2020.

CRR2 also entails significant changes in the reporting requirements for credit institutions. We have received information indicating that from 28 June 2021 and onwards, the EBA will not be able to receive and process reporting from credit institutions adhering to the CRR/CRD IV framework. As long as EEA/EFTA institutions are still regulated by the CRR/CRD IV framework, they may not be included in EBA statistics, stress tests or transparency exercises. Moreover, EEA/EFTA institutions that have EEA/EU subsidiaries will have to ensure compliance with both reporting regimes at once, which increases costs and complexities.

Because of the significant and negative consequences of discrepancies in the applicable prudential framework, it is crucial that this unfortunate situation does not last longer than strictly necessary. The Norwegian Government has been a proponent of a timeline for incorporating the Banking Recovery Package into the EEA Agreement that would facilitate the application of most CRR2 provisions concurrently with the EU. To that end, we submitted to the Norwegian Parliament a legislative proposal on the Banking Reform Package this Spring, which we expect will be put to a vote in Parliament before the end of June 2021.

In light of the above considerations, I hope that we will be able to find a solution which facilitates the entry into force in the EEA Agreement of the CRR2, and ideally also the closely related CRD5. From our side we can be ready with the entire package simultaneously with applicability the EU. We see it as vital that CRR2 reporting commences as soon as possible in 2021 for EEA/EFTA institutions. We have, however, understood that this might pose some problems for Liechtenstein. Bearing this in mind, I do believe that it might be possible to draft a common solution, workable for all, if we look to a solution with entry into force by the turn of 2021/2022. With your support, I would suggest that our experts draft the details of such a solution. Of course, I remain at your disposal if you would like to discuss further before moving on to the technical experts.

Moving on to the Covered Bonds Package, I would like to briefly comment on the important regulatory changes included in the Covered Bonds Directive, Directive (EU) 2019/2162, which is EEA relevant but not yet incorporated into the Agreement. Together with Regulation (EU) 2019/2160 that allows for preferential prudential treatment of such covered bonds, the provisions of the Covered Bonds Directive shall be applicable in EU Member States from 8 July 2022. The covered bonds market is a crucial funding source for Norwegian banks. Ensuring that a harmonised legal framework for covered bonds is applicable at the same time throughout all of the EEA, is highly important to safeguard financial stability in Norway. Therefore, it is of utmost importance that the Covered Bonds Directive and Regulation (EU) 2019/2160 are incorporated into the EEA Agreement and enter into force in the EEA on 8 July 2022 at the very latest.

I look forward to our continued close dialogue on these and other issues of importance, either digitally or, situation permitting, with a meeting in person.

Yours sincerely,

Jan Tore Sanner