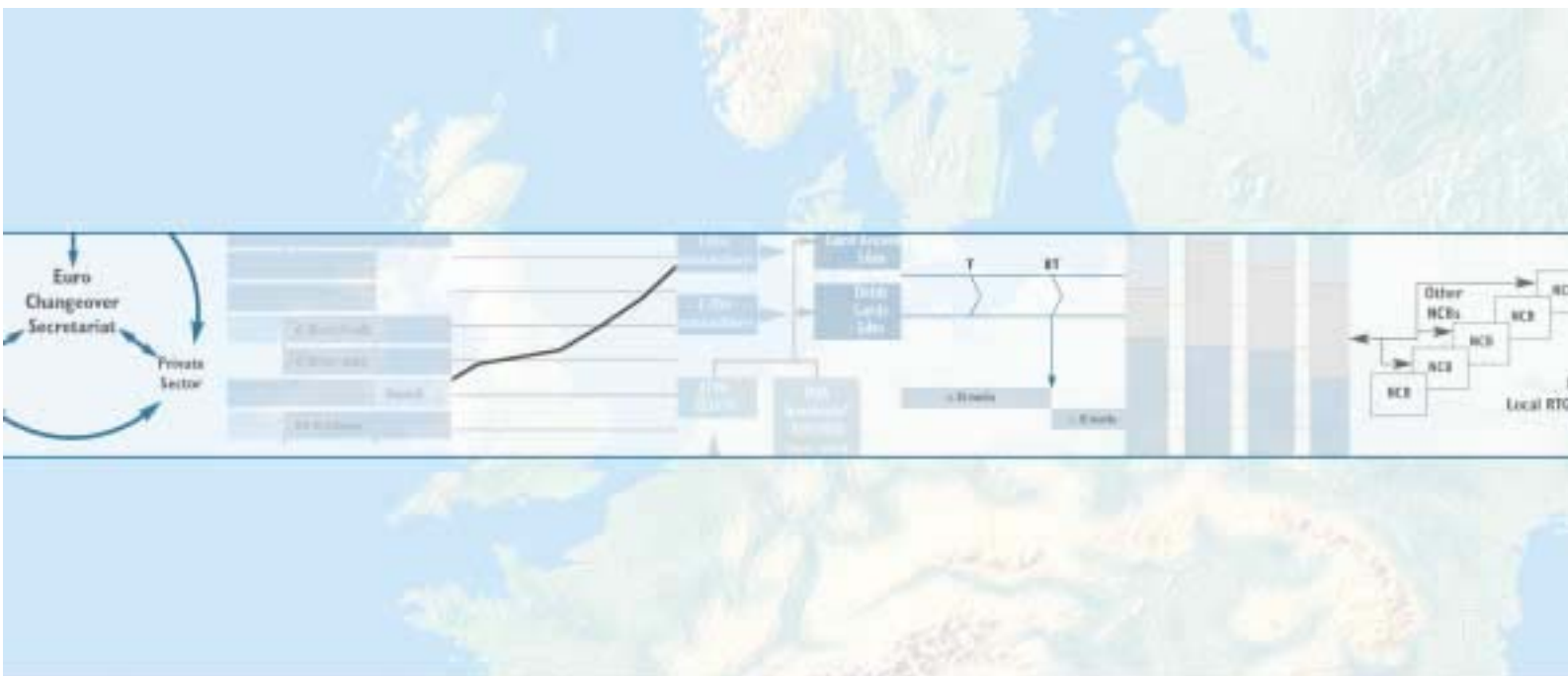


third outline National Changeover Plan





HM TREASURY

third outline
National Changeover Plan

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For more information on the euro visit the Treasury's euro business website at:

www.euro.gov.uk

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EXECUTIVE SUMMARY

1.1 The third outline National Changeover Plan provides an update on the preparation work undertaken under the Government's policy of 'prepare and decide'. Its purpose is to ensure that the UK has a genuine option to join EMU, if, on the basis of a clear and unambiguous economic case following the assessment of the five economic tests, that is what Government, Parliament, and the people, in a referendum, decide. The Government's policy on EMU membership is set out in the Assessment and the EMU study by HM Treasury *The Five Tests Framework*.

1.2 Since 1997 the Government has developed, and progressively refined, an illustrative timetable for a euro changeover in the UK. The initial conclusions were published in the first outline National Changeover Plan in February 1999. The results of consultation on the first Plan, particularly with the public sector, were incorporated in the second outline National Changeover Plan, published March 2000.

1.3 Throughout the planning process, the Government has been committed to working in partnership with the organisations that would be closely involved in delivery of a changeover. The Government has established a comprehensive network of consultative groups to ensure that all relevant organisations are involved.

1.4 Since the publication of the second outline National Changeover Plan significant progress has been made in further refining and developing our planning. Chapter 2 outlines the work previously undertaken by the Government. The third outline National Changeover Plan consolidates all the changeover planning developments and decisions since the second Plan and, as far as possible, provides a comprehensive statement of how the Government would manage a changeover in the UK.

Managing a changeover

1.5 Chapter 3 outlines how the Government would manage a changeover. HM Treasury would lead a changeover. The management framework would be developed in a two-stage process. This would allow the individual appointed to lead the changeover to be involved in the shaping of the framework. Any decision about the individual and final structure of the management framework would be made before a referendum.

Timetable

1.6 Chapter 4 provides an update on a changeover timetable. The Government believes that a phased approach would deliver a smooth and cost effective changeover in the UK. The timetable has been developed to provide stakeholders with greater planning certainty.

1.7 The Government has concluded that a changeover should be around 30 months from a referendum to the introduction of euro cash. Furthermore, around 20 months would be required between a referendum and the start of a retail transition.

1.8 The Government has concluded that, taking account of the needs of the economy as a whole, the optimal day, in any given year, for the introduction of euro cash (E day) would be 6 April.

1.9 In refining the timetable, work has been undertaken to establish what would be required in each phase of a changeover. This has resulted in the development of a clearer understanding of the significant steps required across the economy. The conclusions form the Managed Transition Plan (MTP), which is included at Annex B.

Cash

I.10 Chapter 5 outlines the proposed approach to a cash changeover. A cash changeover would be managed through a Cash Changeover Working Group (CCWG), chaired by the Bank of England (the Bank). The CCWG would be charged with the delivery of a cash changeover plan within six months of a referendum. The plan would be focused on the logistical challenges of storage, frontloading and sub-frontloading of euro and withdrawal of sterling. The previous estimate of a need for between 13 and 14.5 billion euro coins has been revised. Although work is continuing with the Royal Mint (the Mint) and other key stakeholders, initial results suggest that the UK would need around 10 billion coins. The current estimate of the total of notes is 2 billion.

Communications

I.11 Chapter 6 outlines a high level communication strategy for a changeover. A communication strategy for a UK changeover would be based on the following principles:

- clarity – simple messages about what changes would happen, when, and what people would need to do to prepare;
- credibility – messages supported by the overall changeover planning and endorsed or delivered by trusted communicators;
- co-ordination – key messages delivered to different audiences across the economy, from a variety of sources; and
- accessibility – information provided in a format that is as accessible to as many people as possible, taking full account of the needs of all citizens, including vulnerable groups.

I.12 Communication activities would need to take account of the specific characteristics of the UK: the distribution, language and culture of the population; the size and complexity of the economy, and the proximity of the UK to the euro area. The Government would run a central public information programme, comprising an ongoing information programme supported by more intense activity around the key milestones. The cost of communication beyond a central programme would be borne by the organisation that commissioned and carried out the activity. Government information material would take account of the needs of vulnerable groups, including, but not being limited to, meeting statutory duties for the provision of Government information, for example, providing it in a range of appropriate languages.

Consumers

I.13 Chapter 7 outlines the proposed approach to supporting consumers. Maintaining consumer confidence would be essential to a successful UK changeover. Consumer confidence would be supported through voluntary codes of practice, developed from best practice in the euro area. The principles for a consumer code cover issues such as provision of information, dual display of prices, accurate conversion of monetary amounts, staff training and the treatment of vulnerable groups. The Government has been working with individual sectors to develop the principles into codes appropriate to particular industries. Examples of draft codes for the transport and retail sectors are included at Annex F. The Government has been working with the competition, trading and regulatory authorities to ensure that the draft codes fit with the existing consumer protection framework.

Financial services

I.14 Chapter 8 outlines how a changeover of the financial infrastructure would be managed. A changeover of the wholesale financial markets would be co-ordinated by the Bank. A summary of the City Euro Group's (CEG) changeover plan for the wholesale markets is included at Annex A. The retail financial services sector would need approximately twenty four months to design, build and implement new euro denominated payments systems and would start this process at the time of a decision. From the point the systems were built, the retail transition could start. Individual institutions would convert accounts to euro according to their conversion strategy. The Managed Transition Plan (at Annex B) details the steps that would be required for a changeover of retail financial services.

Business

I.15 Business would have an important role to play in achieving a smooth changeover and maintaining consumer confidence. A changeover would be a strategic issue. Chapter 9 includes an outline framework for the issues that business would need to consider such as resource management, conversion of systems, corporate finance, cash handling, marketing, pricing and staff training. While the Government would have overall responsibility for the provision of information for business, responsibility for delivery would be shared with a wide range of bodies in the public and private sectors. This would include the establishment of regional support bodies, similar to the Regional Euro Forums. The Government has continued its work to raise awareness amongst business about dealing with the euro as a foreign currency.

Voluntary sector

I.16 Chapter 10 outlines how Government would support the voluntary sector. The Government would provide support and guidance to the voluntary sector to the extent considered necessary by the sector itself. The voluntary sector would be likely to find material developed for small business and the public sector of particular assistance. The Government would work with the National Council for Voluntary Organisations (NCVO) and the Charity Commission to adapt such material where this is required.

Public Sector

I.17 Chapter 11 provides an update on public sector preparations. The public sector would be ready to deliver a cost effective changeover in accordance with the outline timetable. The public sector has taken a lead in responsible, early planning to reduce the costs of a changeover. Examples of the planning work undertaken on IT, training, treatment of stored data, rounding and smoothing and accounting are included in Chapter 11 and at Annexes G and H.

I.18 The public sector would treat consumers fairly and provide them with comprehensive information during a changeover. A draft code of conduct for the public sector is also included in Chapter 11. The Inland Revenue and HM Customs and Excise would provide transition services before E day to enable businesses to change to the euro if they wished.

INTRODUCTION

2.1 The Government's policy on EMU membership is set out in the Assessment and the EMU study by HM Treasury *The five tests framework*.

2.2 The purpose of this document is to provide an update on the preparation work that has been undertaken since 1997 under the Government's policy of 'prepare and decide'. The Government is committed to ensuring that the UK has a genuine option to join EMU, if that is what Government, Parliament, and the people, in a referendum, decide. The third outline National Changeover Plan consolidates all the changeover planning developments and decisions since the second outline National Changeover Plan and, as far as possible, provides a comprehensive statement of how the Government would manage a changeover in the UK. It also contains an update on the euro area a year after the introduction of euro cash (at Annex C) and the potential further lessons for the UK from their experience.

2.3 The Government has developed, and progressively refined, an outline timetable and the logistics which would be necessary for a changeover in the UK. The Euro Preparations Unit (EPU) was established in HM Treasury to undertake this work, with the specific objectives of ensuring that preparations were underway within the public, private and voluntary sectors and developing a national changeover plan through consultation with key stakeholders across all sectors of the UK economy.

Preparation work to date

2.4 The preliminary conclusions of this consultative work were published in the first outline National Changeover Plan in February 1999. The results of further consultation, particularly from the public sector, were incorporated in the second outline National Changeover Plan, published in March 2000. Details of additional work have been published in the regular Reports on Euro Preparations. Copies of these publications are available from www.euro.gov.uk.

2.5 Throughout the process of planning for a UK changeover, the Government has remained committed to working in partnership with those bodies that would be involved in the delivery of a changeover. The process of changeover planning has been overseen by the Chancellor's Standing Committee on Euro Preparations, which brings together representatives from organisations across the economy.

2.6 The Government established the Business Advisory Group (BAG) to facilitate discussion with business, consumer and trade union representatives about the detailed issues which would arise from an introduction of the euro. In addition, the Bank of England (the Bank) established the City Euro Group (CEG), which includes representatives from the UK financial community, to plan for a changeover in the wholesale financial markets. These groups and related working groups have provided an extensive consultation network to ensure that the third outline National Changeover Plan takes account of the concerns of all sectors of the economy.

2.7 Since the publication of the second outline National Changeover Plan, significant progress has been made in further refining and developing our planning. Several organisations have produced detailed reports examining the issues raised by the euro area changeover and considering the implications for the UK. A list of principal publications is

included at Annex J. These reports have added substantially to the detail on how the process might work in practice.

2.8 The outline National Changeover Plans set out the initial conclusions on a UK changeover:

- the first outline National Changeover Plan detailed the likely lead times for major sectors of the economy, including the financial services and retail sectors, and set out an initial illustrative timetable for a UK changeover; and
- the second outline National Changeover Plan focused on preparations in the public sector. It also set out an initial approach to the possibility of operating a managed transition in the UK. A managed transition would allow time and resources to be concentrated on the development of mechanisms to allow high-volume delivery of different services by the financial services sector at different stages of the timetable. It would also allow public and private sector organisations to deliver their changeover on a phased basis, in line with the financial infrastructure.

2.9 In the euro area it was recognised that the changeover was a dynamic process. The euro area countries found it was impossible to specify all the detail of their changeovers at an early stage because the process was evolutionary. As a result, the euro area countries updated plans as the changeover progressed. It is envisaged that the same evolutionary process would apply during a changeover in the UK. As such, it is not possible to be definitive in all policy areas at this stage, especially as some require further work in consultation with stakeholders and our European partners. The UK's outline National Changeover Plans progressively build on and expand the previous work. This process would continue and the National Changeover Plan will be updated.

Example of how a changeover might work in the UK (1)

Meet the Sterling family.

For illustration, we have included scenarios showing how a UK family might experience a UK changeover. Our family has been chosen to illustrate different aspects of a UK changeover, from business planning to the ways in which members of a household could help each other to prepare.

Bill and Penny Sterling own and run a small independent newsagent. They employ one part-time shop assistant, Joey. Their daughter, Angela, is away from home at university, but returns every holiday, and their teenage son, Bob, is at a local school. Penny's mother, Mrs Tanner, lives with the family.

2.10 As part of its ongoing consultation, the Government would welcome views on the third Outline National Changeover Plan. Please send any comments to:

changeover.plan@hm-treasury.gov.uk

Or write to:

Euro Preparations Unit
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Further copies of this Plan are available in electronic format from the Government's euro website at <http://www.euro.gov.uk> or e-mail: public.enquiries@hm-treasury.gov.uk.

The management framework for a changeover would need to ensure a strong Government lead and incorporate appropriate mechanisms to allow full consultation and engagement of key stakeholders.

This chapter provides an indication of the Government's approach to managing a changeover. It outlines how the Government would develop the management framework in a two-stage process.

3.1 In considering the management of a changeover in the UK, the sixth Report on Euro Preparations (REP6), published in July 2002, noted that experience from the euro area suggested that:

- clear, consultative and centrally managed co-ordination is essential to a successful changeover; and
- the body should be centrally managed by the Finance Ministry and should consult representatives from all sectors of the economy, particularly the national central bank.

3.2 REP6 included consideration of how decimalisation was managed in 1971 as an example as to how a changeover might be managed. However, there are a number of reasons why decimalisation was not considered to be a good model. These include the relatively small nature of the changes to the currency which occurred at that time, and the significant changes in information technology and the nature of the banking and retail industries which have occurred over the intervening three decades. In particular, in the UK the growth in payment by non-cash methods has increased by several orders of magnitude since 1971, and the use of credit and debit cards has overtaken the use of cheques as the chief non-cash payment mechanism. Oversight of decimalisation was carried out by the Decimal Currency Board, a group which brought together representatives from a number of industry sectors.

3.3 Most euro area countries established bodies which brought together representatives from the private, public and voluntary sectors in an advisory capacity, to ensure that the concerns of all sectors were taken into account. Policy was set, and progress overseen, by a nominated government minister, supported by government officials. This ensured that government, which was ultimately responsible for the changeover, maintained oversight of the whole process.

3.4 Given the success of the euro area changeover, the Government has decided that a UK changeover would be led by HM Treasury.

3.5 The management framework for a changeover would be developed in a two-stage process. Firstly, in the period before a referendum, the Euro Preparations Unit (EPU) would become the Euro Changeover Secretariat (ECS). This would be the forerunner of the changeover management body. A senior civil servant would be appointed to lead the ECS and it would receive additional staff resources for the key areas where work would need to start before a referendum to meet the outline timetable.

3.6 The ECS would continue the EPU's role in co-ordinating preparation work for a changeover and would be responsible for the interim development and implementation of the National Changeover Plan. It would operate from HM Treasury and report to HM Treasury Ministers.

3.7 At this stage, the existing oversight arrangements and network of advisory committees would remain and the Chancellor's Standing Committee on Euro Preparations would retain overall oversight of preparations across the economy.

3.8 In the second stage, an individual would be identified to lead a UK changeover. The final shape of the management framework and reporting structures would be agreed with them. The person chosen to head the changeover would be an experienced and high profile leader, with a proven track record of delivering large and complex programmes, preferably in both public and private sectors. Excellent communication skills and an open and collaborative approach would be essential. The proposals for a management framework would be implemented if UK membership of EMU were confirmed by the electorate in a referendum.

3.9 For simplicity, the third outline National Changeover Plan will refer to the ECS as the body that would manage a changeover.

NEXT STEPS

3.10 In developing the practical changeover preparations, HM Treasury will:

- develop detailed options for the management framework for a changeover.

4

TIMETABLE FOR A CHANGEOVER

The timing and announcement of the key milestones during a changeover would be important to enable organisations across the economy to plan properly. Since the publication of an outline timetable in the second outline National Changeover Plan, the Government has considered further refinement of what would happen in each stage.

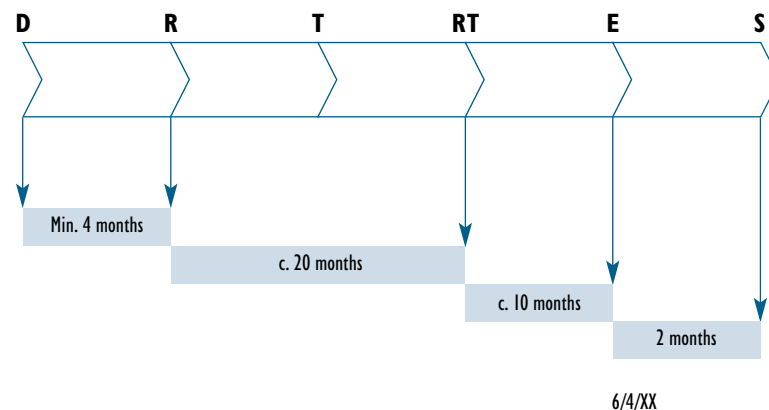
This chapter provides an update on timetable planning. It outlines the critical issues and assumptions, the preferred choice of E day (the day of the introduction of UK euro cash) and indicates what would happen at each key stage, to provide a robust framework for planning work.

BACKGROUND

4.1 In the second outline National Changeover Plan, the Government published an outline timetable showing the phases of a changeover. Following the successful introduction of euro cash in the euro area and discussions with stakeholders who would be involved in a UK cash changeover, the Government announced, in July 2002, that it had reduced the dual circulation period to two months. The key milestones in a changeover would be:

- **D:** Decision – the Government’s assessment on EMU membership;
- **R:** Referendum – UK electorate vote on joining EMU;
- **T:** Time of entry and start of transition. UK joins EMU. The euro-sterling exchange rate would be irrevocably fixed;
- **RT:** Beginning of Retail Transition. Euro denominated retail financial services would start to be available from this point;
- **E:** Euro cash introduced and end of transition. UK euro notes and coins would be introduced. All non-cash transactions would be denominated in euro; and
- **S:** Sterling ceases to be legal tender. End of dual circulation period.

Figure 4.1: Outline changeover timetable



A useful mnemonic**Do Remember The Right Timetable at Every Stage**

4.2 Since the second outline National Changeover Plan, further planning has been undertaken to determine what organisations would do during each phase in a changeover, and to agree the products and services which would be offered to businesses and citizens. The work has drawn extensively on the changeover experience of the euro area and has enabled the timetable to be refined as follows.

UPDATED TIMETABLE ASSUMPTIONS

Before a Retail Transition

4.3 After further consultation with the financial services sector, the Government has concluded that approximately twenty four months would be required to develop full euro payment systems' capability to enable RT to begin. This work would begin at D.

From Referendum to E day

4.4 After further consultation with stakeholders, the Government has concluded that the duration of a changeover (R to E) should be around 30 months in order to minimise risk and cost across the economy.

T (joining EMU)

4.5 The wholesale markets would be the most heavily affected at T. They would require financial markets to be closed, ideally for four days, so that they could complete their changeover, as happened in the euro area. Closure of the London wholesale financial markets would also need to coincide with a TARGET holiday (TARGET links the fifteen euro-denominated Real Time Gross Settlement (RTGS) systems in the European Union (EU) and the European Central Bank (ECB) payment mechanism, to provide an EU-wide RTGS system). There are currently six TARGET holidays each year: 1 January, Good Friday, Easter Monday, 1 May, 25 December and 26 December.

E day (introduction of euro cash)

4.6 E day would mark two key events in a changeover:

- the introduction of euro cash as legal tender in the UK; and
- the date from which all non-cash transactions would have to be denominated in euro.

4.7 The principal tasks to enable both these events need to be balanced when choosing E day: the delivery of a smooth and secure cash changeover and the business and IT systems changes necessary for all public, private and voluntary sector bodies to operate in euro. After consideration of these factors, the Government has concluded that the optimal date for E day would be 6 April.

- E day in the euro area: 1 January 2002** **4.8** The advantages of choosing 1 January 2002 as E day for the euro area were:
- it corresponded to the start of the financial/fiscal (tax) year in all twelve countries, which eased the task of systems conversion;
 - it was a memorable date, easing communication with business and citizens; and
 - it was a public holiday, which provided an opportunity for key tasks to be completed with few shops and businesses open.
- 4.9** For banks, cash-in-transit companies (CITs) and retailers, 1 January was not the most convenient date in terms of the logistics for the introduction of euro cash because it coincided with annual peak yearly cash demand and retail spending.
- Choosing a UK E day: 1 January** **4.10** It is important that the implications of the possible dates for a UK E day are understood. There are clearly a number of options, some of which would suit parts of the economy and none of which would be ideal for everyone.
- 1 January** **4.11** Not all of the advantages of 1 January for the euro area apply to the UK. This is because 1 January:
- does not correspond to the start of the financial year for the majority of UK business, nor the UK tax year; and
 - Christmas/New Year consumer spending patterns in the UK differ from many countries in the euro area, partially because sales start earlier in the UK. As a result, the logistical challenges the UK would face in distributing notes and coins at the height of the retail year would be greater than in the euro area.
- 15 February** **4.12** 15 February is the favoured date for E day for those involved in cash storage and distribution. This is because it is the point at which both the citizen's demand for cash and the level of cash in circulation is at its lowest. This would allow the spare capacity in the UK's cash distribution system to be used, easing the task of euro cash distribution and sterling cash withdrawal.
- 4.13** However, 15 February would not be optimal for systems' conversion. It lies outside the tax year and financial year, and, being mid-month, makes the accounting issues more complex. As a result, it would increase costs across the UK economy as organisations would have to convert payroll and other systems mid-month and mid-year. It would also increase the potential for errors in conversion.
- 4.14** Euro area experience also suggests 15 February would not provide enough lead time for frontloading to begin outside the Christmas period when there would be peak demand for cash. The three to four month frontloading process would need to begin in November at the latest.

6 April 4.15 The Government has concluded that 6 April is the optimal date for E day, following extensive consultation with organisations across the public, private and voluntary sectors. This is because it is a date when systems are typically updated to take account of tax and other changes that are tied to the UK's tax year, for example payroll, investments and benefits. Other IT/business systems typically use the 31 March end date and successfully run alongside necessary changes linked to the tax year.

4.16 6 April would also benefit the cash changeover because it would allow for longer lead times for the frontloading process to be undertaken outside of the Christmas peak period. Even allowing for the higher levels of cash required in the time around Easter, demand for cash across the UK economy is significantly lower in March/April than in December.

4.17 Balancing both logistical and systems conversion issues, current planning suggests 6 April would be optimal for E day in the UK. It is recognised that if a UK E day coincided with the Easter shopping period it would give rise to difficulties for food retailers in particular, as well as others directly involved in cash distribution. However, the Government is confident that these would be overcome, as they were on 1 January in the euro area, and that all stakeholders would work together to ensure a smooth and secure changeover.

OTHER MEMBER STATES

4.18 Among the other EU Member States, Denmark and Sweden have not adopted the euro.

4.19 The Swedish Government has stated its intention to hold a referendum on 14 September 2003 and that, if the people of Sweden decide to confirm membership of EMU, Sweden would seek to join on 1 January 2006.

4.20 The Danes voted against EMU membership in a referendum in 2000. On 2 January 2003, the Danish Prime Minister announced that Denmark would hold a further referendum on EMU membership in 2004.

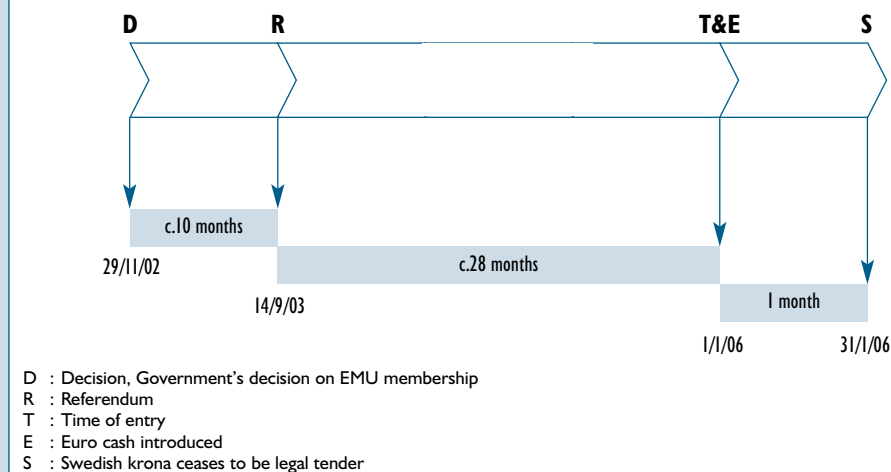
4.21 It is not possible to predict what, if any, impact the plans of Sweden and Denmark would have on a UK changeover. If the UK were to join EMU at a similar time, there might need to be co-ordination on timing of some key milestones, as happened for the euro area.

The Swedish approach

The Swedish Government announced on 29 November 2002 that it intended to hold a referendum on EMU membership and subsequently confirmed that the referendum would be held on 14 September 2003. They indicated that their preferred approach would be to join on 1 January 2006, with euro cash being introduced on the same day to deliver the changeover as a single memorable event, or big bang.

The Swedish and UK outline timetables would both take around three years from a Government decision to join EMU (D). The current plan is that Sweden's dual circulation period would last for one month, ending on 31 January 2006. This is shorter than the time taken for most euro area countries. The time from D to withdrawal of the Swedish krona would be 38 months, compared with a UK outline timetable of 36 months.

Figure 4.2: Swedish outline changeover timetable



The proposed absence of a transitional period is a major difference between the UK and Swedish approaches to a changeover. Under the Swedish approach, the Swedish krona would become irrevocably fixed to the euro on 1 January 2006, with wholesale and retail financial markets converting to euro at the same time and euro notes and coins being introduced into circulation.

WHY A PHASED APPROACH TO A CHANGEOVER?

4.22 The UK has had the opportunity to learn from the euro area countries and has built these lessons into its planning. One of the key lessons was that a phased approach to a changeover would help minimise costs, operational risks and the overall length of a changeover.

4.23 The 1995 Madrid European Council confirmed the third stage of monetary union and the establishment of the euro from 1 January 1999. As part of their preparations for the new currency, the euro area financial services sector began building the required payments infrastructure to support use of the euro from 1 January 1999. UK wholesale and international financial markets participated in this preparatory work. Following the introduction of euro in non-cash form on 1 January 1999, a further three year transition period was allowed to prepare before the introduction of euro cash on 1 January 2002.

4.24 Although a full range of euro financial services was available from the start of the euro area transition, there was very limited usage except by wholesale and international markets until towards the end of the transition period. Discussions with stakeholders suggest that UK business and citizens would also make limited use of euro services early in a changeover. In these circumstances, it would be more cost effective to phase the building of the new UK euro payments systems. Therefore, in a UK changeover the payment systems for the wholesale financial markets would be ready for T and the systems for retail financial services at RT. From RT, euro services would be phased in by individual service providers.

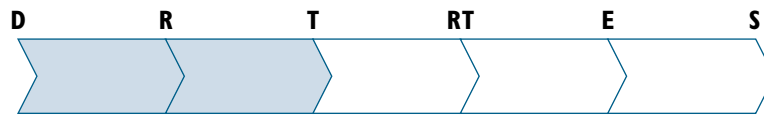
4.25 Specifying a point for the introduction of retail euro financial services would also assist other parts of the economy in delivering a cost effective changeover. It would allow business to plan their changes knowing that euro usage would be higher towards the end of a transition. It would also assist citizens in knowing when to expect to see products and services priced in euro.

4.26 The UK confirmed it would adopt a phased approach, also known as a managed transition, in July 2002.

WHAT WOULD HAPPEN WHEN?

4.27 Set out below are the key changes to the most common financial services which would affect business and citizens. The detail of which services would be offered and from which period is set out in the Managed Transition Plan (MTP) at Annex B.

Before T



4.28 In the period before T there would be no change to financial relationships.

T (joining EMU)



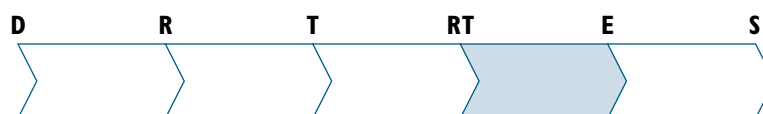
4.29 In the period after T:

- all financial transactions involving conversion of sterling or euro would use the official, fixed six-figure conversion rate;
- UK base rate would be set by the ECB;
- savings and borrowing products linked to the Bank of England's (the Bank) base rate might change to reflect a new base rate;
- gilts would be redenominated, quoted and traded in euro. However, non-institutional investors dealing through brokers and banks, for example, private clients, could continue to buy and sell them in sterling;
- there would be no change to retail financial services. Euro cash would not be legal tender and banks would be able to charge an explicit handling fee for buying and selling euro; and
- if euro cash was accepted by a UK business, they would convert it at the official rate and would be able to charge an explicit handling fee.

Example of how a changeover might work in the UK (2)

Bob goes on a day trip to France with his school. In preparation, to give Bob some spending money, Penny goes into town to exchange some sterling for euro. At the counter where she exchanges the money there is a prominently displayed poster to remind everyone of the official, fixed conversion rate, with some examples of amounts converted from sterling to euro using this rate. Penny exchanges £20, and is able to compare the amount she receives in euro with the euro equivalent of £20 shown on the poster. Penny is charged a small handling fee for the currency exchange, as advertised at the counter.

RT (retail transition)



4.30 In the period after RT:

- it would be possible to make and receive euro payments in non-cash forms;
- banks might begin to redenominate customer accounts. Once an account had been converted to euro, statements would show a sterling equivalent balance alongside the euro balance and transactions originated in sterling would be shown in sterling alongside the euro amount, for information;
- regular bills and shop prices would continue to be denominated in sterling. Where values were shown in euro, there would also be a sterling equivalent displayed for key amounts;
- where business converted their systems, employees might be paid in euro. Where this happened, there would also be a sterling equivalent displayed on pay advice slips;
- where business converted their debit and credit card machines, there would be a sterling equivalent displayed on receipts;
- regular payments paid by direct debit, such as utility bills, might be debited in euro. Where this happened there would be a sterling equivalent displayed on the bill and on the relevant bank statement;
- consumers would experience no practical difference between euro and sterling transactions when paying by credit or debit card, and business would make no additional charge in either case above any usual charge for a card transaction;
- business would be able to continue to apply an explicit handling fee for accepting euro cash before E day;
- financial services, such as insurance and pension policies, would be redenominated to euro and customers advised of the euro equivalent of key values;
- Inland Revenue would accept business and Self Assessment returns in euro for the tax year in which RT fell and might also be able to support businesses which wished to operate a euro payroll from this time by providing euro tax and other tables; and
- HM Customs and Excise would process transactions in euro or sterling.

Four Months before E day



4.31 From at least four months before E day:

- dual display of prices would begin four months before E day; and
- euro chequebooks would start to be distributed to current account holders.

Example of how a changeover might work in the UK (3)

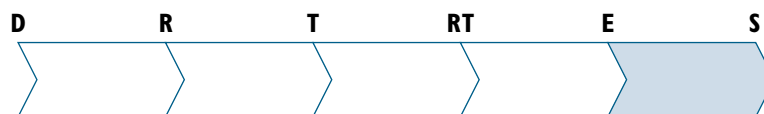
Three months before E day, a customer comes into Bill and Penny's newsagent and asks to pay their paper bill using a euro chequebook.

This is the first request from a customer to use a euro cheque. Bill and Penny say they do not accept euro cheques at present, and ask if the customer has another form of payment. The customer uses a euro denominated debit card. The transaction goes through the till in sterling, and is later converted to euro on the customer's account.

That evening after cashing up, Penny finds the retailer's information pack, sent out a few months before RT. She re-reads the section on methods of payment, particularly the section on cheques. She finds out that a bank will accept a euro denominated cheque drawn on a UK bank at no extra charge. If Bill and Penny wish to accept euro cheques, they will need to separate them from sterling cheques, and enter the total value of euro cheques on a separate credit slip to pay into their bank account.

Bill and Penny have very few customers with euro chequebooks. After discussing the issue, they decide to accept euro cheques on request.

E day



4.32 In the dual circulation period:

- euro notes and coins would be legal tender in the UK;
- sterling cash would still be legal tender;
- all non-cash transactions would be euro denominated from E day, though sterling cheques dated before E day would retain their validity for deposit for up to six months from the date of issue; and
- dual display of prices would continue until at least the end of the dual circulation period.

S (end of dual circulation)

4.33 After the end of the dual circulation period:

- sterling cash would no longer be legal tender in the UK, although notes and coins could still be exchanged at banks for a pre-determined period of time; and
- dual display would begin to be phased out.

NEXT STEPS

4.34 In developing the practical changeover preparations, HM Treasury will:

- continue to develop the Managed Transition Plan through consultation with stakeholders across the economy.

In a changeover, sufficient notes and coins would be required to meet the economy's cash needs as soon as the euro became legal tender in the UK. The task of producing, storing and distributing these notes and coins would be a major logistical challenge for the key stakeholders involved in cash distribution.

This chapter addresses how we would manage a cash changeover in the UK. It outlines the lessons from the euro area, the proposed approach to the management of a cash changeover in the UK, including the establishment of a Cash Changeover Working Group, and provides an update on the likely volume of notes and coins required.

BACKGROUND

5.1 A cash changeover would comprise three main stages:

- production of euro notes and coins;
- distribution of euro notes and coins; and
- withdrawal of sterling notes and coins.

Production

5.2 In the UK, the Bank of England (the Bank) oversees production of notes and the Royal Mint (the Mint) production of coins, on behalf of HM Treasury.

5.3 In a changeover, the Bank would, in consultation with the European Central Bank (ECB), have responsibility for the production and issue of UK euro notes. Current planning is on the basis that the Mint would make most, if not all, of the UK's euro coin requirement, although some coins might be brought in from other suppliers if it were cost effective or logistically necessary to do so.

Distribution

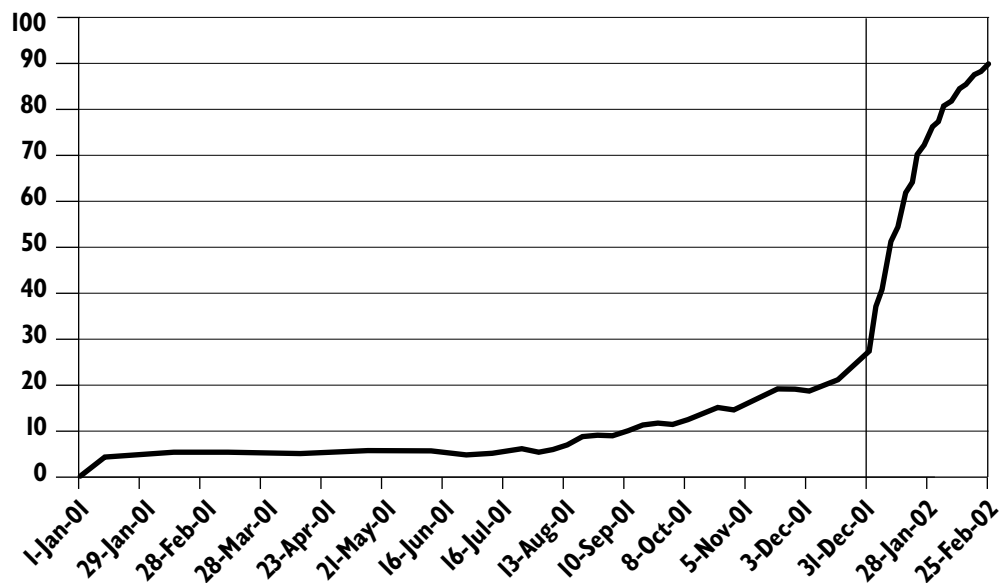
5.4 In the UK, the Bank distributes notes from its two cash centres to the members of its Note Circulation Scheme (NCS), a scheme that facilitates the distribution of notes in the UK. NCS currently has five members, comprising major cash-in-transit companies (CITs), large retail banks and the Royal Mail. The Mint is responsible for the delivery of coins, on behalf of HM Treasury. The basic model of cash distribution in the UK is explained in 5.13 and 5.14 below.

5.5 A cash changeover would involve the distribution of billions of euro notes and coins throughout the UK. While this would be a major logistical task, the Government is confident that it would be delivered smoothly and securely. Success would depend upon delivering the right quantities of euro notes and coins in the right denominations to the right locations at the right time. It would require close co-operation from everyone involved in the cash distribution process.

Legacy currency withdrawal in the euro area

5.6 Evidence from the euro area suggests that the challenge of withdrawing sterling cash from circulation should not be underestimated. Delivery of a successful withdrawal would require retailers, retail banks and CITs to work in close co-operation. In the euro area, while the distribution of euro notes and coins was spread over three to four months, legacy currencies were returned for the most part in a matter of weeks. The unforeseen speed of the return of legacy currency caused bottlenecks at banks and cash handling centres. In some euro area countries, this gave rise to significant delays in the crediting of retailers' accounts at retail banks and of retail banks' accounts at central banks.

Figure 5.1: Return of legacy notes as per cent (in value terms) of notes in circulation



Source: ECB.

Planning

5.7 The sixth Report on Euro Preparations (REP6) outlined the preliminary work undertaken in these areas and said that the Notes and Coins Working Group (NCWG) would review the UK estimates of coinage requirements for a changeover and consider the lessons for distribution and withdrawal from the euro area. The conclusions of the NCWG are outlined below.

HM Treasury's NCWG includes representatives from:

- Bank of England (Chair)
- HM Treasury (Secretariat)
- Royal Mint
- Royal Mail
- Association for Payment Clearing Services
- cash-in-transit companies
- British Retail Consortium
- Automatic Vending Association

5.8 As well as the work of the NCWG, planning has continued to benefit from the engagement of key stakeholders involved in cash production and distribution in the UK. Planning has been taken forward through sub-groups of the NCWG, through learning from the experience of the cash changeover in the euro area and through work produced by specific organisations. The latter includes reports and studies undertaken by the Association for Payment Clearing Services (APACS), the British Retail Consortium (BRC), the Automatic Vending Association (AVA), individual retail banks, retailers and CITs. A list of recent publications on a UK changeover is included at Annex J.

LESSONS FROM THE EURO AREA

5.9 The euro area provides examples of best practice and highlights the issues that would need particular care in a UK cash changeover. These issues are:

- distribution of euro notes and coins before E day was primarily managed by national central banks, with a clear allocation of responsibilities between the respective central banks, mints, commercial banks and CITs;
- central bank regional branch networks were used for cash storage, enabling euro notes and coins to be widely distributed across a country before frontloading began. Where necessary, these were supplemented by special storage facilities for coins, for example special depots were established on five military bases in France;
- frontloading of retail banks with euro cash began three to four months before E day;
- lead times for sub-frontloading of large retailers varied across the euro area, ranging from under a month to four months;
- coins were frontloaded first, because of their bulk, while notes were frontloaded later for security reasons;
- sub-frontloading of small retailers was limited. In some countries the penalty regime for early release of euro cash was perceived to be harsh. For example, in Italy premature circulation of euro cash carried a minimum penalty of €25,000, plus €3,000 per note lost, up to a maximum of €2 million;
- starter packs of coins were popular with euro area citizens. Over 150 million were sold across the euro area, 78 per cent of the 192 million produced. However, many were kept as gifts, rather than opened and spent. As a total of overall coin distribution, their impact was relatively small, at a maximum of just over 10 per cent of the 40.4 billion coins released into circulation during the changeover as a whole;
- over 200,000 ATMs were adapted across the euro area. This happened quickly. Within four days of E day virtually all were issuing only euro; and

- most euro area countries encouraged citizens to deposit hoarded coins at retail banks before 1 January 2002 or after the end of the dual circulation period. These dehoarding campaigns were sometimes supported by charities that viewed the return of legacy coins as a fundraising opportunity. Charities in the UK also participated in this exercise, collecting euro area legacy currency, with UK banks providing collection points at their branches. Some euro area countries held more than one dehoarding campaign. For example, Germany held campaigns in Spring and Autumn 2001 that helped remove around 12 billion coins (€1.8 billion in value) from circulation before 1 January 2002.

The introduction of euro notes and coins one year on

	Notes	Coins
Total circulation		
Total cash in circulation (number)	7.42 billion	38.2 billion
Total cash in circulation (value)	€ 320.9 billion	€ 11.9 billion
Total value as a share of GDP	4.54%	0.17%
Per capita figures		
Average number per person	24.7	126.5
Average value per person	€ 1,062.8	€ 39.4
Most common euro banknote/coin		
Total number (% of total)	€ 50 (28.8%)	1 cent (17.4%)
Total value (% of total)	€ 50 (33.4%)	€ 2 (39.8%)

Source: European Commission October 2002.

UK differences

5.10 The UK's cash economy is not identical to that of the euro area. The Government has identified the following factors that would be unique to the UK and where a different approach might be required:

- the Bank does not have a regional branch network;
- the Mint is responsible for the distribution of coins;
- the role of CITs and cash handlers in the UK's cash storage and distribution process differs from many euro area countries;
- there is a different pattern of cash usage in the UK, largely due to the relatively low value, compared to the euro area, of the highest denomination sterling note (£50); and
- euro notes and coins are already in use in the euro area.

Key lessons for the UK

5.11 The following points would be important for a cash changeover in the UK:

- a successful UK cash changeover and withdrawal process would depend upon close co-operation amongst all those involved in the cash production, storage and distribution processes. This would be particularly important because ownership of different aspects of a changeover would be shared amongst stakeholders;
- the Bank should play a key co-ordination role, working closely with the Mint, the Government and other key stakeholders, to plan and distribute euro cash and to ensure smooth and effective withdrawal of sterling notes and coins;

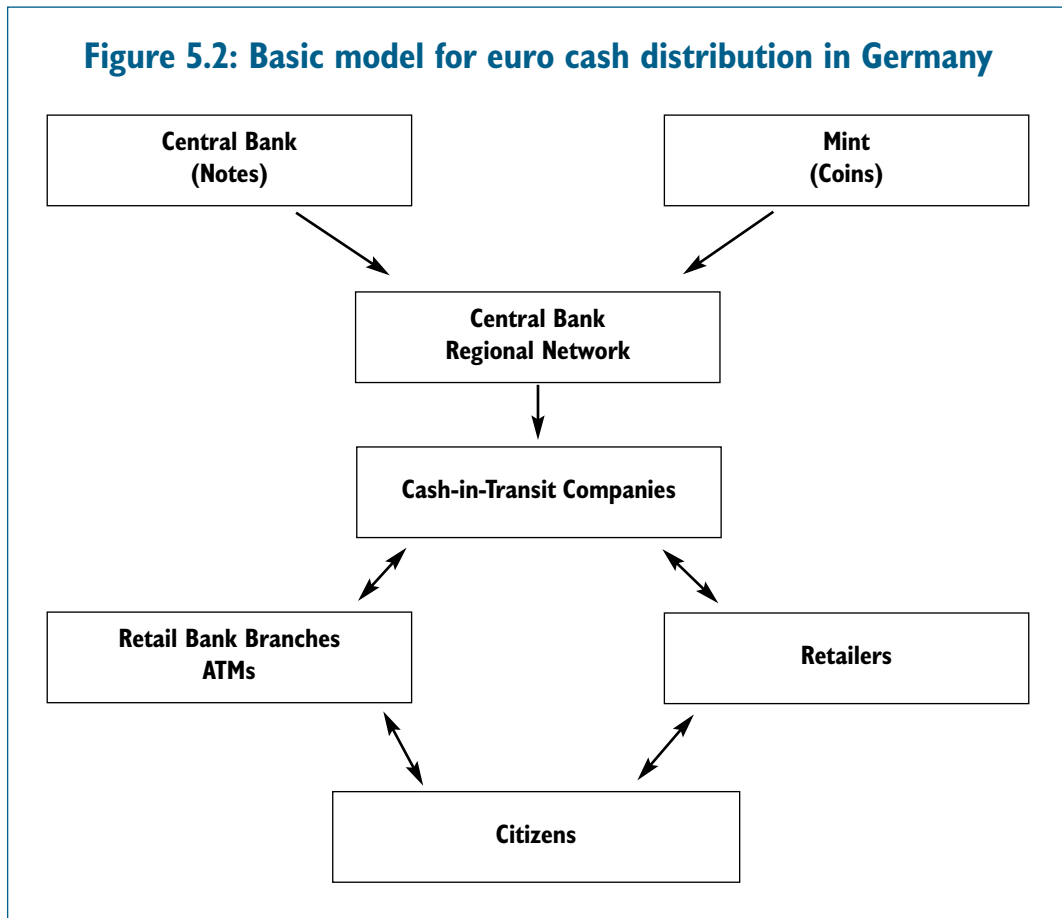
- a cash changeover would take place towards the end of a changeover and the tasks would largely fall in the twelve months before, and two months after, E day. This would allow time for planning work to be undertaken after a referendum;
- however, some aspects of a cash changeover would have longer lead times, in particular coin design and manufacture, as well as cash production and storage issues;
- neither the Bank nor the Mint has a regional branch network that could be used for the regional storage of notes and coins, ahead of the frontloading/sub-frontloading process. Alternative storage, particularly for coins, might be needed.
- widespread frontloading of retail banks and sub-frontloading of retailers would play a vital role in a successful cash changeover;
- care needs to be taken to ensure that retailers do not face disincentives to sub-frontload. Imaginative approaches to insurance and security cover and overdraft/capital facilities would help facilitate the sub-frontloading process;
- optimal lead times for the frontloading and sub-frontloading process would be three to four months;
- planning would need to take account of UK cash usage, including differences in regional demand for notes and coins and the low value of the highest denomination note, relative to the euro area.
- dehoarding campaigns could serve two purposes: both maintaining legacy currency stocks in the year before E day and as a means of removing legacy currency from circulation immediately before E day. Charities could play a significant role in the second of these campaigns;
- starter kits would be unlikely to play a substantial role in the cash distribution process; and
- key communication messages would be important in aiding the withdrawal process, especially during the dual circulation period: both by conveying messages to retailers, CITs and retail banks, and in easing citizens' concerns. In particular, citizens would need to be reminded that they would not need to return their legacy notes or coins immediately after E day. Arrangements would be available for the return of notes and coins for a defined and well publicised period from E day onwards.

Example of how a changeover might work in the UK (4)

Six months before E day, Bill and Penny receive a retailers' pack in the post. It contains advice and information about the conversion process, explains in clear and simple terms the procedures for obtaining, storing and handling euro notes and coins, and includes training materials for use with staff. There is a section on recognition of notes and coins, including a poster for display in the shop, and advice on how to count and sort euro cash. The pack also gives detail about how the withdrawal of sterling notes and coins will be managed, and the role of retailers in facilitating this process.

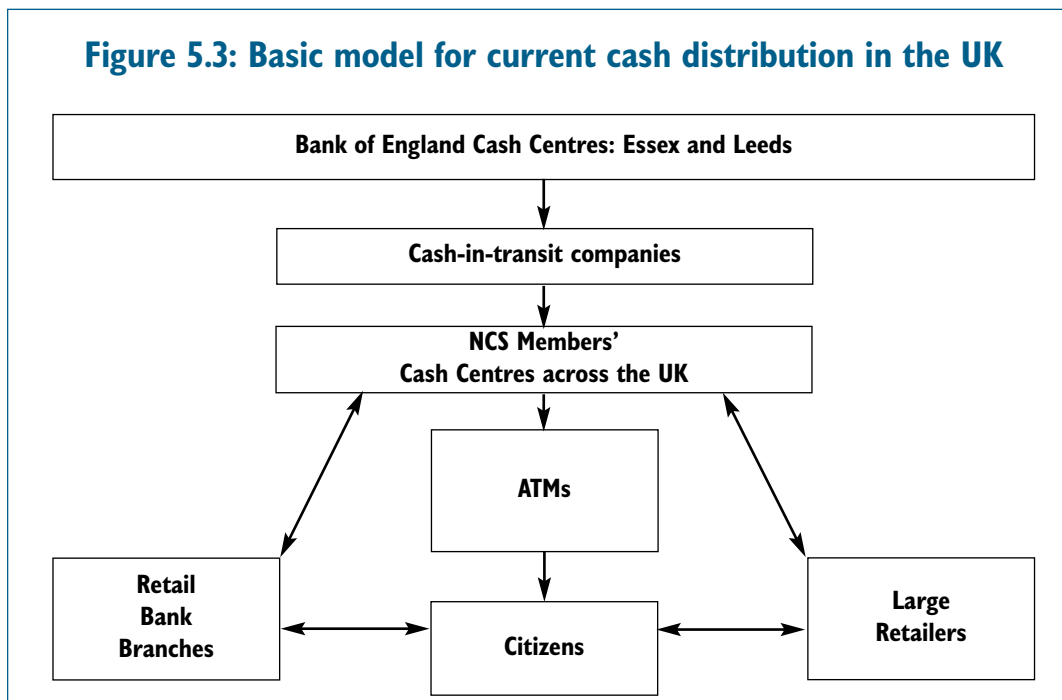
5.12 In Germany, the regional branch network (Landeszentralbanken) of the central bank was used to distribute both notes and coins. The central bank, the Bundesbank, is responsible for the distribution of both notes and coins in Germany.

Figure 5.2: Basic model for euro cash distribution in Germany

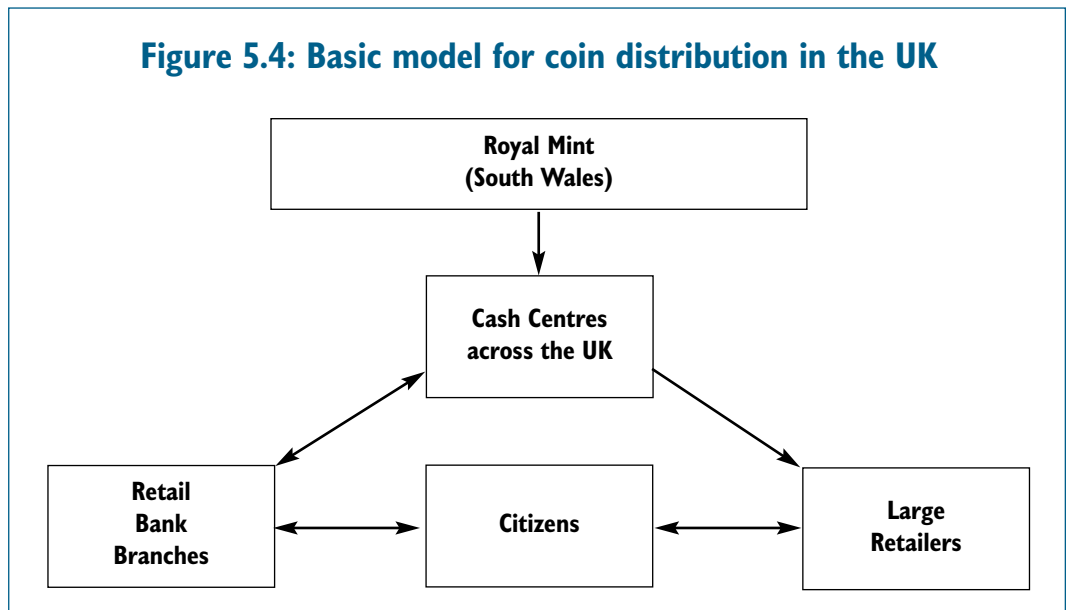


5.13 In the UK, notes are collected by CITs from the Bank's cash centres in Essex and Leeds, and distributed to cash centres (owned by cash handlers, the retail banks and the Royal Mail). They are then distributed to retail bank branches, ATMs (both independently run, remote and those at bank branches) and large retailers.

Figure 5.3: Basic model for current cash distribution in the UK



5.14 The Mint delivers the coins on behalf of HM Treasury to cash centres across the UK from where it is further distributed to retail bank branches and large retailers. In the UK, approximately 80 per cent of coins circulate between citizens and retailers.



APPROACH TO A UK CASH CHANGEOVER

5.15 To ensure close co-operation amongst all those involved in cash production, storage and distribution, the Government would establish a Cash Changeover Working Group (CCWG) to manage a cash changeover. The CCWG would replace the NCWG, whose initial preparatory role would have been fulfilled.

Role of the Cash Changeover Working Group

5.16 The CCWG would have a defined role with three clear objectives:

- to produce a cash changeover plan within six months of a referendum. The plan would define clear roles and responsibilities for all those involved in the cash changeover;
- to undertake a programme management audit role once the plan was finalised, ensuring key milestones were met, reporting progress, identifying issues and risks, as well as ensuring consistent and clear communication among those involved in the cash changeover; and
- to act as a forum for issue resolution.

Membership

5.17 It is proposed that the CCWG would include representatives of the following groups:

- Bank of England;
- HM Treasury;
- Royal Mint;

- Royal Mail;
- Association for Payment Clearing Services;
- cash-in-transit companies;
- British Retail Consortium; and
- Automatic Vending Association.

5.18 Representatives would need authority to deliver on behalf of their organisation. The membership is representative of key stakeholders in cash distribution in the UK and reflects the membership of the existing NCWG. However, other organisations would also play a significant role in delivering a successful cash changeover. In particular:

- retail banks;
- insurers;
- small- and medium-sized retailers;
- trade unions;
- consumer groups; and
- groups representing those who may experience particular difficulties during the cash changeover.

5.19 These groups would have an interest in some aspects of a cash changeover and their views would need to be reflected in a cash changeover plan. Insurers, in particular, could play a significant role in providing incentives to the frontloading and sub-frontloading processes. The banks would play a significant role in relation to the provision of credit for retailers.

5.20 The Bank would provide the Chairman, who would be responsible to an official in the Euro Changeover Secretariat (ECS) for ensuring the CCWG met its objectives.

Remit

5.21 The remit for the cash changeover plan would be specifically focused on the logistical aspects of a cash changeover: storage, frontloading and sub-frontloading of euro and withdrawal of sterling, including dehoarding campaigns. The remit for the CCWG would need to be finalised, after consultation with stakeholders, before a referendum, to allow sufficient time to deliver a cash changeover plan. Close co-operation between the Bank and the Mint would be essential.

5.22 The success of the CCWG would depend upon the continued support and flexibility of all players involved in cash distribution. Successful implementation of a cash changeover plan would require sufficient time from agreeing a plan to the start of the logistical process to deliver a successful E day. Under current planning assumptions that would be a minimum of eighteen months.

Outline possible timetable for a cash changeover

R	Cash Changeover Working Group established
6 months after R	Publication of cash changeover plan
9 months before E	First dehoarding campaign
6 months before E	Bank branch frontloading requirements agreed
4 months before E	Frontloading process begins
3 months before E	Second dehoarding campaign
E	Euro becomes legal tender
S	Sterling ceases to be legal tender

5.23 The exact details for the return of legacy currency would be for the CCWG to develop as part of the cash changeover plan. However, arrangements would be in place to allow the return of sterling cash after it ceased to be legal tender. In the euro area, central banks will accept returned legacy currency coins for a minimum of three years (2005) and returned legacy currency notes for a minimum of ten years (2012).

Example of how a changeover might work in the UK (5)

Mrs Tanner is careful with money and tries to save regularly. Although she has a savings account, she prefers to keep some cash at home in case of emergency.

Six weeks after E day, she remembers that she has £200 in notes, which she has given to her son-in-law, Bill, for safekeeping. Mrs Tanner has seen a poster at the pensioners' club she attends, explaining that sterling cash can still be used up to two months after E day. Even when sterling cash is withdrawn from circulation and is no longer legal tender, it will still be possible to exchange remaining sterling cash for euro.

Bill gives his mother-in-law a lift to the bank. Mrs Tanner decides to pay the £200 into her savings account, and is credited with the correct euro amount.

OTHER CASH ISSUES**Estimates of total UK requirements of notes and coins**

5.24 The decisions on the total amount of euro notes and coins that the UK would need to produce would fall outside the remit of the CCWG. They would be decided by the Bank, in consultation with the ECB, for notes and the Mint, working closely with the Government, and subject to ECB approval, for coins. The current estimate of total notes is 2 billion. The previous estimate of a need for between 13 and 14.5 billion euro coins has been revised in light of evidence from the euro area and from a recent study on current coin levels in the UK. Although modelling work is continuing, initial results suggest that the UK would need around 10 billion coins.

ATMs

In the euro area, approximately 70 per cent of cash is distributed by ATMs. Retail banks are increasingly outsourcing the stocking of the 37,000 ATMs in the UK, rather than filling them from note stocks held at branches. There is a mixture of two and four cassette machines in the UK: newer ones have four cassettes. Simpler, single cassette machines, placed in retail outlets and entertainment venues, are also growing in number.

Example of how a changeover might work in the UK (6)

Four months before E day, Bill goes to the cashpoint to withdraw some cash. He inserts his usual ATM card, which he has used for the past year. After making a sterling withdrawal of £60, he requests a receipt for the transaction. The receipt shows the sterling amount, with the euro equivalent also displayed for information.

5.25 Further issues that would need to be considered in the delivery of a cash changeover, and which would rest outside the remit of the CCWG, would be the design and denominational mix of UK euro cash.

E day

5.26 Chapter 4 discussed the reasons why the preferred date for E day is 6 April. As explained, E day would mark two key events in a possible UK changeover to the euro:

- the introduction of euro cash as legal tender in the UK; and
- the date from which all non-cash transactions would have to be denominated in euro.

5.27 On balance, 6 April is optimal for the UK as a whole. Nonetheless, the date would have implications for a cash changeover because it would not mark the lowest point of cash demand in the UK. As a result, CIT capacity, as well as cash centre and retail bank storage space, would be lower than in the middle of February. Retail activity, especially cash purchases in the food retailing sector, would be also be higher.

5.28 If a UK E day coincided with the Easter shopping peak period it would give rise to specific challenges for retailers, CITs and others directly involved in cash distribution. The Government is nonetheless confident that these would be overcome, as they were on 1 January in the euro area, and that all stakeholders would work together to ensure a smooth and secure cash changeover.

Example of how a changeover might work in the UK (7)

In the days immediately following E day, Bill and Penny's customers continue to use up their sterling cash. Prices are now expressed in euro, although sterling equivalents are also shown for information. Bill and Penny give out change in euro. Some customers are confused about this, and Bill and Penny explain the process, using a conversion chart to help the customer think about the transaction in euro. Bill and Penny store the sterling notes and coins separately from euro notes and coins. Sterling notes and coins will be returned to their bank for withdrawal from circulation.

Buying or selling euro cash before E day

Euro cash would not be legal tender in the UK until E day. Euro cash would be treated as if it were a foreign currency. As a result, retail banks would accept euro notes but not euro coins at their branches, and would be likely to charge a handling fee for dealing with euro cash just as they do at present in foreign currency transactions. Retailers would be likely to adopt a similar approach.

NEXT STEPS

5.29 In developing the practical changeover preparations, HM Treasury will:

- consult extensively on the approach to a cash changeover;
- work with the Bank and other key stakeholders to examine possible solutions to regional cash storage issues; and
- work with the Mint and other stakeholders to finalise estimates of coin requirements for a cash changeover.

Timely and relevant information for business and citizens would be critical to the success of a UK changeover. A successful communication programme would require a co-ordinated effort across the public, private and voluntary sectors. The guiding principles for developing a communication strategy would be clarity, credibility, co-operation and accessibility.

This chapter provides an update on current planning for communications. It outlines the lessons from the euro area, key messages for business and citizens at the principal phases of a changeover, the ways in which a central information programme would ensure co-ordination of messages across the economy and how the needs of vulnerable groups would be met.

BACKGROUND

6.1 The need for information programmes with a separate focus for business and citizens was identified in the first outline National Changeover Plan. There would be an additional need for appropriately designed information for vulnerable groups – including older people, younger people, visually impaired people, those with other perceptual difficulties, and those with learning difficulties.

6.2 The second outline National Changeover Plan noted the size and complexity of the communication task that would be required and presented the following propositions:

- people assimilate information most effectively when it is communicated by those from whom they expect to receive it;
- information is most effectively communicated when it is reinforced from a variety of credible sources over a period of time; and
- the role of information multipliers to help reinforce the messages is vital.

LESSONS FROM THE EURO AREA

6.3 While there were a number of common elements, each euro area country adopted an approach appropriate to its needs and those of its citizens. Success was generally achieved through a strong and flexible government lead and active co-operation between the public, private and voluntary sectors. In all cases, an emphasis was placed on consulting widely.

Figure 6.1: Co-ordination in a changeover

6.4 All euro area countries prepared specific communication plans to meet the needs of the following groups:

- business, especially small- and medium-sized enterprises (SMEs), who received information covering the potential effects of the changeover on their business and encouraging timely preparation;
- citizens, where the main focus of activities was ahead of the introduction of euro cash; and
- vulnerable or harder-to-reach groups, who received information about the changeover through a range of delivery channels.

Communication in the euro area

6.5 In the euro area:

- information programmes were carefully timed, clear, consistent and co-ordinated. Emphasis was placed on the practical aspects of the changeover. Intensive public education did not start until close to the arrival of euro cash, as citizens tended not to focus on information until the need to act on it was imminent;
- a variety of different channels were used to convey information, including mass media and partners in the public, private and voluntary sectors. Some countries placed an emphasis on face-to-face communication;
- additional information was provided for vulnerable groups. Representative groups worked in conjunction with governments to communicate to these groups;
- a range of bodies across the public, private and voluntary sectors, including the European Commission (Commission) and the European Central Bank (ECB), played significant roles within the communication process;
- communication for business began before programmes for citizens. This was because of the longer lead times for preparation by business and the role of some sectors (for example, retailers) as information multipliers; and

- countries received some funding from the Commission as a contribution to the cost of financing communication.

Communication in the euro area

Advertising campaigns

Ireland used celebrities to endorse the campaign, including the footballer, Paul McGrath, and the pop group, Westlife.

Germany chose trusted figures, including Helmut Schmidt, former Federal Chancellor and co-publisher of the weekly magazine, 'Die Zeit', and Sabine Christiansen, presenter of a popular talkshow on German television.

Euro Bus

Spain used a specially equipped bus, the 'euro movil', to visit local communities. The focus was on small communities, or communities in rural areas.

Austria adopted a similar approach: a double-decker bus toured Austria for three months, providing information about the euro.

PROVISION OF INFORMATION DURING A CHANGEOVER

6.6 In developing a communication strategy, it would be necessary to adopt the following principles:

- **clarity** – simple messages about what changes would happen, when, and what people would need to do to prepare;
- **credibility** – messages supported by the overall changeover planning and endorsed or delivered by trusted communicators;
- **co-ordination** – key messages delivered to different audiences across the economy, from a variety of sources; and
- **accessibility** – information provided in a format that is as accessible to as many people as possible, taking full account of the needs of all citizens, including vulnerable groups.

6.7 The communication activities during a changeover would need to reflect the specific characteristics of the UK: the distribution, language and culture of the population; the size and complexity of the economy; and the proximity of the UK to the euro area.

The UK environment

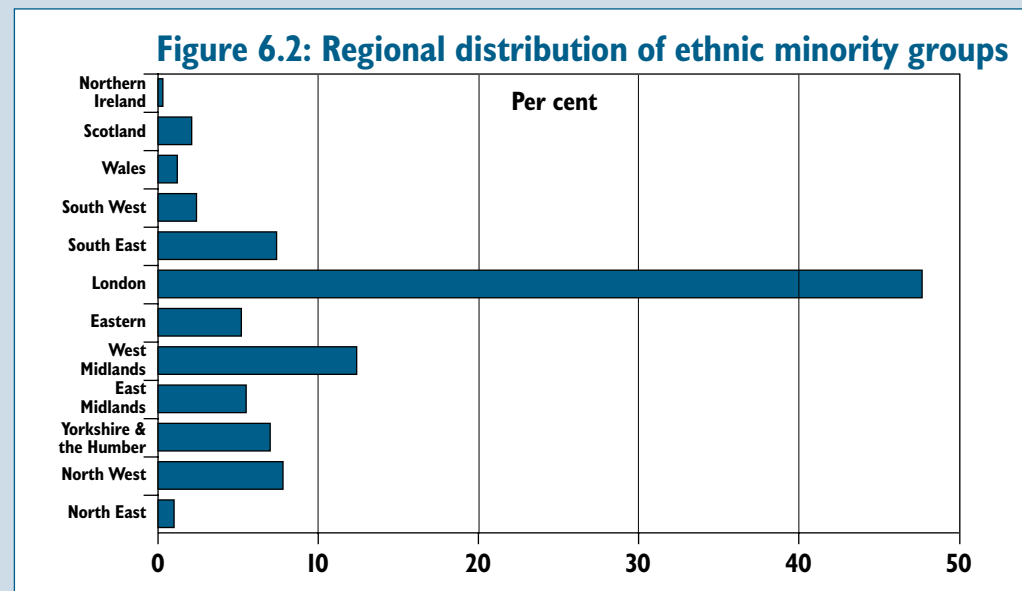
There are around 25 million households in the UK, ranging from those living in densely populated conurbations, such as Greater London, to those living in sparsely populated rural areas such as the Scottish Highlands. The UK has devolved administrations in Scotland, Wales and Northern Ireland, each with different responsibilities.

There are significant numbers of people in the UK for whom English is not their first language, and who would require access to materials in languages other than English.

There is no set number of languages for Government communication. In a changeover, the choice of languages would depend on the nature of the communication activity and target audience. As an example, the 2001 census form was translated into 28 languages:

Albanian	Greek	Somali
Arabic	Gujarati	Spanish
Bengali	Hindi	Swahili
Chinese	Italian	Turkish
Croatian	Japanese	Ulster Scots
Farsi	Polish	Urdu
French	Portuguese	Vietnamese
Gaelic (Irish)	Punjabi	Welsh
Gaelic (Scottish)	Russian	
German	Serbian	

Of the 4.5 million people in the UK who in 2001/02 described themselves as belonging to a minority ethnic group, around two million live in the London region.



There are around 3.8 million small businesses in the UK (defined as those businesses that have fewer than 50 employees), of which 2.6 million are sole traders (with no employees). Although 86 per cent of people aged over 16 have a debit card, the proportion is lower for younger and older age groups. In 2000/01, 58 per cent of families in Great Britain received a social security benefit or tax credit from the Government. There are around 9.4 million people in the UK over the age of sixty-five, of whom almost all receive a state pension.

Whereas in the euro area notes were not available before E day and coins only shortly before E day, many people in the UK have already used euro notes and coins. In 2001, there were 41.8 million visits by UK residents to the euro area. Some UK businesses, especially those that export to the euro area and those in the tourist industry, already accept payment in euro for goods and services. Businesses in some areas with close proximity to the euro area also accept euro, for example in Dover and parts of Northern Ireland. Although recent years have seen a rise in non-cash transactions (through credit and debit cards), cash is still the norm for small transactions, with nearly three-quarters of personal payments made by cash.

Source: 2001 Census, Social Trends 33 and the Small Business Service.

Figure 6.3: Key messages during the phases of a changeover

	Information for citizens	Information for business
Immediately after a referendum	<ul style="list-style-type: none"> No immediate change to currency Set out timetable 	<ul style="list-style-type: none"> No immediate change to currency Set out timetable
In the approach to T	<ul style="list-style-type: none"> Fixed exchange rate No immediate change to currency Reinforce timetable 	<ul style="list-style-type: none"> Fixed exchange rate No immediate change to currency Make limited preparations Reinforce timetable
Around RT	<ul style="list-style-type: none"> Consumer information to explain pace of change/choices RT to E Preliminary dehoarding campaign Reinforce timetable 	<ul style="list-style-type: none"> Business information to explain pace of change/choices RT to E Step up preparations, including planning for a cash changeover Reinforce timetable
In the approach to E day	<ul style="list-style-type: none"> Familiarisation campaign Date of E day Main dehoarding campaign 	<ul style="list-style-type: none"> Familiarisation campaign Date of E day Make full preparations, especially for a cash changeover Facilitate withdrawal of sterling
In the dual circulation period	<ul style="list-style-type: none"> Using euro notes and coins Date when sterling ceases to be legal tender 	<ul style="list-style-type: none"> Facilitate withdrawal of sterling Date when sterling ceases to be legal tender

PHASES OF A UK INFORMATION PROGRAMME

6.8 The potential timing of specific communication programmes during the different phases of a changeover was set out in the second outline National Changeover Plan. Communicating in a changeover would involve more than a description of the physical features of the new notes and coins: it would require helping everyone to develop an understanding of equivalent euro values. Everyone would need to understand what changes would happen, when and what their role would be.

6.9 To support this, an ongoing communication programme would be required. Such a programme would use a variety of formats and channels, including local and national press, TV and radio, telephone helplines, leaflets, direct mail and face-to-face communication and training. The information programme would require more intense activity around the key dates of a changeover.

At a referendum

6.10 Whatever the outcome of a referendum on UK entry to EMU, information would be needed to inform business and citizens of the implications. In the event of a Yes result, information aimed at business and citizens would:

- confirm a changeover timetable in as much detail as possible;
- explain what would happen next;
- explain where, and how, people could obtain further information; and
- remind everyone the issue of euro notes and coins was not imminent.

In the approach to, and immediately after, joining EMU

6.11 The messages outlined above would remain important in the approach to joining EMU. In addition, the communication programme would:

- publicise the rate of entry;
- explain the rules for converting sterling to euro, and vice versa, including use of the fixed exchange rate to six significant figures and the rules on rounding converted amounts;
- explain the issues resulting from a permanently fixed exchange rate for UK business and citizens: and
- remind everyone the issue of euro notes and coins was not imminent.

In the approach to the start of a retail transition

6.12 The communication programme for business and citizens would:

- explain that, from this point, individual financial products might be converted from sterling to euro, and let people know from where to expect more detailed information about the timing and implications of this process. For example, if a citizen's bank account was to be converted, they should expect their bank to give them advance notice of when, and how, this change would be made as well as what would be different. This would apply to all financial products and services, such as savings and mortgage accounts, direct debits and standing orders;
- explain the rules for conversion of prices from sterling to euro. Vulnerable groups would be a key audience for this message, which could be delivered in partnership with voluntary sector organisations and consumer groups;
- explain dual display so business would be ready to introduce dual display from at least four months before E day, to act as information multipliers and answer enquiries from their customers

In the approach to E day

6.13 The communication programme for business and citizens would:

- publicise the date of E day;
- introduce the new currency and explain how it would be distributed, focusing on the physical appearance and main security features; and
- outline the procedures for withdrawing sterling notes and coins.

6.14 It might be necessary to run dehoarding exercises in the approach to E day, to facilitate a smooth cash changeover. An initial dehoarding exercise, encouraging people to keep sterling in circulation, could take place around nine months before E day. Such a campaign could remind people to check for coins at home they could use. Television and radio advertisements could be supplemented by posters and leaflets in venues where charity collecting boxes were placed. A further programme, about three months before E day, could aim to reduce the amount of sterling in the economy. A dehoarding exercise would need the close co-operation of banks, the Post Office and retailers, and could include:

- information aimed at reminding people of the value of loose coins they might be keeping at home;
- coin collectors, issued to encourage people to count accurately and value their stored sterling coins; and
- a focus on charities, an established channel for disposing of surplus small change through collection boxes.

The dual circulation period

6.15 The communication programme at this time would:

- explain how to exchange sterling cash. Retailers, in particular, would need to know the procedures for accepting, storing, sorting, and exchanging sterling notes and coins. Banks would have a key role in taking in sterling and crediting it directly to euro accounts if customers did not want to exchange it for euro cash;
- publicise the end date of the dual circulation period; and
- explain residual arrangements for exchanging sterling and/or completing sterling transactions after its withdrawal (for example, reassurance that sterling cheques dated before E day would remain valid for up to six months from the date of issue).

Example of how a changeover might work in the UK (8)

Just before RT, Penny hears a radio advertisement, announcing that over the coming months personal bank accounts will be converted from sterling to euro.

Next time she's in the bank, she picks up a leaflet, explaining that the bank will write to customers six weeks before account conversion, and that she will still be able to operate in sterling even though the base currency of her account will be in euro after conversion.

Confused by this, she rings the euro helpline, where an operator explains that she will still have the same bank account (and the same account number and sort code), all direct debits and standing orders will work as normal, she will be able to use her credit and debit cards in shops as normal to pay prices expressed in sterling, and she should continue to use her sterling chequebook until E day. The operator explains that, in general, the retail economy will not make the change to working in euro until E day, when euro cash is introduced.

Several weeks later, Penny receives a letter from her bank advising her that her personal account will be converted from sterling to euro in six weeks' time, giving the date on which the conversion will take place. Enclosed is a leaflet, 'Using your new euro bank account', with a website address and phone number for more information. There is an example of a bank statement for a converted account, showing clearly that although euro is now the base currency, her bank will continue to display sterling amounts for each transaction originated in sterling at least until E day.

Next time she visits her bank, while she waits in the queue for a cashier, she watches a video showing a customer performing a number of common financial transactions using a euro bank account: paying bills by cheque in sterling and euro, purchasing goods in a shop in sterling using a euro denominated debit card, and withdrawing sterling from a cashpoint using a euro denominated cashcard.

At the end of the month, Penny's first euro account statement has sterling transactions displayed in euro, with the conversion rate shown, and the balance in both euro and sterling (for an example statement see Chapter 8).

CO-ORDINATING INFORMATION PROGRAMMES ACROSS THE ECONOMY

6.16 In the euro area, central information programmes were led by finance ministries as an integral part of managing a changeover. Co-ordination of a UK changeover would be achieved through a similar process, with a Government-led Communications Working Group (CWG). This would include representatives of public, private and voluntary sector organisations essential to successful communications during a changeover.

6.17 Supporting information would be provided from the most appropriate source. For example, in the euro area the ECB supplied information about the look and feel of the new currency, including security information to assist business in familiarisation and to aid in detection of forgeries.

Co-ordination in Ireland

In Ireland, a Public Relations and Media Group was formed with the Central Bank of Ireland, Forfás (the co-ordinating body for business information) and the Office of the Director of Consumer Affairs. The group met monthly, including with the advertising agencies, to discuss how the various programmes were progressing and to ensure that media activities did not clash. Non-governmental organisations (NGOs) were involved through a tendering process, and a wide range of organisations were awarded funding to undertake various information activities over the two years of the NGOs' programme.

6.18 In a changeover, the Euro Changeover Secretariat (ECS) would run a central public information programme. Features of this programme would include:

- a central concept and brand identity, to ensure that messages about a changeover could easily be identified and assimilated and were presented in a clear and consistent manner appropriate to the UK context;
- a programme of mass media advertising at key points in the timetable;
- targeted information for business; and
- materials adapted and/or tailored to the needs of vulnerable groups (see Chapter 7 for more on communicating with vulnerable groups).

Responsibilities of the Euro Changeover Secretariat

6.19 The ECS would:

- define the overall messages and phasing of information programmes to support the smooth implementation of the changeover plan;
- deliver the central communication programme;
- manage the Government's communication budget, and the allocation and distribution of funding to selected communication partners (for example, voluntary sector groups involved in provision of information to vulnerable groups);

- meet statutory requirements for the accessibility of Government communications, and build the needs of vulnerable groups into the central communication programme;
- measure the effectiveness of the communication programme and use this to inform revision of the programme; and
- work with public, private and voluntary sector organisations to ensure that communication across all sectors was properly planned and co-ordinated.

Responsibilities of individual organisations

6.20 It would be the responsibility of each individual organisation to undertake appropriate communication with their stakeholders about the implications of a changeover for their mutual transactions. To prepare, it is recommended that organisations should:

- identify key stakeholders and consider whether they need to be separated into discrete categories, depending on a need for information at different times and to differing levels of detail;
- audit current communication channels;
- identify key relationships and interdependencies with other organisations;
- identify the specific communication that would be required at different phases of a changeover;
- consider how to ensure that the needs of vulnerable groups were met; and
- consider how and when staff would receive information and training.

6.21 Representative bodies such as trade associations, professional bodies and certain voluntary sector organisations should be prepared to offer information, advice and support to their client groups as part of their normal service.

Information activities of the European Central Bank (ECB)

The ECB undertook an extensive programme of public and business communication in the euro area, supported by the activities of the national central banks.

Around 200 million leaflets, ‘Getting ready for the euro – your guide to the euro banknotes and coins’, were produced. Almost every household in the euro area received this leaflet. Television and press advertising was used in all euro area countries.

The main messages were:

- **appearance of notes and coins;**
- **security features of banknotes;**
- **denominations of notes and coins; and**
- **timing and method of the cash changeover.**

A Partnership Programme encouraged other organisations to use and adapt ECB materials to inform and educate their customers and staff.

Communication planning in the public sector

The Ministry of Defence (MoD) has developed a high-level communication strategy for a euro conversion programme aimed at meeting the information needs of its stakeholders. To a large extent, communication would be delivered via normal programme and business management channels, although specific means would include:

- a euro programme website;
- articles in MoD and Service publications;
- internal communications briefs; and
- awareness courses.

MoD envisages the need to facilitate access to general information materials for overseas service personnel. More detailed strategies would be developed to cover the specific target audiences affected in the various business areas. The timing and nature of communication would be linked to the Government's changeover timetable.

The Department for Education and Skills (DfES) has produced an internal Euro Contingency Communication Plan for England. The Plan sets out how DfES would contribute to a Government information programme. It forms part of the over-arching conversion strategy for the Department. The target stakeholders are learners of all ages. At each phase, it identifies:

- key communication actions;
- target groups;
- responsibility for delivery;
- key delivery partners;
- timings and milestones; and
- external factors and risks that might influence the outcome or timing of actions.

Examples of potential activities are:

- changes to the curriculum and syllabus and associated materials for schools;
- euro training for teachers, lecturers and education managers;
- guidance for local education authorities;
- new euro modules for adults;
- online guidance for schools; and
- a possible Year of Europe.

There are similar plans for other departments.

FINANCING OF COMMUNICATION PROGRAMMES

6.22 In the euro area, all countries had a budget for a central information programme, but, beyond this, the costs of communication were generally borne by the organisation that commissioned and carried out specific activities. Given the success of the euro area changeover, there is no reason for the UK to adopt a different approach. There would be a limited exception. Some funding would be available for partners experienced in communicating with vulnerable groups.

COMMUNICATING WITH VULNERABLE GROUPS

6.23 Government information material would need to take into account communication with vulnerable groups. This responsibility includes, but would not be limited to, meeting statutory duties for the provision of Government information materials, for example, providing such material in a range of appropriate languages.

6.24 As a general principle, citizens should not be expected to bear additional explicit or hidden charges to gain access to the information they need.

6.25 The adaptations of mainstream materials that would be considered as part of an information programme could include:

- printed materials in a range of languages;
- large print, Braille and audio formats of printed materials for the visually impaired;
- textphone facilities for telephone helplines;
- signed, subtitled or closed caption options for television information;
- ensuring that materials and information forming part of the mainstream programme were placed in the appropriate media and venues to reach specific vulnerable groups, for example, Post Offices to reach benefit claimants, or using radio advertising to reach people with visual impairments;
- the use of appropriate intermediaries to deliver face-to-face information, explaining and reinforcing the mainstream materials; and
- issuing materials for vulnerable groups in advance of those for citizens, and making them available for longer periods. Additional time might be required both to train intermediaries and for the target groups to assimilate the information.

6.26 For further details on supporting vulnerable groups see Chapter 7.

WORKING WITH OTHER MEMBER STATES

6.27 If the UK were to join EMU at the same time as another Member State, the UK would need to take account of their changeover process and public information programmes. In the euro area, Member States co-ordinated aspects of their communication programmes through the Commission. For example, the Eurobarometer surveys measured understanding and take up of euro denominated products and services across the euro area.

NEXT STEPS

6.28 In developing the practical changeover preparations, HM Treasury will:

- continue to consult on and develop the communication strategy;
- undertake further work on the specific needs of vulnerable groups, through a new working group; and
- work with stakeholders to ensure co-ordination across the communication plans of public, private and voluntary sector organisations.

Maintaining consumer confidence would be an essential part of a successful changeover. The Government's objective would be to provide the necessary help to consumers while avoiding unnecessary burdens on business.

This chapter addresses how the Government would support consumers during a changeover. It outlines the lessons from the euro area, the progress on the development of the core principles for consumer codes, dual display, accurate conversion and help for vulnerable groups.

BACKGROUND

7.1 Consumer confidence would be an important part of a successful changeover. Consumers in the euro area were not always confident that their interests were fully reflected in the changeover strategies chosen (see Annex C). In considering consumer protection during a UK changeover the Government has taken the opportunity to learn from best practice in the euro area.

7.2 In the euro area, the European Commission (the Commission) proposed voluntary codes of conduct in which businesses would commit to standards of behaviour when dealing with consumers. After consultation with stakeholders, the Government proposed adopting a similar approach for a UK changeover. A working group was established to develop a set of core principles for a code, and the resulting draft principles were published for wider consultation in the sixth Report on Euro Preparations (REP6). Stakeholders welcomed the principles, although some suggested adding the requirement for consumers to be given a contact telephone number in the event of a query or problem. This has been incorporated as an additional principle (see 7.24 to 7.44).

7.3 The retail sector would have a particularly important role to play in supporting consumers. The Government has been working with the British Retail Consortium (BRC), the Association of Convenience Stores (ACS) and others to develop a practical code for the retail sector. This should provide a high standard of consumer protection and information, while taking account of the many different sizes and types of business in the sector.

7.4 The Government has also been working with regulators to identify areas where codes would need to be harmonised with regulators' consumer protection duties. A Regulated Sectors Working Group (RSWG) has been set up to discuss these issues. Regulators will be involved in developing sector-specific codes, as part of their consumer protection remits.

LESSONS FROM THE EURO AREA

7.5 In the euro area a number of approaches were employed to help maintain consumer confidence. The Eurobarometer surveys helped assess the success of these. The Eurobarometer measured changes in public opinion across the euro area from 2000. The reports are available from: www.europa.eu.int/comm/public-opinion.

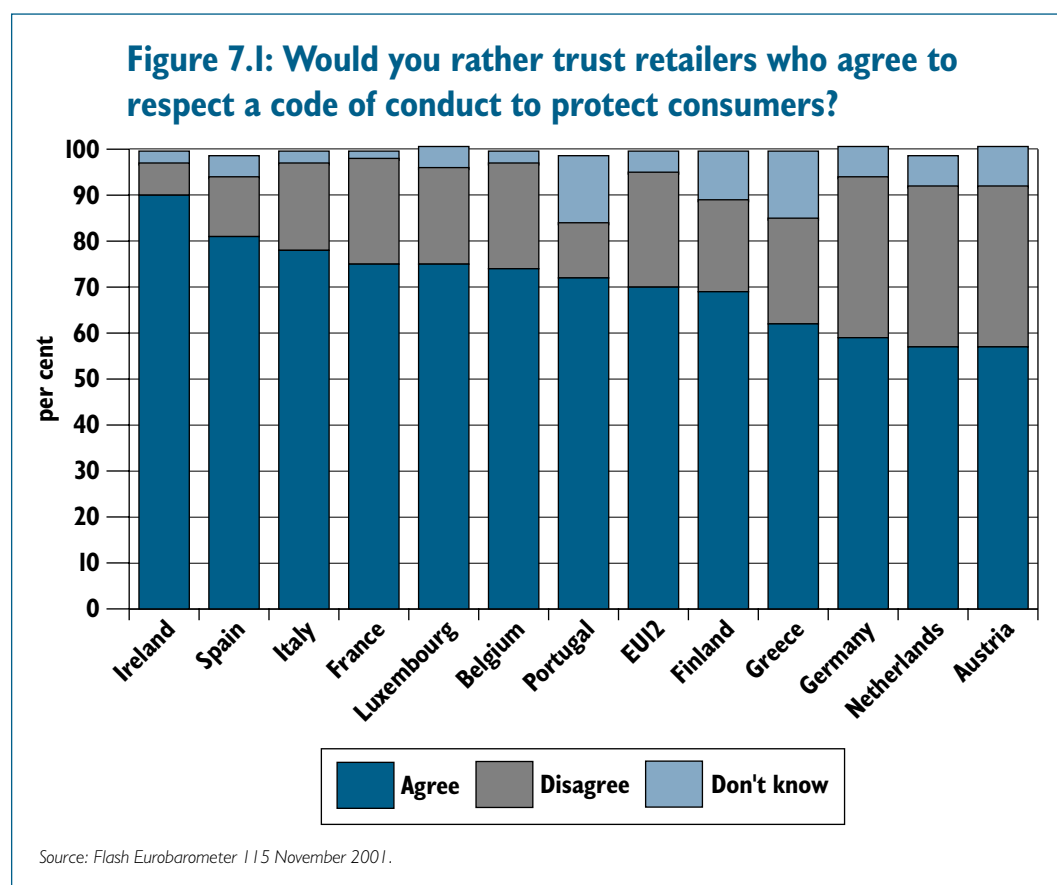
The effectiveness of euro communication and preparation

7.6 Communication with consumers would be essential in delivering a smooth and effective changeover. The lessons from the euro area on communicating with consumers are discussed in more detail in Chapter 6.

Consumer codes and the euro logo

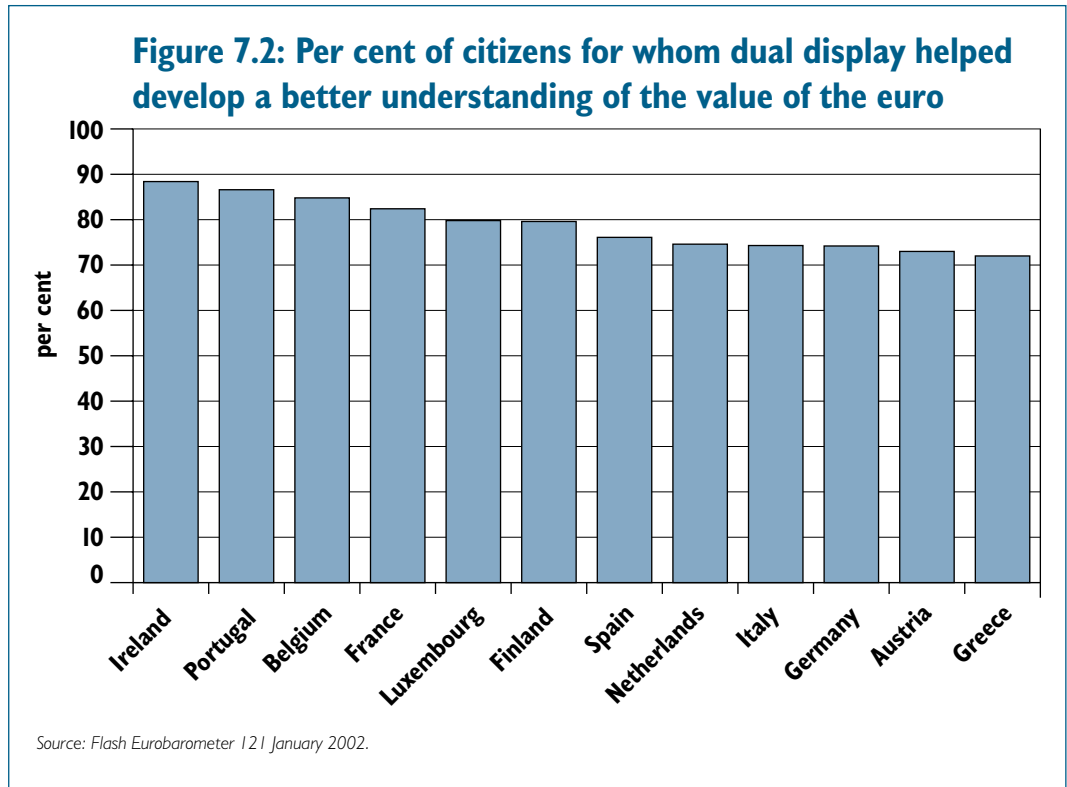
7.7 In 1998, the Commission made proposals for the development of a consumer code, whereby organisations that signed up to the code would adhere to agreed standards in dealing with consumers. In return, they would be permitted to display an approved logo to inform consumers of their commitment to the code. To support this proposal, in 2001, the Commission published forty recommendations for the introduction of notes and coin (at Annex E), which included consumer protection measures such as dual pricing, price conversion, rounding in favour of the consumer overall and effective training of staff.

7.8 Most euro area countries adopted a code. Some made adherence to certain parts mandatory. The codes appear to have been welcomed by euro area citizens. The survey results shown in Figure 7.1 suggest that a majority of euro area citizens took comfort from consumer codes.



Dual display

7.9 The Commission made a recommendation on how dual display should be conducted in the euro area (at Annex D). In a survey, 77 per cent of euro area citizens said that dual display had helped them to develop a better understanding of the value of the euro.



7.10 Different approaches to promoting dual display were adopted in different countries. Nine of the twelve euro area countries adopted a voluntary approach. Dual display was mandatory in Greece, Austria and Portugal. Regardless of approach, dual display became widespread in all euro area countries from late 2001 (by October, 75 per cent of euro area small- and medium-sized enterprises (SMEs) had adopted dual display¹). It appears to have made little difference whether a voluntary or mandatory approach was chosen.

Euro observatories

7.11 The Commission recommended that countries establish euro observatories during the changeover. It was envisaged that the observatories would act as mediators to resolve disputes over the euro without the need for litigation. The observatories included representatives from local government, business and consumer organisations.

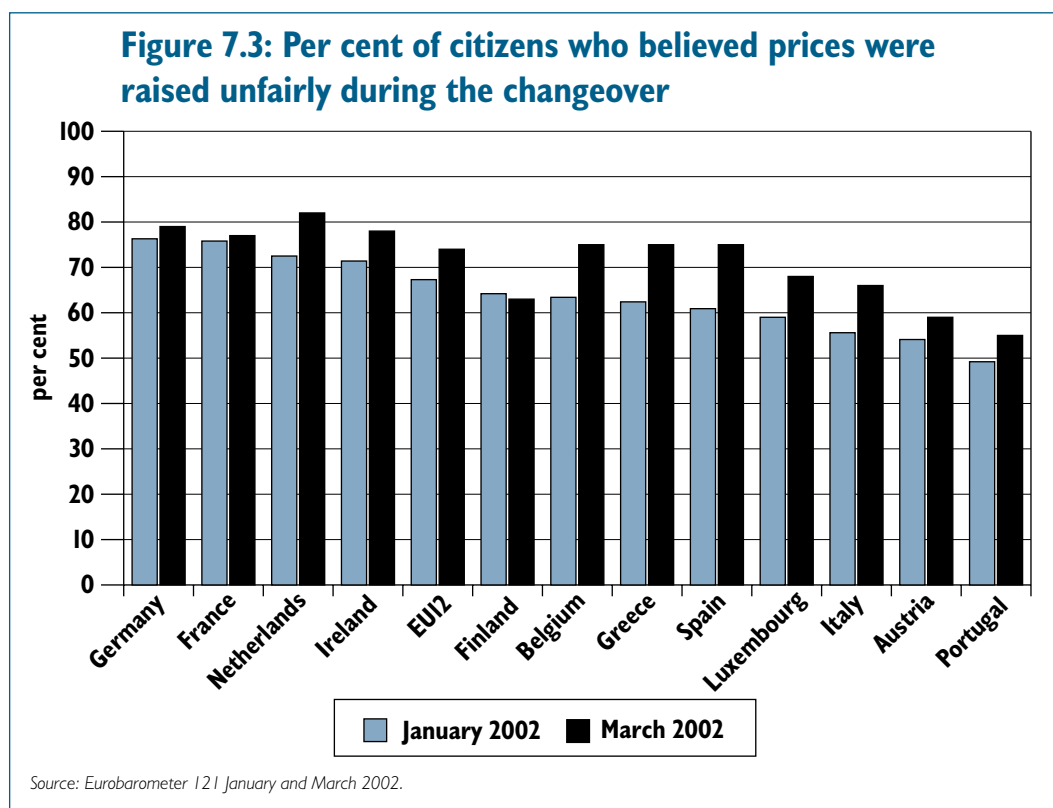
¹ EOS Gallup Europe Flash Eurobarometer 111 SMEs and the euro October-November 2001.

7.12 However, in some countries euro observatories undertook a more pro-active role. For example, in Belgium the Ministry of Economic Affairs used euro observatories to deliver parts of their communication strategy at a regional level. The activities of the Belgian observatories also included:

- identifying and resolving consumer issues, particularly for citizens with lower incomes;
- distributing euro information to citizens;
- working with representatives of vulnerable groups, particularly those with special needs. Nursing staff, social workers, ethnic group representatives and people working with migrant groups helped to provide targeted communication to selected groups; and
- recruiting special euro trainers for vulnerable individuals.

Price stability agreements

7.13 In several countries (Finland, France, Germany, Greece and Italy) business entered into voluntary agreements to maintain price stability, that is, not to raise prices for a specified period. These agreements tended to operate three to four months either side of E day.



7.14 Figure 7.3 shows the perception of citizens in all countries that businesses took advantage of the changeover to raise prices (see Annex C). The price stability agreements appear to have had little bearing on consumer perceptions. Two of the countries that had price stability agreements also had the highest perception of price rises. Price stability agreements were intended to dissociate normal price increases from E day, so that consumers would not perceive market price increases as being euro related. In practice, media and consumer groups claimed that price increases that occurred before or after the period of the agreements were due to the introduction of the euro. On this evidence, it would appear that price stability agreements did not promote consumer confidence.

Price monitoring

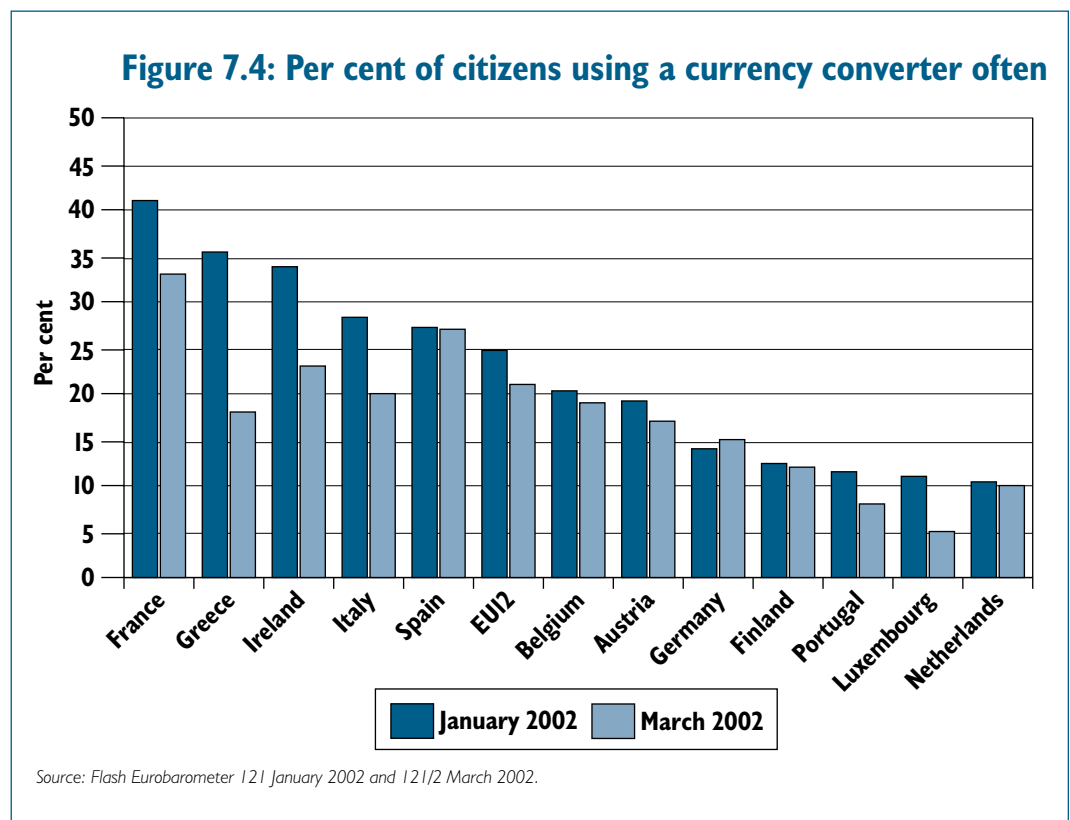
7.15 Euro area countries adopted different approaches to price monitoring in the euro area. In some countries government took the lead, while in other countries consumer groups and the media led. For example:

- in Austria, the government-sponsored Price Commission investigated euro related price rises and encouraged these to be changed; and
- in the Netherlands, a consumer association, Consumentenbond, carried out price monitoring and investigated cases reported by consumers. Consumentenbond found that only 25 percent of reported cases were actual instances of price rises and in 90 per cent of these the cause of the price rise was not euro related. Where Consumentenbond identified euro related price increases, it offered the retailer one working week in which to adjust prices or to explain the price rise. Failure to do so resulted in the naming and shaming of the retailer on the Consumentenbond website.

Conversion tools

7.16 Some countries provided conversion tools, such as calculators and tables (including specific tools for vulnerable groups). These made it simpler for consumers to make their own price comparisons. In Ireland, an electronic converter was sent to every household (almost 1.4 million in total).

7.17 On balance, conversion tools appear to have made a positive contribution for some citizens – one in four citizens were using them in January 2002 and one in five were still using them in March 2002.



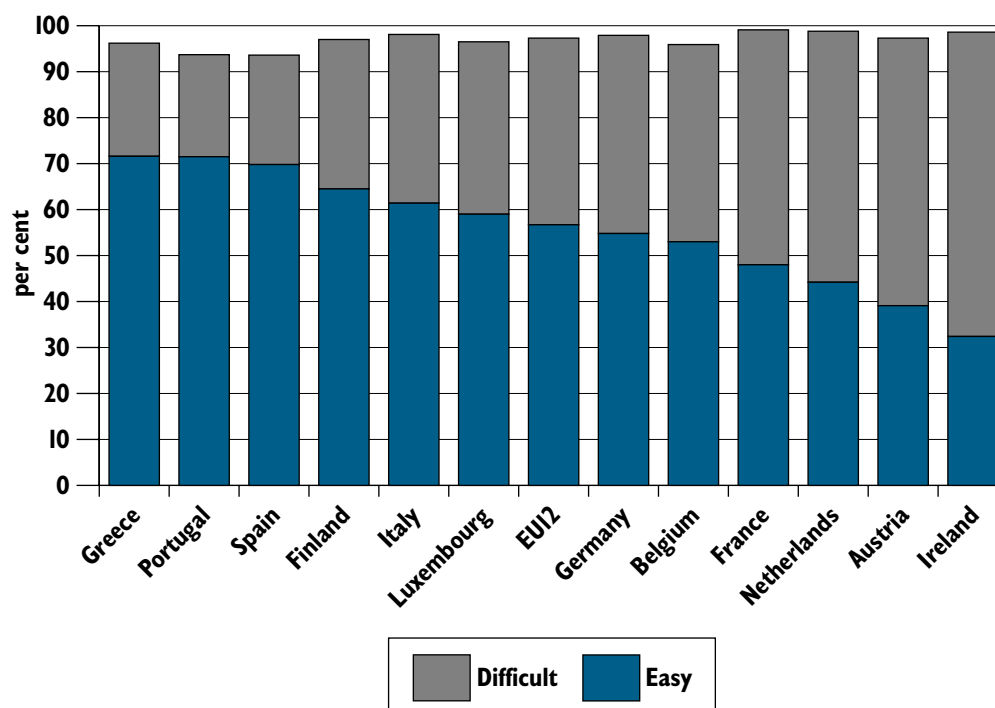
Starter kits

7.18 In the last two weeks of 2001, starter kits of euro coins went on sale in all the euro area countries. These contained a mixture of the eight denominations. Notes were not included because of concern from the European Central Bank (ECB) that early access to euro notes might increase the risk of counterfeiting. The value of the kits ranged from €6.35 to €15.25. There was a wide variation in the number of kits produced in each country – from 0.5 million in Finland (for a population of 5 million) to 53.5 million in Germany (83 million people). The kits were designed to:

- provide consumers with an early experience of handling the new coins;
- reinforce communication about the new currency in the final two weeks before E day;
- provide citizens with coins allowing them to make simple purchases straight away; and
- reduce the amount of change retailers might need early in the cash changeover before low denomination notes and coins had spread across the economy.

7.19 The survey results indicate varied success in familiarising consumers with the new coins across the euro area. Even in Germany and France, who each produced over 50 million kits, around 50 per cent of citizens said they found the coins difficult to recognise.

Figure 7.5: Per cent of citizens that could easily recognise euro coins



Source: Flash Eurobarometer 121 January 2002.

7.20 Interestingly, citizens felt better able to recognise euro notes even though these had not been distributed to the public before E day. In January 2002, 93 per cent of euro area citizens said they found it easy to recognise euro notes, compared to 57 per cent for coins.

7.21 The starter kits were generally well received by citizens and became collectors' items in some countries – particularly in Finland where few were produced and where a comparatively small number of 1 and 2 cent coins were minted.

7.22 Overall, starter kits do not appear to have had a significant impact in familiarising consumers with euro coins.

KEY LESSONS FOR THE UK

7.23 The experience of the euro area in helping consumers with the euro offers some useful lessons for a UK changeover:

- timely, effective and co-ordinated communication from public, private and voluntary sectors is essential;
- consumer codes can play a role in maintaining consumer confidence;
- dual display helps consumers to develop an understanding of equivalent euro values;
- the voluntary approach to dual pricing works as well as a mandatory one;
- euro observatories could play a useful role at regional and local level in communication activities, particularly in distributing information materials and training to vulnerable groups;
- price stability agreements do not appear to avert consumer perceptions of prices being raised when they are converted;
- price monitoring in the euro area does not appear to have averted consumer perceptions of prices being raised. Media interest in a few instances may have served to create the impression of more widespread price rises. This was not consistent with the statistical consumer price indices which showed that there had been no sudden rise in inflation. Euro area media and consumer organisations argued that price baskets were unrepresentative of consumer purchases. In the UK, the Office for National Statistics (ONS) compile the retail price index (RPI) by monitoring prices for a basket of 650 goods and services. The composition of the basket is reviewed annually to ensure it reflects consumer purchase trends. The Government would work with the ONS to review existing methodology to secure robust price monitoring by consumer representative organisations;
- conversion tools were useful to some citizens; and
- starter kits do not appear to have significantly enabled consumers to become familiar with euro coins. Although, familiarisation would be of less concern in the UK where many citizens would already have seen and used euro coins.

CONSUMER CONFIDENCE IN A UK CHANGEOVER

7.24 As suggested in the second outline National Changeover Plan, the best consumer protection measures from the euro area would be incorporated into a UK consumer code.

7.25 REP6 discussed whether key aspects of such a code, for example, dual display, should be mandatory or voluntary. A voluntary approach would fit with the broader Government policy of minimising the regulatory burden on business. The Government believes that proper competition, together with comprehensive and accurate information for consumers, is the best form of consumer protection and ensures that business is not burdened by unnecessary regulation.

7.26 Competition still requires some statutory support to ensure that consumers have access to accurate price information. The current UK pricing legislation, including the Prices Act 1974, requires the display of information about the prices of specific goods or services. The Consumer Protection Act 1987 prohibits misleading information about the prices of goods and services.

7.27 The vigilance of media and consumer organisations would also play a key role in ensuring that the market operates effectively and consumers are treated fairly. Overall, the Government believes that a voluntary approach would be best for consumers in the UK.

7.28 Draft principles for consumer codes were published in the second outline National Changeover Plan. The Government developed these through consultation with public and private sector stakeholders. The aim of the codes would be to ensure fairness for the consumer, relevant and easily understood information, and clear and accurate display of sterling and euro values.

Principles for consumer codes of practice

Overall aim

To ensure that consumers would be confident of being treated fairly, and provided with adequate, targeted and easily understood information to help them during a changeover from sterling to euro.

Core principles

- for amounts displayed in euro and sterling the two figures should be equivalent in value, and it should be clear which denominations and which methods of payment are accepted;
- the official conversion rate must be applied and rounding rules adhered to in all dealings with consumers;
- consumers paying in euro or sterling should be treated equally, although a clearly displayed fee might be charged where euro notes and coins were accepted before their formal introduction in the UK;
- accurate, clear and targeted information should be provided to assist consumers with a changeover;
- dual currency information for consumers should be provided, in an appropriate form, for at least the period from euro cash day minus four months until the withdrawal of sterling notes and coin was completed;
- in the operation of this code, the needs of vulnerable groups, such as older people, the visually impaired and those with learning difficulties, should be taken into account;
- staff dealing with customers should be well trained and able to provide consumers with straightforward, accurate and relevant information about how the changeover affected the consumer's dealings with the organisation; and
- organisations wishing to display any logo as a visible sign of compliance to the code must include an approved contact number.

Sector codes

7.29 Individual sectors of the economy would be encouraged to develop codes based on the core principles and adapted to the particular circumstances of their sector. For example, large retailers have more sophisticated customer service and staff training operations which could facilitate a changeover for consumers, whereas small retailers' till and pricing arrangements might be less capable of providing comprehensive dual display during a changeover. The core principles would provide a minimum guarantee for consumers. In practice, many of the sectoral codes might provide additional protection.

7.30 Where they exist, industry regulators are assisting in developing codes for their sectors. The public sector is also developing a code to govern areas where it has a direct relationship with citizens, for example in providing passports, driving licences and so on.

7.31 Monitoring of adherence to the codes and enforcement would be undertaken through existing channels. So, for example, regulators or trading standards officers would investigate a breach of consumer protection rules. In addition, each business displaying the consumer protection logo would be required to provide a telephone number for consumers to call in the event of a complaint. Large businesses may choose to offer a telephone helpline service themselves to resolve complaints quickly, or to explain the changes to their customers. Others might choose to rely on a central number or trading standards officers. In each case, it would be made clear to the consumer what action they could take.

7.32 The draft retail and transport codes are set out in Annex F and the public sector code in Chapter 11. They are still undergoing consultation, but provide examples of how the core principles would be developed.

Example of how a changeover might work in the UK (9)

Angela is home from university. Although she has seen a few posters round the campus, she hasn't paid much attention to the changeover so far.

About a week before E day (the day of the introduction of UK euro cash), she begins to panic. Fortunately, her brother, Bob has been paying attention at school. He knows all about the euro. His class even prepared a 'teach your family about the euro' game, which he has already tested on his grandmother. Bob explains what will happen at E day: most cashpoints will dispense euro notes; people can still use sterling cash for a period of two months and will be given change in euro.

Shortly after E day, Angela goes into town to do some shopping. She is confused by the euro prices. She has a pocket-sized promotional conversion table that came free with a magazine – she uses this to check the euro price. In one particular shop, euro prices seem much higher than the sterling prices she remembers. No sterling equivalent prices are displayed. The shop displays a euro 'fair dealing' logo, with a telephone number to ring if consumers have concerns. She rings the number and the operator takes the details. Angela is not the only one to have complained. A few weeks later, Angela sees an article in the national press reporting that the use of the 'fair dealing' logo has been withdrawn from that particular company. In future, Angela will make her purchases at a competitor across the road, where sterling prices are still displayed for information and customers feel confident that they are not being overcharged.

WHAT WOULD THE CONSUMER CODES PROVIDE?

7.33 The consumer codes would offer a minimum standard of protection for citizens during a changeover.

Dual display

7.34 Dual display would mean showing a price in both sterling and euro to help consumers become familiar with euro prices before E day. It would not necessarily imply that the retailer or service provider would be able or willing to accept payment in both currencies.

7.35 Under the core principles, a retailer would provide access to dual currency information from at least four months before E day. Dual display could take a variety of forms. As a minimum, an approved conversion chart would be displayed at the point of sale (PoS) showing the conversion rate and examples of sterling to euro conversions in the common range of transaction values. However, many would go further and provide additional dual currency information for customers, for example, by:

- displaying the euro equivalent values on shelf displays for at least high turnover items; and
- writing the euro equivalent alongside the sterling price on display boards or cards.

Example of how a changeover might work in the UK (10)

The Sterlings have been aware for some time that they will need to prepare their customers for the euro by helping them become familiar with euro equivalent prices. They are members of local and national trade associations, and have noticed articles and Government advertisements in trade magazines. They attend a regional event organised by their national trade association, where a range of speakers, including a representative of a business from the euro area, and a Government official, explain the process for introducing dual display of prices.

As small shop owners, Bill and Penny do not have the capacity to dual price each item separately. They decide to display a conversion table at the point of sale, with additional posters on display around the shop that show euro equivalents of key sterling amounts. They use standard posters supplied in the retail pack.

Many of the items they sell, for example, newspapers and magazines, carry a price already marked on the product. These items show the euro equivalent of the sterling price.

What is meant by dual display of prices?

In principle, key figures should be shown in both sterling and euro. For example, on a bill, the total amount would be displayed in both sterling and euro, but not necessarily the individual components. To have dual display for all items forming a single transaction could render the bill or receipt too complex or inaccurate. Euro equivalents for individual components added together might not produce the exact euro equivalent of the total price in sterling, due to the cumulative effects of rounding.

Key figures should not be taken to mean simply the total amount a customer is requested to pay. For example, in the case of an insurance policy, the maximum sum insured would be a key figure, as would the total annual premium. If a charge was levied by monthly direct debit, then the new total annual premium and the monthly payment would also be key figures. It would be for each sector to consider what information would be required in order that their customers were able to conduct financial transactions with equal confidence before and after E day.

In some cases, it may not be possible to use dual display for each transaction.

For example, a meter in a taxi denominated in sterling could not also show a euro price without expensive modification. In the euro area, tools to assist consumers' understanding of the conversion (for example, tables and calculators) were provided to taxi drivers. In the case of a customer selecting items in a local shop, the price labels could be in sterling only. If the till were able to display prices in both currencies, then the final amount to pay could be shown in both sterling and euro at the PoS. If the till were not able to display both sterling and euro prices, alternative methods of helping the customer to become familiar with euro equivalents would be used. Conversion devices such as pre-set calculators, tables and lenticulars (holographic devices) were popular in the euro area for this purpose.

Where immediate dual display was difficult, industry codes of conduct would help to define best practice. Some key principles would apply:

- the official exchange rate should be clearly on display at the PoS, perhaps in a sticker, poster or leaflet;
- consumers should have access to information about how the changeover would be managed for that particular business, either at the PoS or via a suitable intermediary (for example, a telephone helpline with the numbers and details at the PoS); and
- if requested, businesses should be able to provide an equivalent euro price for each transaction at the PoS using, for example, conversion tables or calculators.

Some businesses and organisations, for example, insurance providers or water suppliers, communicate annually, or even less frequently, with their customers. If the usual communication cycle were not to fall within the minimum six month dual display period, then such organisations would need to have an alternative policy in place to ensure that their customers were adequately prepared for a changeover. It would be best practice to communicate the euro equivalent of the sterling price at least once before E day, and the sterling equivalent of the euro price at least once after E day.

7.36 Some organisations and sectors would have particular responsibility for implementing and supporting dual display policy, because of the importance or frequency of their financial interactions with consumers:

- banks and financial services providers, including local Post Offices;
- Government departments and Executive Agencies responsible for tax and benefits;

- employers;
- utilities; and
- retailers.

7.37 Retailers, in particular, would have an important role to play. In the euro area, retailers received support and training in the approach to E day, so they could in turn help their customers. Many euro area countries produced information and training packs for retailers, and the Netherlands produced separate materials for each retail sector. In a UK changeover, central information activities would include support for retailers, especially SMEs, with a particular focus on dual display and price conversion. The Euro Changeover Secretariat (ECS) would expect to work closely with representative bodies in the commissioning and development of these resources.

Accurate conversion

7.38 In the euro area, price conversion was covered by EU Regulations (see Annex D). Similar or identical rules would apply to a UK changeover. The official conversion rate would be applied, to six significant figures (for example, in Ireland EUR 1 = IEP 0.787564). The result would then be rounded to the nearest cent. This is called the legally equivalent value.

7.39 For example, a ready meal which cost 5.99 (using a fictional rate of EUR 1 = 0.456789) would be priced at €13.11 under dual display. If the retailer had decided to reduce the price of the meal to €12.99, to set it at a psychological price point, the dual display would show 5.93.

Example of how a changeover might work in the UK (11)

Bill and Penny have a ‘pound basket’ in their shop, where they sell off damaged or surplus stock. Four months before E day, they amend the handwritten sign ‘Everything in this basket for £1’ to show a euro equivalent price in brackets. They need to consider what euro price they will choose after E day – having a memorable, round figure makes the special offer more attractive for their customers. Bill and Penny decide to use €1. This way, their customers will receive even better value for money. After E day, Penny re-writes the sign, ‘Everything in this basket for €1’, and then gives the sterling equivalent price in brackets.

Consumer information

7.40 A business subscribing to the code would provide accurate information to consumers about how the changeover would be handled. For example, a bus company would need to inform customers how they could purchase tickets during a changeover and how tickets would be priced. If, during the dual currency period, some ticket machines would accept sterling and some euro, this should be clearly indicated well in advance of E day. For fares paid directly to the driver, the company’s policy on change should be clearly set out in advance and well understood – a bus operator might decide only to offer change for euro payments during the dual currency period, to avoid lengthy queues and delays.

Example of how a changeover might work in the UK (12)

Shortly after E day, Mrs Tanner asks Penny to come with her to the shopping centre to help choose a pair of new shoes. While they are waiting for the bus, Penny checks a notice on the bus shelter displaying what the fare ranges are in both sterling and euro values.

Penny checks what coins she has in her purse, and finds that she still has some sterling left. The bus shelter notice informs her that she can still pay in sterling until two months after E day, but that she will be given change only in euro. She decides to pay in sterling and save her euro change for her tube fare tomorrow. From displays on the ticket machines, she knows that these have already been converted to accept euro coins only, although she can still pay in sterling at the ticket window.

The bus arrives, and Penny and her mother board the bus. Mrs Tanner shows her pensioner's pass to the driver who waves her through. Penny hands over a two-pound coin and quickly checks a conversion chart at the driver's position to see how much her two pounds converts to in euro. She knows how much her ticket costs in euro from the fare display she has seen earlier. The driver counts out the exact change in euro and Mrs Tanner and Penny set off for the shopping centre.

Vulnerable groups

7.41 The code provides that the needs of vulnerable groups should be taken into account. This might be done differently by different sectors. However, in all cases solutions should be developed in consultation with representatives of vulnerable groups.

7.42 Vulnerable groups would benefit from the commitments to fair practice, adequate information and trained staff but might require additional assistance and reassurance during a cash changeover.

What do we mean by a vulnerable person?

A vulnerable person is someone who might have:

- limited access to mainstream communications media and channels of information;
- difficulties assimilating certain messages; or
- limited ability to influence the outcome of everyday transactions.

Limited access due to physical reasons

People with impaired sight or hearing, and those with reduced mobility, might have reduced access to mainstream media. Lower mobility and different networks for social interaction might mean that those with physical impairments have reduced access to information via communication with others.

Limited access due to social, economic or geographic reasons

This group could include people with no fixed place of residence, for example, the travelling community, or students living away from home. Other examples of this group include people in care homes, prisoners, citizens of the UK living abroad, rough sleepers, people without a bank account, the unemployed, and visitors to the UK from outside the euro area. Again, these groups might not have easy access to the mainstream communication channels, for example, household mailings or television advertising.

Differences in ability to process information

This category could include people for whom English is not their first language, people with lower levels of literacy and numeracy, people with learning difficulties, or those with mental health conditions and cognitive impairments resulting from illness or injury. Even if such groups had ready access to mainstream communication materials, the messages might not be assimilated unless different approaches, tailored to their specific needs, were used.

Limited ability to influence everyday transactions

Younger people, older people, and those with cognitive impairments or difficulties with language and communication might be especially vulnerable during a changeover. This group could also include those who are exposed to local monopolies who would not have a choice of providers in a changeover.

7.43 Guidance provided by the Royal National Institute for the Blind (RNIB), the Royal National Institute for Deaf people (RNID) and Mencap recommends the following principles in relationships with vulnerable consumers:

- mainstream advertising and information must be inclusive;
- different media, formats and channels of communication should be used;
- Plain English – simple slogans, short words and sentences should be used; jargon should be avoided and acronyms explained;
- information should be accessible;
- it should be remembered that some vulnerable groups require a longer time scale to assimilate information;
- both visual and audio information is important – images can be useful in printed materials;
- textphones on customer helplines are useful;

- frontline staff should be understanding; and
- for those with learning difficulties, learning comes through repetition.

In the euro area, information designed for vulnerable groups was popular with citizens as a whole because it was so accessible.

Example of how a changeover might work in the UK (13)

Mrs. Tanner has impaired vision. When Penny receives a leaflet about the UK changeover in the post, she notices there is a number to call for a large print version. Penny gives the number to her mother, who rings the helpline to order a large print leaflet. While Mrs. Tanner is on the phone, she finds out about some of the other help that is available for people of impaired vision. There will be a special training session for the visually impaired, using examples of notes and coins from the euro area, run by a local voluntary group in her area.

Staff training

7.44 Consumers would have a right to expect staff to be trained to understand the euro and how a changeover would affect their business (see Chapter 9 for further details). This training would mean that, for example, call centre staff would be able to provide clear and comprehensible answers to the enquiries they receive. This would help increase the confidence of the consumers during a changeover. In a retail business, for example, by E day staff should:

- be familiar with the conversion rate and rounding rules;
- have had practice in handling the conversion mechanism that the retailer proposed to use; and
- be familiar with the appearance of euro notes and coin, including the security features.

NEXT STEPS

7.45 In developing the practical changeover preparation, HM Treasury will:

- develop codes with individual sectors of the economy, in consultation with business, trade associations, trade unions and employee groups, consumer groups, voluntary sector organisations and representatives of vulnerable groups. Where relevant, regulators will also have an important role;
- verify that sector codes are consistent with the consumer code core principles;
- design a logo that could be awarded to public, private and voluntary sector organisations subscribing to a code;
- review how the existing consumer protection architecture could be used to deliver monitoring and enforcement of the codes;
- work with the ONS to enable additional price monitoring to be carried out; and
- encourage independent consumer groups to be prepared to undertake their own price monitoring and publicise the results.

The financial services sector would play a vital role in a changeover. The sector provides the essential financial infrastructure necessary for the efficient working of the economy. The size and complexity of the UK's financial services sector mean that a changeover would provide a significant challenge.

This chapter addresses how a changeover in financial services would be managed. It outlines the proposed approach to retail financial services and the work of the Bank of England's City Euro Group on a changeover in the wholesale financial markets.

BACKGROUND

8.1 A changeover in the financial services sector would comprise two significant but largely separate tasks:

- changeover of the wholesale financial markets (trading in foreign exchange, gilt-edged securities, money market instruments, corporate bonds, shares, derivatives and commodities); and
- changeover of retail financial services (savings and current accounts, personal loans, credit cards and mortgages).

The changes to services and infrastructure necessary for a changeover in both wholesale and retail markets are mapped out in Figure 8.1.

8.2 The Bank of England (the Bank) would co-ordinate a wholesale market changeover, with input from the Government and the City's key stakeholders. Working with the City Euro Group (CEG), the Bank publishes regular updates on euro preparations. In November 2002, it published a City guide to how a changeover in wholesale financial markets would work, a summary of which is at Annex A.

8.3 The Government has been co-ordinating the planning for the retail financial services sector through the Managed Transition Advisory Group (MTAG), co-chaired with the British Bankers' Association (BBA). Building on the second outline National Changeover Plan, and sixth Report on Euro Preparations (REP6), MTAG has overseen the development of the Managed Transition Plan (MTP), (see Annex B). MTP identifies what would be required for a changeover of retail financial services in a high level plan of how a changeover would be delivered across the economy.

8.4 A number of trade associations have developed changeover plans for their sector. Details of recent publications on a UK changeover, including the Bank's, are at Annex J.

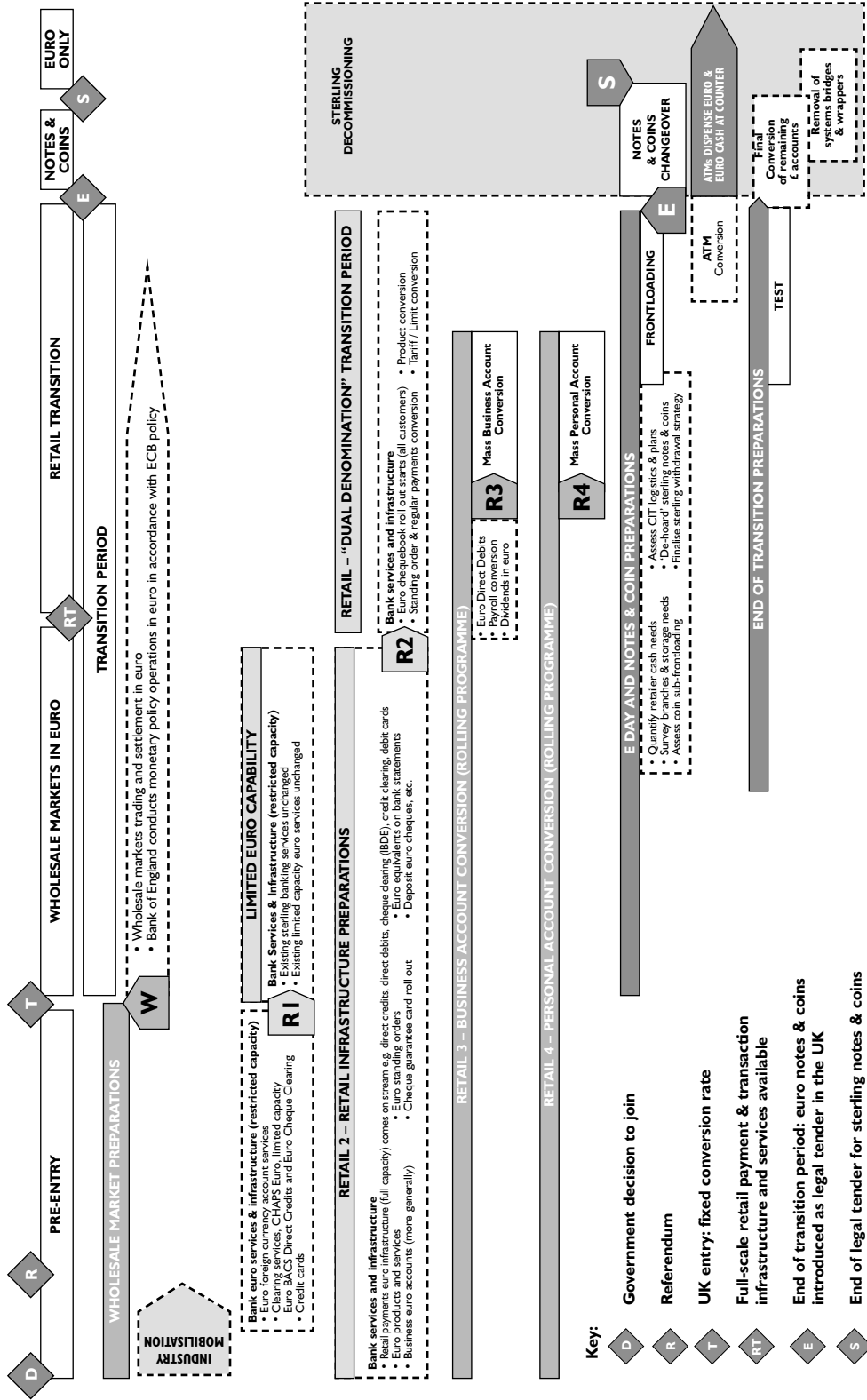
PREPARING THE WHOLESALE FINANCIAL MARKETS²

8.5 In a UK changeover, sterling wholesale financial markets would operate in euro immediately from the entry date, whereas retail financial services would remain largely in sterling until later in the transition period after entry. In order to help market practitioners prepare for a changeover in sterling wholesale financial markets, the Bank has published a City guide. For each of the various sterling wholesale financial markets, the guide distinguishes between:

- financial instruments issued before, and outstanding at, entry;

²Source: Bank of England.

Figure 8.1: Bank euro services and infrastructure



Source: BBA/PAACS The UK Banking Industry Outline Euro Blueprint.

- new financial instruments issued after entry;
- financial transactions undertaken before entry but settled afterwards; and
- financial transactions undertaken after entry.

8.6 The City guide explains how the changeover in sterling wholesale financial markets would be expected to be handled, in the event of UK entry. Many decisions on a changeover have not yet been taken. Responsibilities for taking them are set out in the City guide. Some decisions would be subject to legislation. Although not yet drafted, this would be expected to be broadly similar in nature for the UK as for the euro area. Individual financial institutions would be responsible for making their own preparations for a changeover, with the Bank playing a co-ordinating role.

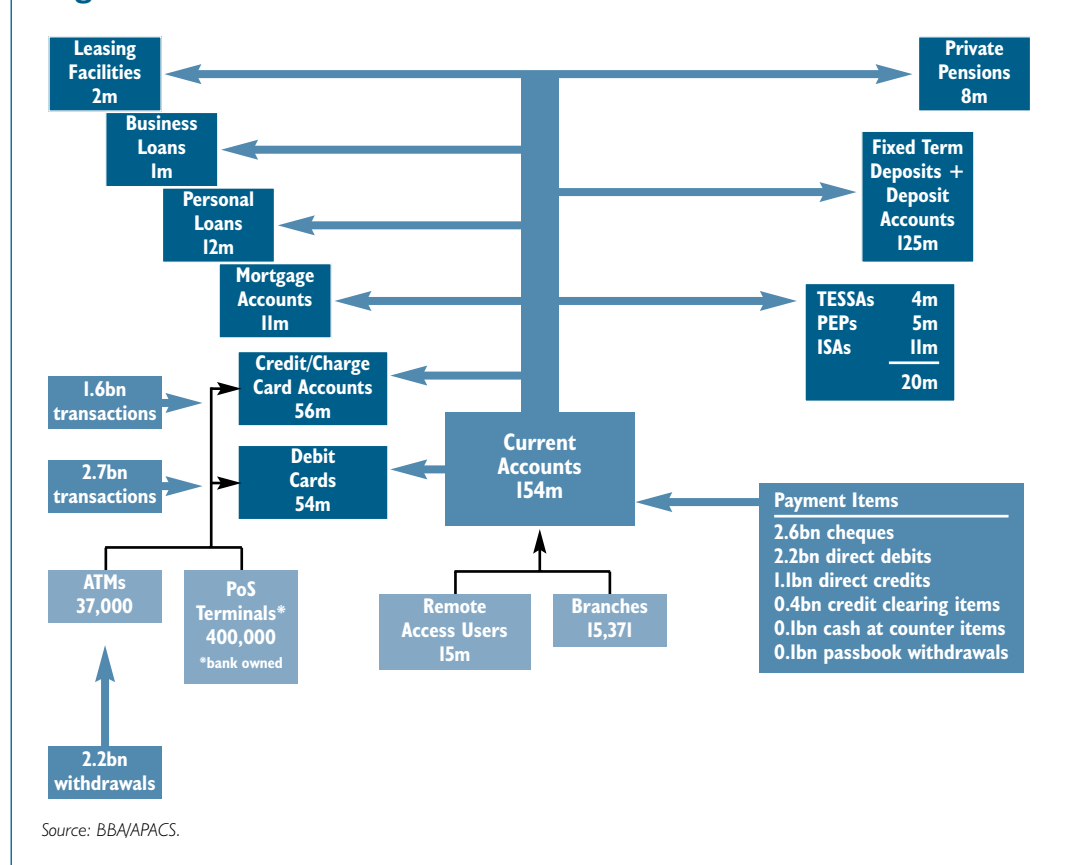
PREPARING THE RETAIL FINANCIAL MARKETS

8.7 The euro area provides examples of best practice and highlights some of the issues that would need careful planning. However, in adapting the lessons from the euro area, the differences between the UK financial system and those of the euro area need to be taken into account.

How the UK differs

8.8 While lessons from the euro area in respect of retail financial services have been valuable, many would not be directly applicable to a UK changeover. The biggest difference would be that the euro already exists both in electronic and cash form. The euro is extensively used in the UK wholesale financial markets.

Figure 8.2: The scale of the task



8.9 UK citizens appear to have more complex financial arrangements than many of their euro area counterparts. This includes both banking and insurance/assurance products and services. The 59 million UK consumers hold approximately 154 million current accounts. In the UK, there are around 8 million private pension plans; in contrast, 99.8 per cent of Portuguese pensions are from state provision. Figure 8.2 provides an indication of the size of the UK financial system.

Lessons from the euro area

8.10 Lessons from the euro area include:

- active management of the conversion process was essential. From 1 January 1999, French banks converted accounts on request. However, by June 2001 only 27.4 per cent of business and 4.2 per cent of consumer accounts had been converted. The French banks found they had to actively manage account conversion in the second half of 2001 and by the end of October 95 per cent³ of accounts had been converted. This experience was common across the euro area;
- in some cases, euro chequebooks were issued to citizens relatively early in the process, up to a year before E day. Where this happened they were often mislaid, or their whereabouts was forgotten by E day, resulting in the need for banks to reissue them; and
- in countries where cheque usage was minimal, such as the Netherlands, cheque clearing systems were abolished when they adopted the euro. In 2000, citizens in the Netherlands typically made less than one cheque payment a year compared with over 40 per UK citizen. With around 2.4 billion cheques written in the UK in 2002, cheques remain a major method of payment and cash acquisition.

The British banks' lessons from the euro area changeover

As part of their contribution to the HM Treasury report, "*Lessons from the Changeover in the Euro Area: a Summary of Reports by Private Sector Organisations in the UK*", published in July 2002, UK banks carried out their own research of how their counterparts in the euro area dealt with the arrival of the euro. Their key findings are summarised here:

- **planning for, and implementation of, a UK changeover will require a clear, but flexible regulatory framework with the Government providing a lead that promotes and supports co-operation between all sectors of the economy;**
- **adopting the euro affects virtually all parts of a financial services organisation. The preparation programme must therefore be business driven and requires strong top level sponsorship, with ownership right across each organisation;**
- **the payments infrastructure is central to the provision of financial services and is dependent upon all participants being euro capable. The member that takes the longest time to prepare governs the time by which euro capability is achieved;**
- **the UK is unlike most of the euro area countries in that a great proportion of interest coupons and dividends are paid in paper form (in most euro area countries these payments are mainly electronic); and**
- **late adoption of the euro by most businesses and virtually all individuals in the euro area confirms that a phased approach is the practical solution. Furthermore, the large scale and complexity of the UK's retail financial services sector presents too great a risk for a big bang approach to account conversion.**

Source BBA/APACS.

³ Source: European Commission.

CHANGEOVER OF RETAIL FINANCIAL SERVICES

8.II In a UK changeover, the financial services sector would need to design, build and implement a series of new retail payment systems. It is proposed that this process would be managed through an industry group, working in conjunction with and reporting progress to the Euro Changeover Secretariat (ECS).

Payments Systems in the UK

In the UK, millions of payments are made and received every bank working day. To facilitate the movement of money the UK has a number of different payment systems.

Cash

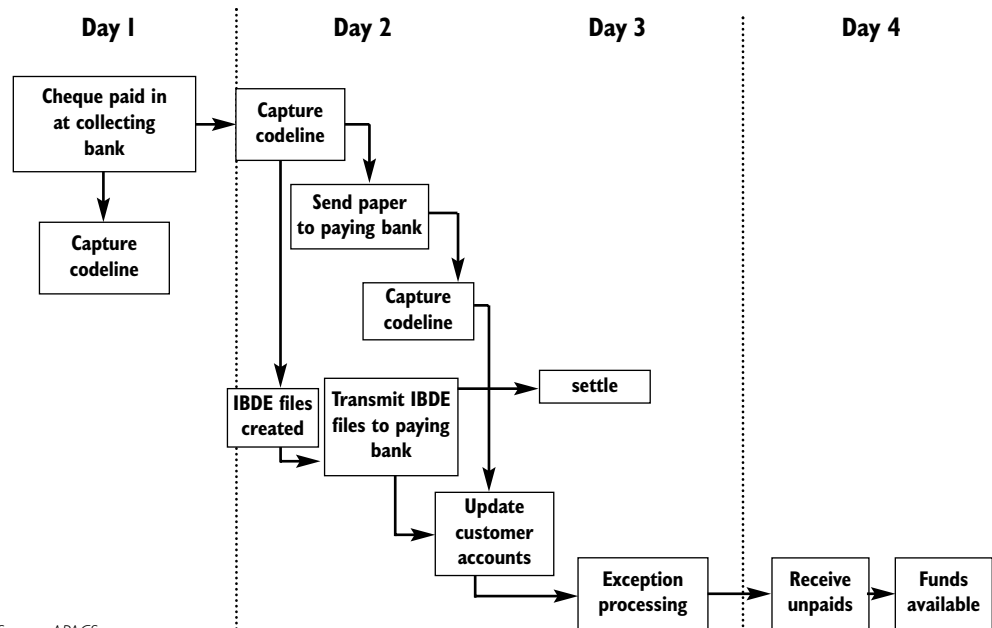
Cash is the most flexible payment system. It is quick and easy to use, provides certainty of payment and there is low risk of fraud. Its limitations are also clear. For large amounts, it is time consuming to count, bulky and expensive to transport; its broad acceptance means that it is prone to theft, and expensive to store.

Cheques

Cheques are a convenient and flexible payment mechanism. Often, backed by a guarantee from the issuing bank (usually a cheque guarantee card), they provide precise payments and are cheap and efficient for consumers to use. Cheques have two disadvantages: slow speed of processing and cost. To process a cheque in the UK takes around three working days. Despite the disadvantages and the increasing usage of debit cards, cheque use in the UK remains amongst the highest in the EU.

The existing cheque processing system handles around eight million cheques each day, and was designed to operate solely in sterling.

Figure 8.3: The Cheque Clearing Cycle

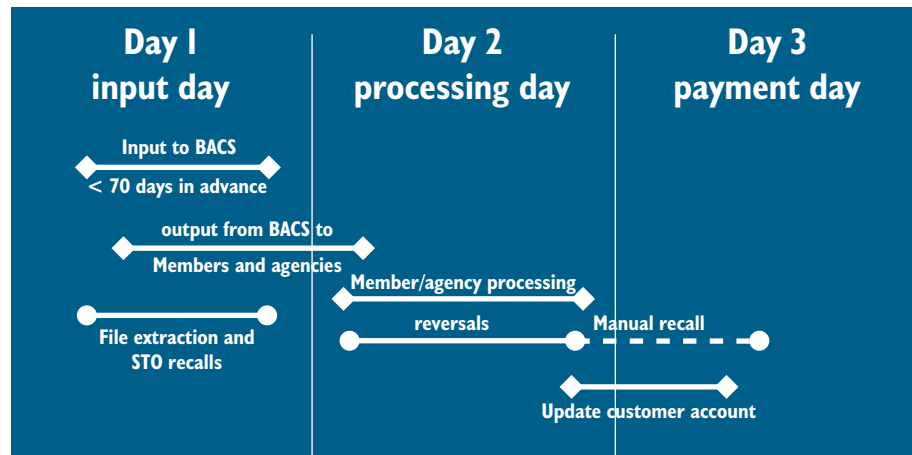


Direct Debit and Direct Credit Payments (BACS)

BACS processes over 3.7 billion financial transactions each year for some 40,000 UK businesses. BACS is owned by a number of banks and building societies and it runs two of the UK's major payment systems, namely direct debit and direct credit.

Direct Debit (DD)

Figure 8.4: The BACS clearing cycle



Source: APACS.

Direct debit was created to ease the administration of businesses that produce a large number of bills on a regular basis (e.g. utilities and insurance companies) by reducing their reliance on cheques. Approximately, 32 million consumers pay some or all of their bills by direct debit.

Direct Credit (DC)

Direct credits operate in the same manner as direct debits, and are used by 150,000 organisations for supplier payments, pensions, employee expenses, insurance settlements, dividends and refunds. Principally direct credit is used for paying wages and salaries – around 70 per cent of the UK workforce is paid via direct credit. Direct credit has had a euro capability since 1 January 1999, but would not be able to cope with the current sterling direct credit volume.

CHAPS

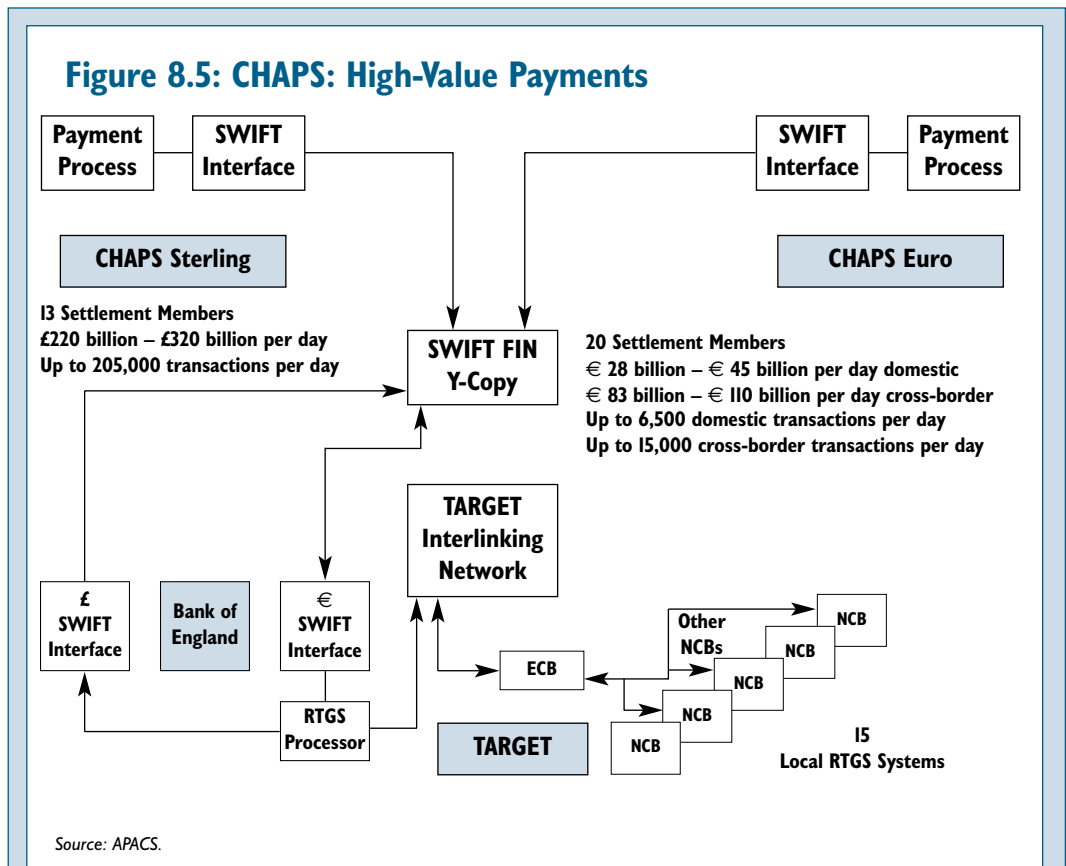
Payments (Million)	1997	1998	1999	2000	2001	2002
CHAPS Sterling	16.53	18.01	19.79	21.71	23.96	25.56
CHAPS Euro (Domestic)	-	-	0.64	0.75	0.93	1.24
CHAPS Euro (TARGET)	-	-	1.83	2.50	3.05	4.05

Source: APACS.

The Clearing House Automated Payments System (CHAPS), operated by the CHAPS Clearing Co. in partnership with the Bank, provides a same day, real time payment mechanism, which is usually used for high value payments. Predominately used by the financial markets and large companies, most citizens would only use CHAPS for house purchases. CHAPS payments can be made in sterling or in euro.

CHAPS Euro was developed to allow high value real time euro payments to be made, either within the UK or cross border, from 1 January 1999, and would require no significant development for a changeover.

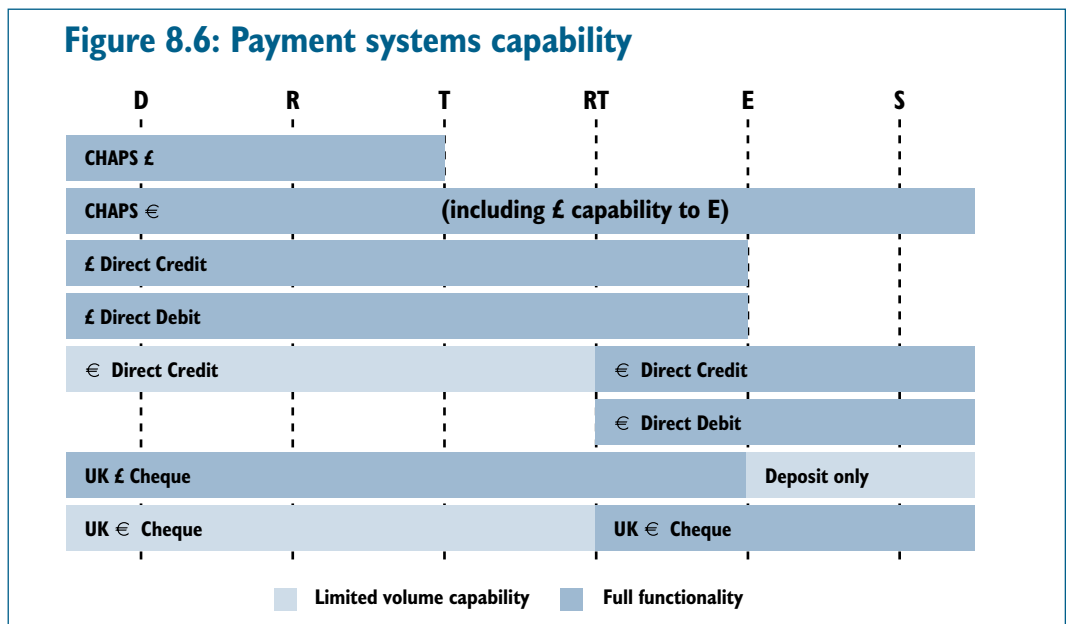
Figure 8.5: CHAPS: High-Value Payments



In a changeover, it would remain necessary for same day payments to be available in sterling until cessation of non-cash sterling payments at E day, to facilitate domestic payments requiring real time settlement. Banks would provide this service for customers.

8.12 Substantial IT systems changes would be needed to migrate the electronic payment systems from sterling to euro before large-scale transition of accounts and payments could occur. Figure 8.6 illustrates how new payment systems would be introduced, and how sterling payment systems would be phased out.

Figure 8.6: Payment systems capability



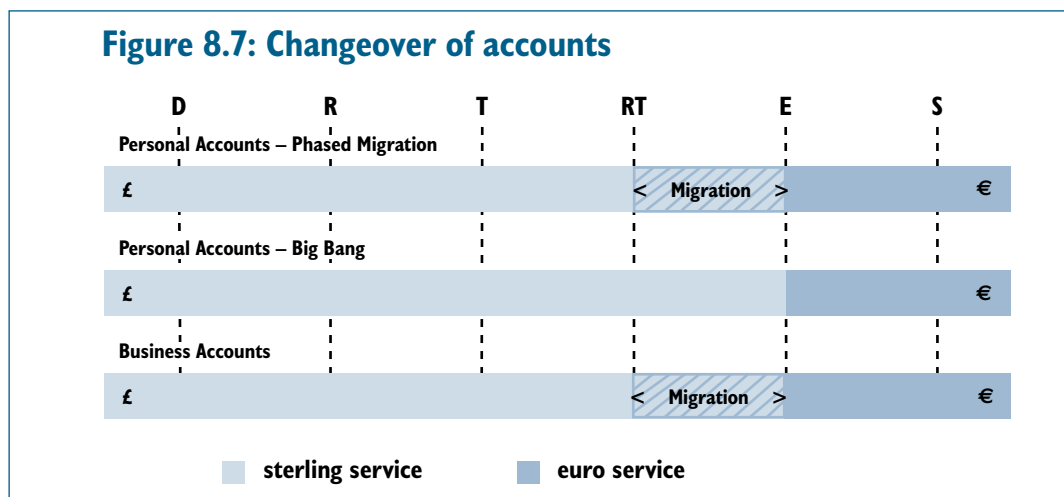
8.13 The Government has been working with the BBA and the umbrella organisation for the UK's payment infrastructure, the Association for Payment Clearing Services (APACS), to ensure that the new payment systems would meet the outline timetable set out in Chapter 4. Once the retail financial services payment systems were operational, retail service providers could begin converting individual business and consumer bank accounts.

Changeover of personal and business bank accounts

8.14 From the start of a retail transition (RT) UK business and personal bank accounts would be gradually changed from sterling to euro. RT is the point at which banking systems would be in place to handle large volumes of euro denominated transactions.

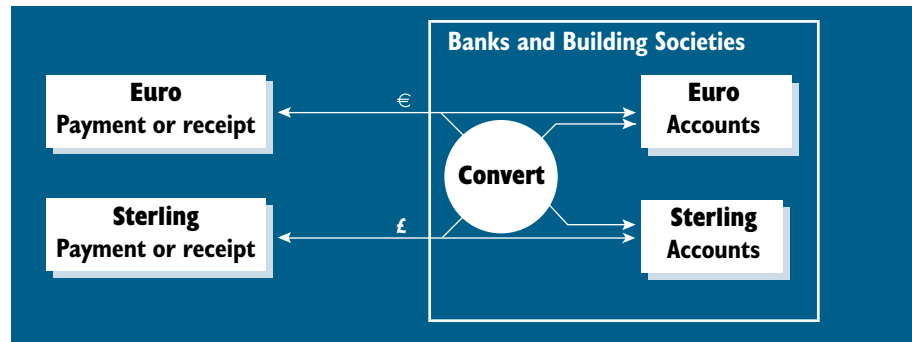
8.15 Converting existing accounts, as opposed to opening new euro accounts, would be beneficial as it would ensure that existing financial arrangements (e.g. salary payments from businesses to employees, direct debits for car and house insurance) could continue using the same account details. If new accounts were opened, these arrangements would need to be re-established, imposing a significant and unnecessary administrative overhead on banks and account holders.

8.16 Figure 8.7 illustrates how the conversion would happen. By E day, all business and personal bank accounts would have been changed from sterling to euro. The exact point between RT and E when this would happen for a particular business or citizen would vary according to the changeover strategy of their bank or building society and/or preference of the individual or business. Some (typically larger institutions with a wider range of products and services and a large number of customers) would adopt a phased approach, converting groups of customer accounts in different stages; others (typically smaller institutions with less complex systems) would choose to convert all their systems in a single conversion, or big bang.



8.17 If a customer's account were converted from sterling to euro, when that customer subsequently made a payment in sterling (either by direct debit or cheque), the amount of the payment would be converted to euro by their bank and then debited from their account. Similarly, when they received a payment in sterling (e.g. by cheque or cash deposit), the amount would be converted by the bank to euro and credited to their account. For sterling accounts that made or received payments in euro, the bank would convert the amount and credit the account in sterling.

Figure 8.8: Conversion of payments



Example of how a changeover might work in the UK (14)

Bill and Penny have a fixed-rate business loan for the refurbishment of their newsagent premises.

Shortly before T, they pick up a leaflet about loans in their bank. The leaflet explains that fixed-rate loans will not be affected by the UK joining the euro, and that their repayments will remain the same.

Depending on the interest rate at T, and the terms and conditions of the particular financial product, an interest rate adjustment may be applied to some variable-rate loans at or after T. In this case, the lender would write to their customers explaining the change in the normal way.

8.18 Citizens or businesses whose accounts had been converted would receive relevant information in both sterling and euro on their statements. In the box below are examples of dual display bank statements to provide an indication of the information citizens might expect to receive before E day.

Examples of dual display on bank statements

These examples use a fictional exchange rate of EUR 1 = 0.456789

A bank account before conversion to euro, showing a euro transaction and dual display of balance

Current Account	IBAN	GB I I BANK 0000 0000 0000 00
Statement, 01/XX/0X	Account name	Penny Sterling
	Statement number	64

Transactions originated in euro have been converted at the official conversion rate of EUR 1 = 0.456789

Date	Description	In	Out	Balance
				300.00
01/XX/0X	Debit Card Payment Supermarket		64.50	235.50
01/XX/0X	Cheque – 100124	22.00		257.50
02/XX/0X	Direct Debit – Life Insurance EUR 22.00		10.05	247.45
02/XX/0X	Direct Debit – Gas		25.00	222.45
03/XX/0X	ATM Withdrawal		50.00	172.45
	Balance carried forward			172.45
	Euro equivalent for information only			EUR 377.53

The same account shown converted to euro

Current Account	IBAN	GB I I BANK 0000 0000 0000 00
Statement, 01/XX/0X	Account name	Penny Sterling
	Statement number	64

Transactions originated in XXX have been converted at the official conversion rate of EUR 1 = 0.456789

Date	Description	In	Out	Balance EUR
				656.76
01/XX/0X	Debit Card Payment Supermarket XXX 64.50		141.20	515.56
01/XX/0X	Cheque – 100124 XXX 22.00	48.16		563.72
02/XX/0X	Direct Debit – Life Insurance		22.00	541.72
02/XX/0X	Direct Debit – Gas XXX 25.00		54.73	486.99
03/XX/0X	ATM Withdrawal XXX 50.00		109.46	377.53
	Balance carried forward			377.53
	Equivalent for information only			172.45

8.19 Customers who already had a (foreign currency) euro bank account could continue to use this account as normal until it was converted to a standard (full functionality) current account. Where appropriate, the account could be maintained on the existing foreign currency platform.

NEXT STEPS

8.20 In developing the practical changeover preparations, HM Treasury will:

- work with financial services trade associations in the development of sector planning for a changeover for retail financial services customers; and
- support the Bank in the further development of the planning for a changeover in the wholesale markets.

There are around 3.8 million businesses in the UK, ranging from sole traders to some of the largest multi-nationals. All businesses would need to consider carefully how they would manage their own changeover.

This chapter addresses how business might prepare for a changeover. It provides a framework for businesses considering their strategic planning for a changeover, and outlines the probable approach for a business communication programme and the channels that are likely to be used to deliver this programme.

BACKGROUND

9.1 A UK changeover would be a strategic business issue; it would not just be a matter of converting IT and accounting systems. Business would need to consider a range of issues, including market competition, customers, marketing, manufacturing and accountancy and finance.

9.2 The Government has continued to raise awareness amongst UK business as part of ongoing support on the practical issues involved in dealing with the euro as a foreign currency. In the euro area, national currencies were withdrawn from use in all non-cash payment forms at the end of 2001 and euro notes and coins were introduced in January 2002. Over 50 per cent of UK businesses⁴ have been, or could still be, affected by this change. Although significant numbers of UK businesses with trading links to the euro area have made preparations or put a strategy in place, others have not considered the implications of the euro for their business. These organisations need to consider the range of issues, including the effects of increased competition, changes to marketing and pricing, new methods of raising finance, price transparency and new market challenges, irrespective of whether or not the UK decides to join the euro.

9.3 Consequently, the Government has made information available to help UK business consider these issues. In Autumn 2002, over 1.4 million small- and medium-sized enterprises (SMEs) were sent information, including the leaflet "Do you trade with businesses or individuals from the euro area?". This identified some key issues business would need to consider and provided details on where to obtain further advice. This leaflet, updated sector case studies and a set of factsheets are available free to business from the euro helpline 08456 01 01 99. They are also available from the Government's euro website www.euro.gov.uk. Government expenditure on euro support for UK business is £11 million to the end of December 2002.

⁴HM Treasury business surveys.

LESSONS FROM THE EURO AREA

9.4 In the euro area, business mostly responded well to the challenge of the changeover⁵. While large organisations generally planned and prepared early, many smaller businesses underestimated how long it would take to prepare. There was found to be a correlation between early preparation and minimisation of risk. For many businesses the approach adopted depended upon the relationship between that business and its customers and suppliers. The cash changeover and the customer interface made conversion and changeover more complex for retailers and banks than for many other sectors. Lessons from the euro area include:

- euro area SMEs were slow to prepare for the changeover. In response, governments, banks, and trade organisations targeted information towards small businesses. These information programmes appear to have had the desired result:
 - in July 2001, 63 per cent of SMEs were pricing in euro and 30 per cent were invoicing in euro, or expected to be, by the end of December 2001;
 - by 1 January 2002 (E day), 95 per cent of SMEs were keeping accounts in euro; 96 per cent set prices in euro and 97 per cent issued invoices in euro;
- over 85 per cent of SMEs reported that they did not encounter any difficulties in switching to euro. Generally, businesses with under ten employees experienced less difficulty than those with more than 50 employees. The most common problems that arose concerned the conversion of IT systems, dual display of prices and invoicing;
- businesses that had strong support from board level sponsors, underpinned by comprehensive planning, programme and logistics management, completed their euro conversion in a more timely and cost effective manner;
- IT preparations needed to be carefully planned to avoid skills shortages at critical times. This was a particular issue for smaller businesses and retailers;
- coin-operated machines were converted relatively quickly, particularly since machines that were inoperable with euro cash were likely to lose custom; and
- SMEs noted that the most helpful sources of advice were banks, business support centres and chambers of commerce.

⁵ Facts and figures in this section have been taken from European Commission reports and Eurobarometer surveys.

PLANNING FOR A CHANGEOVER

9.5 It is up to individual businesses to decide when and how they would undertake preparations for a changeover. However, in the euro area those organisations which addressed the issue of managing a changeover early were able to undertake the necessary work at a reduced cost.

9.6 Businesses considering planning now might wish to ask their trade association/representative body, bank or accountant for advice. A list of recent publications on a changeover in the UK is included at Annex J.

9.7 A changeover to the euro would not just be an IT or finance issue. It would impact on the whole business. Businesses would need to consider every aspect of their strategy and operations. The level of planning needed would depend upon the size of the business, its complexity, its business sector and whether or not cash handling was an issue.

9.8 The following sections identify issues that would need to be considered. This is a framework and not an exhaustive list. Businesses need to consider all possible issues so that timely and cost effective decisions can be made.

Planning

9.9 A business would need to decide who would have responsibility for managing, planning and delivering their changeover. This might be a straightforward decision in a small business but larger organisations might need a project team with a senior manager or director in charge. Lessons from the euro area include the need for:

- strong sponsorship from senior management/business owners;
- consistent internal business and operational commitment to deliver the changes necessary. The optimum arrangement for large businesses in the euro area was found to be a dual control framework where the programme was centrally managed, but each business/operational unit carried equal responsibility for delivery;
- clear programme objectives: where possible, delivery of the programme should not be distracted by inclusion with other initiatives;
- detailed planning and project management using accepted standards and methods and creation of audit trails were important;
- clear resource allocation and commitment;
- robust risk management; and
- effective and timely communication.

Issues for consideration

Resource Management

9.10 Businesses would need to budget for the cost of a changeover. This would include the cost of adapting systems, and could also include the cost of recruiting and training staff and keeping customers informed. The actual cost would depend upon the approach taken. For example, businesses that replace or plan to replace systems might have already ensured the new systems were euro compatible as part of a wider programme of business planning and change management.

Conversion of systems 9.11 The challenge of converting systems would depend upon the size and complexity of the business in question. Many smaller businesses use proprietary software, which may already be able to operate in multiple currencies or be easily updated to do so. Businesses with complex or bespoke IT systems would face more intricate challenges.

9.12 Businesses would need to assess the euro compatibility of their systems. This would include all systems that held values in sterling and which needed to be converted to euro. For example, payroll and accounting systems, invoicing, pensions and insurance. Some systems might need replacing but others might just need to be upgraded. Where sterling values were hardcoded or embedded, more change might be needed; where values were currency neutral, less might be needed.

9.13 Within all programmes and files, including spreadsheets, references to sterling and UK interest rates would need to be modified to take account of a changeover. Systems would also have to reflect the organisation's approach to:

- stored data – data that existed in sterling before E day (for how this would be approached in the public sector see Annex F);
- dual display of prices, for example, on statements, receipts and accounts (see Chapter 7 for further detail);
- rounding and smoothing rules (for how this would be approached in the public sector see Chapter 11); and
- how the system would switch to euro.

9.14 Businesses would also need to allow sufficient time to ensure that systems were fully tested and for staff training.

Legal issues 9.15 Businesses would have to consider the legal issues that might affect them. These include:

- existing contracts;
- arrangements for new contracts;
- contracts with countries outside the euro area; and
- the position of employees.

Corporate finance, banking and accounting 9.16 Businesses would also need to consider banking, accounting rules and tax arrangements. Accounting and taxation issues include:

- financial reporting; and
- the presentation of accounts.

9.17 Businesses that handle electronic payments would need to consider how these would be affected by the changing provision of financial services under a managed transition (see Annex B for further detail). This could include electronic links between the business and their bank as part of a liquidity/cash management service.

9.18 Businesses might also find it helpful to consult relevant experts for advice on particular issues, such as their bank, accountant, financial adviser or the revenue departments (HM Customs and Excise and the Inland Revenue).

Example of how a changeover might work in the UK (15)

Bill and Penny have an insurance policy for their business, renewed annually. The renewal date falls about five months before E day.

Their insurance company sends them a quotation for renewal as normal and, because the term of the policy spans E day, includes euro equivalent values for key amounts. Bill and Penny can see the euro equivalent of the total sum insured, the excess, the total premium, and the monthly direct debit payments.

Bill and Penny renew the policy. They make a note of the euro amounts for future reference. After E day, Penny checks that the direct debit taken from their bank account in euro matches the previous quotation.

Cash: notes and coins 9.19 Businesses that handle cash would need a cash changeover strategy. For detail of the likely approach to a cash changeover, both for the distribution of euro cash and withdrawal of sterling, see Chapter 5. This strategy would also need to consider insurance cover, bank credit limits, security and the physical handling of coin, particularly during the dual circulation period.

Example of how a changeover might work in the UK (16)

Several months before E day, Bill and Penny contact their bank to discuss their euro cash requirements in the dual circulation period.

When they are next paying in their takings, their bank gives them a leaflet which helps them think through their cash needs in the period immediately following E day. After working through a simple calculation to assess how much euro cash they are likely to need, Bill and Penny place an order with their bank for euro cash, in addition to their usual order of sterling small denomination change. The bank accepts the order, and tells them when the euro cash will be available.

They contact their insurance company to check whether their normal business insurance will cover the additional cash that will be held in the period around E day.

Marketing and pricing 9.20 Businesses would need to review their pricing and marketing strategies. These would form a key component in maintaining the confidence of customers during a changeover. A business might decide to sign up to the consumer code (see Chapter 7 for further detail) and would be expected to implement dual display of prices at least four months before E day and for the two month dual circulation period. Businesses might also decide to provide information on their pricing policy, or more general information on the euro to encourage their customers' understanding and confidence in the new currency.

9.21 Business would also need to consider:

- the effect of increased price transparency with wider markets outside the euro area;
- the impact on distribution channels and locations; and
- the marketing and pricing strategy of other businesses in their supply chain.

Example of how a changeover might work in the UK (17)

Bill and Penny receive a 'retailers' information pack' in the post. The pack explains that retailers who abide by the retail code of conduct can display a euro 'fair dealing' logo, so that customers will have confidence that their interests will be protected in the changeover.

Bill and Penny read the code carefully. They set aside half-an-hour every week to go through all aspects of the euro changeover with their shop assistant, Joey. Because their shop is open from early until late, Bill and Penny will take it in turns to cover the counter while training takes place.

In the 'retailers' information pack', they find training materials with examples to work through. They use these to practice converting from sterling to euro, and vice versa.

They ask Joey to take particular care with customers on a tight budget. They may worry that the price of newspapers and other items will increase after a changeover. If Joey can explain the conversion process, this will reassure these customers.

The pack contains a euro 'fair dealing' logo sticker. Bill and Penny feel confident that they can abide by all the elements of the retail code of conduct. They display the sticker in their window from four months before E day, when they prepare the shop for dual display of prices.

Staff and training **9.22** All businesses, other than sole traders, would need to consider the training needs of employees.

9.23 They would also need to consider the appropriate health and safety and employment legislation and may need to negotiate revised arrangements with trade unions, or staff representative groups. Such changes would need to be discussed early in a changeover so that any necessary measures could be put in place.

9.24 During a changeover there might be extra staffing demands. A business might want its staff to work longer hours, possibly offering overtime pay, one-off bonuses, time off in lieu or other types of compensation. This and other possible temporary changes to terms and conditions of service would need to be considered. For example, conditions for working on Sundays and public holidays and possible call-out arrangements. It might also be necessary to recruit more (temporary) staff, and their training needs should not be overlooked.

9.25 Staff might need extra training in dealing with customers, particularly for helping vulnerable groups. Care would be needed to ensure that support staff, who might not be considered to be directly involved with the changeover, such as those in catering and facilities management, were included when agreeing possible changes to terms and conditions of service. Access to public transport outside normal working hours would need to be considered.

9.26 Staff might need specialist training aids and materials. For example, staff who handle cash would need to be able to recognise euro notes and coins and their security features.

9.27 Businesses that handle cash would need to consider the security, health and safety issues associated with the increased handling and volume of notes and coins during the dual circulation period.

BUSINESS COMMUNICATION PROGRAMME IN A UK CHANGEOVER

9.28 The Euro Changeover Secretariat (ECS) would have overall management responsibility for the provision of information in a changeover. Responsibility for delivery would be shared with a wide range of bodies in both the public and private sector. The ECS would work closely with Government departments and their Agencies, business support bodies and intermediaries, and through regional business networks to ensure that the needs of business would be met. These organisations would be expected to provide information and advice to their stakeholders on a changeover as they do on other issues. For example, the Inland Revenue would provide information and advice to business on the effects of a changeover on business taxation, as they do on other business tax matters.

9.29 The main objective of the business information programme would be to ensure that UK business had the information and advice that they needed to plan and prepare for a changeover.

9.30 To meet this objective, the ECS would ensure that:

- all businesses had access to consistent and timely information either produced centrally or through representative groups; and
- all businesses knew where to go for further advice and support.

9.31 The ECS would monitor the business communication programme to ensure it met its objectives and would make changes, where necessary, in the light of such information.

9.32 Key messages for business would include:

- the timetable for a changeover;
- the main implications for business of each stage in a changeover; and
- the arrangements for withdrawal of sterling and introduction of euro notes and coin.

9.33 To complement the central business information programme, more detailed sector specific information and services would be provided by representative bodies and other sources of business advice, as part of their normal service. For example, accountancy bodies might provide seminars and guides to their members who had business clients. Banks would provide information to their clients on banking issues.

Figure 9.1: Information for business in a changeover

Phase	Message	Audience	Delivery
Immediately after a referendum (R)	<ul style="list-style-type: none"> • Explain timetable • reassurance that no immediate action is necessary. 	All business Special focus on: <ul style="list-style-type: none"> • SMEs 	ECS
In approach to, and immediately after joining (T)	<ul style="list-style-type: none"> • Rate of entry • Conversion rules • Implications for business trading with euro area • Initial information on preparing for internal conversion 	All businesses Special focus on: <ul style="list-style-type: none"> • SMEs trading with euro area 	ECS Supported by: <ul style="list-style-type: none"> • Banks • Trade associations • Government departments • Business advice services • Regional support network
In approach to and following retail transition (RT)	<ul style="list-style-type: none"> • Process for conversion of bank accounts from sterling to euro 	All business	<ul style="list-style-type: none"> • Banks • Trade associations
	<ul style="list-style-type: none"> • More detailed information on internal conversion 	All business Special focus on: <ul style="list-style-type: none"> • SMEs 	ECS Supported by: <ul style="list-style-type: none"> • Banks • Trade associations • Government departments • Business advice services • Regional support network
In approach to and following introduction of dual display of prices across the economy (four months before E day)	<ul style="list-style-type: none"> • Conversion rules • Consumer Codes of Conduct • Dual display of prices • Staff training • Payment methods 	Public facing business Special focus on: <ul style="list-style-type: none"> • Retailers • Other public-facing SMEs 	ECS Supported by: <ul style="list-style-type: none"> • Trade associations • Business advice services • Regional support network • Consumer bodies
In approach to the introduction of euro cash and the dual circulation period	<ul style="list-style-type: none"> • How to obtain, sort and store euro cash • Familiarisation with euro cash • How to facilitate withdrawal of sterling • Payment methods 	All business Special focus on: <ul style="list-style-type: none"> • Retailers and other cash handling business 	ECS Supported by: <ul style="list-style-type: none"> • Banks • The Bank/Royal Mint • Cash in transit companies • Trade associations
	<ul style="list-style-type: none"> • Final preparations for conversion, support to complete conversion smoothly 	All business Special focus on: <ul style="list-style-type: none"> • SMEs 	ECS Supported by: <ul style="list-style-type: none"> • Banks • Accountants • Government departments • Trade associations • Regional support network

9.34 Business information programmes in the euro area made use of a variety of channels, which would also be used in a UK changeover:

- advertising campaigns aimed at businesses using a variety of media – newspapers, radio and TV – at national and local level;
- printed materials – case studies, factsheets and leaflets;
- business websites;
- dedicated business telephone helplines;
- meetings, seminars and workshops;
- partnership events composed of combinations of changeover bodies, trade associations, intermediaries and regional business bodies;
- national roadshows;
- training materials aimed at specific sectors; and
- the advice of banks, accountants and trade bodies.

9.35 Consultation with business and appropriate representative organisations would inform the precise choice of information materials and channels to be used.

Example of how a changeover might work in the UK (18)

Bill and Penny speak to their accountant about the changeover. They ask if they need to make special preparations for the change to euro.

Their accountant reassures them that preparations will be relatively straightforward, and gives them a leaflet about the process.

Bill and Penny will need to decide when to convert their internal business processes from sterling to euro. They decide to do this at E day on 6 April, as this is also the start of a new tax year, and a new financial year for their newsagent business.

Their business accounts for the year up to E day will be in sterling. From E day, their business accounts will be in euro.

Delivery

9.36 There are a number of Government and other bodies that would provide advice and information to business. These include:

- Government departments or agencies with policy responsibility for business, both at national and regional level. For example the Department of Trade and Industry, the Small Business Service, the devolved administrations and Government Offices for the Regions;
- Government departments with significant contacts with business, for example, Inland Revenue and the Department for Work and Pensions;
- general business support and advice bodies, for example, Business Links in England and Business Connect in Wales;
- representative organisations and trade associations that provide information and advice to their members; and
- business intermediaries, for example, retail banks and accountants.

Regional and local support

9.37 Regional and local support would need to be co-ordinated with the central business information programme and the relevant providers. Regional support bodies would be created to provide similar support to that of the Regional Euro Forums.

Regional Euro Forums

In 1998, a network of twelve Regional Euro Forums was set up across the UK to raise the awareness of UK businesses and provide advice and information about the introduction of the euro in the euro area. Led by prominent local business people, the Forums brought together key partners, including the Government Office network, local councils and business support bodies. The Forums organised local activities and provided support for those businesses that wanted to prepare for dealing with the euro. They were an important delivery mechanism for the Government's business support information materials.

9.38 It is likely that such regional bodies would include representatives at a local level from:

- local authorities;
- SMEs;
- large retailers;
- representative bodies such as chambers of commerce;
- business support bodies such as Business Links and Trade Partners UK;
- intermediaries, such as banks and accountants; and
- consumer bodies.

9.39 The functions and membership of these bodies would need further detailed consideration and consultation with stakeholders.

NEXT STEPS

9.40 In developing the practical changeover preparation, HM Treasury will:

- continue to provide information to UK business on dealing with the euro as a foreign currency to ensure that the impact of the euro on UK business competitiveness is recognised and addressed; and
- develop the material and approach for a business information programme, in consultation with other Government departments and their Agencies, business support bodies and business representative organisations.

The voluntary sector plays an important role in UK society. It is a crucial partner for the public sector in the delivery of some public services, particularly at local level. The voluntary sector rightly guards its independence. The Government would, on request, assist representative organisations in developing guidance and help for voluntary organisations making preparations for a changeover.

10.1 There are around 220,000 charities in the UK. However, charities are only part of a much wider not-for-profit sector, which includes hundreds of thousands of community organisations pursuing social objectives, such as sports and recreational clubs, and mutual bodies concerned with the interests of their members, such as self-help groups, friendly societies and co-operatives. These organisations make a significant contribution to the health and dynamism of the UK economy and society. They generate funds for particular causes or issues, and contribute the energy and expertise of committed individuals. They empower communities that the state and the private sector often cannot reach, and contribute both to personal development and to social capital. The independence of the sector is key to its success.

10.2 The unique skills of the sector mean that, where appropriate, it can play a vital role in delivering services, for example, Housing Associations manage around 1.5 million homes. Therefore, Government shares an interest in ensuring that the sector has the capacity to deliver these services in an efficient and effective way.

10.3 The Government has been working with the Charity Commission and the National Council for Voluntary Organisations (NCVO) to provide assistance with changeover planning. Voluntary organisations are responsible for their own preparations, but much of the guidance available for the public and private sectors would also be of assistance to the voluntary sector. For example, in a changeover, a voluntary or community organisation could have operational issues similar to a small business, including IT and accounts conversion or cash handling and staff training in charity shops. Guidance in the business support communication programme could be adapted, in consultation with the voluntary and community sector, and made available through umbrella organisations such as the NCVO, the Charity Commission, regional/local networks and local authorities. The Charity Commission and the NCVO might choose to issue further guidance and the Government would assist in its preparation.

10.4 The Government proposes to issue guidance for local authorities to assist in planning for a changeover. This guidance will include planning for continuity of public service delivery through voluntary and community sector organisations, including programme funding.

10.5 Local authorities work in partnership with Citizens Advice Bureaux who play an important role in providing advice and information to citizens at the local level. Citizens Advice Bureaux would need to be able to provide information during a changeover.

Example of how a changeover would work in the UK (19)

Bob is a member of a local youth club, where Penny is an occasional voluntary helper. Every year the youth club has a cake stall to raise funds at the school fete.

Before E day, the youth club committee meets to discuss the changeover from sterling to euro. Many of the things they need to consider are similar to the issues facing any small business:

- **conversion of prices – what will be the new weekly subscription after E day? How much should they charge for cakes at the summer fete?**
- **cash handling – they will need to be prepared to receive both euro and sterling cash for a period after E day;**
- **training – they will need to organise a session for the voluntary helpers who collect subscriptions and staff the cake stall; and**
- **accounting – the voluntary treasurer has phoned the national euro helpline and received a leaflet about accounting issues.**

LESSONS FORM THE EURO AREA

10.6 The euro area showed how the voluntary and community sector played a vital role in distributing targeted and accessible information materials.

Ireland

10.7 The Euro Changeover Board of Ireland (ECBI) made grants available to representative organisations to meet the costs of activities aimed at promoting awareness of the euro with Irish citizens and particularly with vulnerable groups. Representative groups decided on the best method to convey information to their clients and the ECBI paid up to 75 per cent of the cost for approved schemes.

10.8 A consultative panel was set up consisting of representatives from groups including those who support people with learning difficulties, older people, travellers and asylum seekers. The panel was consulted in the development of mainstream information materials in order these could be made as accessible as possible to all citizens.

Spain

10.9 The Ministry of the Economy's communication strategy focused on information multipliers for delivery. The Ministry recruited thirty three information officers who were given two weeks' training and then sent to convey information face to face to a million older people.

10.10 For the visually impaired, the Spanish Government worked with the charity for the blind, Once, to produce a Braille version of the Ministry's guidance booklet. Once's initial priority was to ensure that general information produced by the Government was adapted for the visually impaired. They asked the Ministry to produce a special version of its information leaflet for visually impaired people. This had more pictures and greater contrast of print and page and was then converted into braille and audio versions.

France

10.11 The Ministry for the Economy, Finance and Industry worked in partnership with representative organisations to deliver several training programmes including:

- a programme for socially and economically excluded people. This involved training 20,000 social workers and members of voluntary organisations who, in turn, provided information to between four and five million people who were illiterate, long-term unemployed or without fixed residence; and
- for older people, a programme was developed with the National Institute for Active Retirement. Nearly 5,000 pensioners volunteered and were given training. They then gave presentations to other pensioners.

10.12 The Ministry and some local authorities provided targeted funding to representative groups for euro communication activities.

POTENTIAL ROLE OF THE VOLUNTARY SECTOR IN A COMMUNICATION STRATEGY

10.13 As discussed in Chapter 6, a UK changeover communication programme would need to take into account the needs of vulnerable groups. This would require a strategy that would be clear, inclusive, accessible and reinforced by targeted delivery through trusted local communicators.

10.14 The Government has been working with the voluntary and community sector to identify communication issues for vulnerable client groups. A working group has been established to consider accessible information requirements for a changeover and possible partnership working.

NEXT STEPS

10.15 In developing the practical changeover preparations, HM Treasury will:

- work with the NCVO and the Charity Commission to identify generic operational changeover issues for voluntary and community organisations and consider what guidance would be appropriate;
- work with the NCVO and the Charity Commission to consider how guidance might be promulgated at national, regional and local levels; and
- engage a wider range of voluntary and community sector organisations in the development of the communication strategy.



CHANGEOVER IN THE PUBLIC SECTOR

The public sector accounts for around 40 per cent of the UK's economy, and has links with every business, organisation or individual. The Government has committed the public sector to setting an example through careful and comprehensive planning so that a changeover could be implemented in a timely and cost-effective manner. The public sector would also play a leading role in informing and protecting consumers during a changeover.

This chapter provides an update on the preparation work undertaken by the public sector so far. It outlines the progress made with the critical path departments, the devolved administrations and wider public sector, and some of the solutions developed to cross-cutting issues in the public sector, including rounding and smoothing, stored data, training, accounting and consumer protection.

BACKGROUND

11.1 In response to the publication of the first outline National Changeover Plan, by the end of 1999 all Government departments had prepared initial changeover plans. These plans were based on a template designed by HM Treasury. Departments considered what services they might provide during a changeover and how they would convert their systems and key planning activities, with indicative lead times. Many public sector bodies also started working with the private sector to further develop their planning.

11.2 It soon became clear that a number of common issues would best be addressed in a co-ordinated way. As a result, the Public Sector Advisory Group (PSAG) was established to help identify these issues, and to disseminate best practice throughout departments. A number of specific issue groups were also set up.

Managing a public sector changeover

11.3 The management structure for public sector preparations has been considerably simplified, as issues have been identified and solutions found. The Committee of Euro Ministers and the Committee of Devolved Euro Ministers set the policy agenda. The Financial Secretary to the Treasury chairs both. Each department, including each department or division in the devolved administrations, has its own euro co-ordinator. This network allows rapid dissemination of information and offers different parts of a department an accessible source of information and advice within their own department. Euro co-ordinators meet regularly to prepare Ministerial meetings. PSAG, which reports to Euro Ministers through the euro co-ordinators, manages a series of specific groups which tackle important common issues. A further group, the IT Managers Group, will be set up to ensure the public sector is ready for an IT changeover and to manage the associated risks.

11.4 This structure allows the public sector to work together to identify and resolve common issues. This can help reduce costs and lead times. For example, by sharing information departments can help external IT contractors achieve optimal results by providing accurate, comprehensive information about the business requirements of each department.

11.5 The public sector has worked to identify the risks to a successful changeover. Addressing these issues early in the process has enabled solutions to be built into business plans. An example of this is the policy, announced by the Prime Minister in 1999, that where IT systems are replaced or upgraded, euro compatibility would be built in where it represented value for money. This has already significantly reduced the potential costs of a changeover, by reducing the number of systems which would need to be reviewed.

Early planning reduces costs

An example of the benefits of early planning:

- National Savings and Investments (NS&I) identified a major issue with Ordinary and Investment Accounts, and their IT platforms;
- this could have cost a great deal of money in a changeover;
- in line with Government policy, euro compatibility was incorporated into a modernisation programme and review of the products offered by NS&I; and
- these costs would now be avoided.

LESSONS FROM THE EURO AREA

11.6 An important lesson from the euro area is that the private sector would expect the public sector to take a lead in a changeover. For example, tax rules should be clarified early, so that the private sector is aware of the services that would and would not be provided. In Ireland, stamp duty on cheques was amended late in the changeover, and a late decision to change the tax year (from 6 April to 1 January) caused business confusion.

11.7 To avoid these issues, the transition services which would be offered by the Inland Revenue and HM Customs and Excise are set out below. The Government can also confirm that the UK tax year would continue to start on 6 April. The issue of tax thresholds is being considered by the Inland Revenue in consultation with stakeholders.

11.8 The euro area learning also confirms that, where there is certainty as to the services that would be provided, it is not necessary for the whole of the public sector to move in step. For example, in the euro area benefit payments remained in legacy currency right up to E day without causing difficulties. It is proposed that a similar system would operate in the UK.

11.9 The importance of training, particularly for staff with direct contact with citizens, is another key lesson from the euro area.

THE CRITICAL PATH DEPARTMENTS

11.10 Since the start of UK public sector preparation work in 1997, it has been clear that three departments would be critical to the successful delivery of a changeover. The critical path departments are:

- the Inland Revenue;
- HM Customs and Excise; and
- the Department for Work and Pensions (DWP).

11.11 The size of the task which would be faced by these departments has meant that early preparations work has been necessary. To the end of December 2002, they had spent £33.8 million on euro preparations (£18.7 million by the Inland Revenue, £7.1 million by HM Customs and Excise, £8 million by DWP). The total spent across the entire public sector is £36.8 million.

11.12 The three critical path departments have worked closely together and with HM Treasury, to:

- ensure their plans are compatible with the overall timetable;
- identify and resolve common issues;
- discuss and share experiences;

- disseminate best practice across the public sector;
- identify the services they would offer before E day;
- assess the IT changes which would be needed for a euro changeover;
- develop cost-effective solutions; and
- consider the legislation which would need to be amended to ensure a smooth and efficient changeover.

Critical path departments

Possible transition services available from revenue departments

Both revenue departments would:

- continue to handle euro payments from customers;
- make payments on request to suppliers in euro;
- arrange for repayments to be made to businesses which overpaid in euro;
- from at least four months before E day, include euro equivalent figures based on key sterling amounts (typically for summary line totals) on selected output for information purposes (i.e. dual display); and
- for at least the period of the dual circulation period, include sterling equivalent figures based on euro amounts on selected output for information purposes (i.e. dual display).

Transition services possible from Inland Revenue

Inland Revenue would:

- allow organisations to submit euro tax returns by internet for accounting periods that ended on or after RT;
- allow customers to submit Self Assessment returns in euro, for the tax year in which RT fell. Customers would need to complete the form exclusively in euro, and would need to include cents (for example €23.67), rather than rounding to the nearest whole number as is current practice. Statements would be issued in sterling, with key amounts dual displayed in euro for information;
- deliver all tax services in euro for all tax years commencing after E day;
- continue to accept declarations in sterling to cover all tax years ending before E day. If E day was not 6 April, then all declarations for that tax year would be in euro; and
- consider how it might be able to support organisations that wished to convert to euro payroll services for the tax year in which RT fell.

Transition services possible from HM Customs and Excise

HM Customs and Excise would:

- offer a full dual currency service from RT: any transaction declared to HM Customs and Excise could be in either sterling or euro, and would be processed in that currency; and
- continue to accept declarations in sterling until E day.

Possible Transition services from the Department for Work and Pensions

Department for Work and Pensions would:

- pay all benefits in sterling until E day; and
- ensure that all benefit statements and calculations featured dual display in euro and sterling, from four months before E day.

Example of how a changeover might work in the UK (20)

At the start of the tax year before E day, Bill and Penny receive information from the Inland Revenue explaining what euro services will be offered to support a business changeover.

The leaflet explains that it is up to each business to choose the most convenient date to make the change from sterling to euro. For a business that decides to change before E day, the Inland Revenue will provide some services in euro: for example, from an advertised date, businesses will be able to submit an online tax return in euro.

The Inland Revenue will continue to accept payment in euro, just as they have done since the introduction of euro cash in the euro area.

11.13 Whilst working together, the critical path departments have not been bound to reach common solutions – each has developed solutions appropriate to their own circumstances and the needs of their customers. This also means that the rest of the public sector has a range of experience and best practice to study when making preparations.

INTERNAL CONVERSION EXERCISE

11.14 Government departments completed an Internal Conversion Exercise in 2001. This exercise allowed departments to examine how their systems and management would cope in a changeover, and whether they could meet the timetable set out in the second outline National Changeover Plan. It meant that departments:

- reviewed their planning;
- identified risks and made arrangements to manage those risks;
- assessed the project management structures which would be required; and
- mapped euro compatibility in IT systems and identified actions which would need to be taken.

11.15 All Government departments have carried out their changeover planning on this basis and will continue to develop their plans. All are confident that they would be able to complete a changeover within the timetable set out in Chapter 4.

11.16 All departments now have changeover plans in place. Reflecting the different sizes and specialisms, these changeover plans are at different levels of detail. For the critical path departments, this has required a significant degree of planning. However, for some departments with fewer issues, plans are less detailed, but would still be sufficient to deliver a smooth and cost-effective changeover.

Changeover planning in Government departments

Different levels of planning are needed by different departments. Listed below are some examples of how Government departments are preparing:

- the Ministry of Defence has a detailed Changeover Plan – it has a large number of systems over a wide-ranging department;
- the Foreign and Commonwealth Office has fewer issues – they are already working in euro and other currencies across the world;
- the Court Service has comprehensive plans for euro compatibility in its IT systems;
- the Department of Health has staff plans in place for a unit to manage a changeover for the large and diverse Health Service;
- the Office of National Statistics has considered how to communicate relevant information to their partners and clients in both public and private sectors; and
- the Department of Transport has been discussing consumer issues with transport companies and passenger representative groups.

II.17 A significant range of Government services are now delivered through Non-Departmental Public Bodies (NDPBs) and Agencies. Sponsor departments have engaged with these bodies and they have started making plans of their own. As with departments, the level of planning is different depending on the issues faced by an individual NDPB or Agency. Departments sponsoring a number of NDPBs have set up networks to share experience and address common issues.

Preparations in NDPBs and Agencies

Many government services are now delivered outside of central departments, through NDPBs and Agencies, for example through the Passport Agency and the Driver and Vehicle Licensing Agency. These organisations have also made preparations. The Home Office and the Department for Education and Skills have developed networks of officials responsible for euro preparations in their Agencies. This has enabled good practice and early planning to be taken forward in these NDPBs and Agencies.

II.18 The larger Agencies and NDPBs have now completed Internal Conversion Exercises. In February 2003, departments reviewed and updated their changeover plans. This exercise means that they would be able to carry out detailed and timely implementation.

THE DEVOLVED ADMINISTRATIONS

II.19 Under the devolution arrangements, policy on EMU membership is reserved, which means that the Government takes decisions for the UK as a whole. However, a changeover would have a major impact on all aspects of public and private sector business in the devolved administrations. They are responsible for preparations in areas of devolved policy.

II.20 The three devolved administrations have been making preparations. An initial Internal Conversion Exercise was completed by each devolved administration in 2001. In January 2003, the Committee of Devolved Euro Ministers decided that each department or division should complete the exercise in order to identify their continuing planning needs.

II.2I The devolved administrations have detailed IT strategies in place, and have been able to identify their individual communication needs. Robust structures are in place in each administration, identifying where responsibility for delivery of a changeover would lie in the devolved administrations.

The devolved administrations

In Scotland:

- the **Minister for Finance and Public Services** is responsible for euro preparations in the **Scottish Executive**, with senior officials taking on day to day management responsibility;
- cross-cutting departmental and issue based steering groups ensure proper co-ordination and planning;
- the **Scottish Executive** works closely with **HM Treasury** to ensure that a changeover in Scotland would be co-ordinated with the plans of **UK departments**;
- the **Enterprise and Lifelong Learning Department** has worked with the **DTI** in assisting businesses in working with the euro; and
- some larger retailers in Scotland already accept euro, as do all **Historic Scotland** sites.

In Wales:

- the **National Assembly for Wales** would take the lead in co-ordinating a changeover in Wales;
- the **Welsh Assembly** has provided information on the euro to business throughout Wales through the **Wales Euro Task Force** and the **Wales European Information Centre**;
- many businesses in Wales already accept euro, particularly in coastal areas where there is significant trade with Irish businesses and citizens; and
- the **Welsh Development Agency** has been making and accepting payments in euro since it was introduced in 1999.

In Northern Ireland:

- Northern Ireland is unique in the **UK** in having a land border with a euro area country;
- Northern Ireland departments have made detailed plans for a changeover. A cross departmental euro co-ordinator network ensures co-operation;
- during a changeover, there would be a central co-ordination unit in Northern Ireland;
- the **NI Euro Preparations Forum** has been instrumental in providing advice to business and this work will continue through **Invest NI**, who recently produced a booklet for business, called 'Trading with the euro'; and
- sterling and euro are used interchangeably in many border areas, where retailers and the agricultural community have long experience of dealing in two currencies.

KEY ISSUES IN THE PUBLIC SECTOR

II.22 The preparations process in the public sector has identified a number of significant issues, which have been addressed.

Rounding and smoothing

II.23 Rules for conversion would be required where legislative amounts are set in sterling. The European Union set out a legal framework (see Annex D) for rounding in the euro area, and similar rules would apply in the UK. Smoothing may also be required to set levels that are particularly memorable or for administrative convenience. Detailed principles as to how these would be applied in the UK have been discussed by Euro Ministers. They would ensure the public sector would behave consistently and be fair in its treatment of those amounts.

II.24 An exchange rate would be agreed to six significant figures. For example, for Ireland EUR 1 = IEP 0.787564. All amounts were converted using this rate and rounded to the nearest cent, to create a legally equivalent amount under the Regulations. Reciprocal rates (i.e. the reverse rates) were not allowed as they would not produce identical values in all cases and would have caused conversion difficulties.

II.25 The following example illustrates a technical problem which arises due to rounding, known as vertical rounding. This occurs where a sum of the rounded components does not equal the rounded total, because of the cumulative effect of rounding each amount. This example uses a fictitious benefit calculation based on a rate of EUR 1 = 0.456789. The conversion at the total level gives a different result (135.15 converts to €295.87) to the sum of the converted parts (€295.88).

Benefit	Amount	€ Equivalent
Component A	68.90	150.84
Component B	23.50	51.45
Component C	42.75	93.59
	Total 135.15	Total of converted amounts 295.88
		Total € equivalent of original currency total 295.87

Draft rounding and smoothing principles

The following draft principles have been developed as guidance for the public sector:

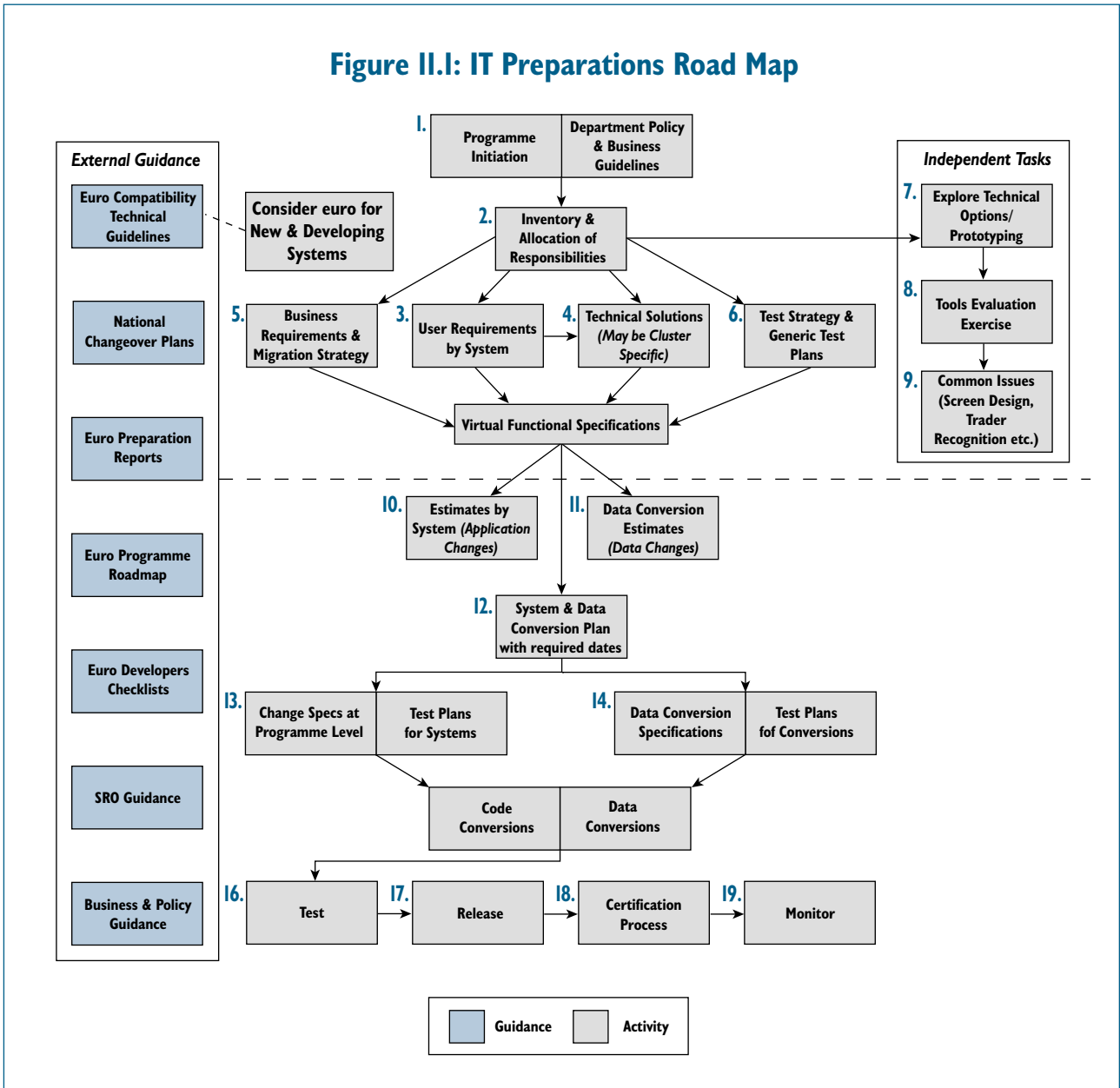
- the transitional problem of vertical rounding should be properly covered in Government communications;
- unless there are serious operational consequences, the reckonable amount for a transaction should be the total, converted and rounded in accordance with the Regulations, rather than the sum of the converted and rounded components;
- the Government intends to seek clarification in any rounding Regulation applying to the UK that, where necessary, parts of the public sector could round at the component level;
- smoothing for presentational reasons should be avoided where at all possible;
- where amounts are reviewed and updated regularly, departments should normally live with the unsmoothed euro amount for a transitional period, and consider a smooth euro value at the next updating;
- imaginative solutions should be considered to avoid the need for smoothing;
- normal business rules should apply to amounts in euro as well as sterling;
- where the costs of smoothing were lower than the costs of the IT or business changes necessary to avoid smoothing, then smoothing might be necessary;
- where smoothing was necessary in the public sector, it should be in the citizen's favour;
- new fines and penalties should use the levels set out in the Criminal Justice Act where possible. These levels would be smoothed in the event of a changeover;
- where fines or penalties are set as a range or maximum amount, guidance would be issued to decision makers to choose a smooth euro amount within the permitted range;
- for fines and penalties (particularly fixed penalties) where these solutions were not possible, smoothing might be required; and
- where fines or penalties needed to be smoothed, they could be either increased or decreased. This would be a policy decision for the department concerned.

IT issues

11.26 The biggest single task for the public sector would be to make sure that the IT systems could cope with the changeover, operating in sterling until conversion and in euro thereafter, providing dual display arrangements and any transition services. It might also be necessary to develop dual currency capability for some systems. Since 1999, it has been Government policy for upgraded or new IT systems to incorporate euro compatibility, where it represents value for money. A detailed road map has been prepared and disseminated to help public sector bodies in their planning and preparations.

11.27 Terms have been agreed for a framework arrangement tender for the supply of IT consultancy services across the public sector (including local authorities, NDPBs, Agencies and devolved administrations), which would help manage the risk that these services might not be provided to a common standard, on time and at good value for money.

Figure II.I: IT Preparations Road Map



II.28 The road map allows Government departments and others in the public sector to test their IT changeover plans. At this stage, there is no particular point a department needs to have reached in order to achieve a changeover by E day. For example, a department with complex systems requiring many changes might well need to have already completed a number of steps, in order to be sure they could be ready for any E day. Others might have fewer issues, and it is perfectly possible for such a department preparing properly to have completed only the very early steps.

II.29 The road map encourages the public sector to consider its business needs against HM Treasury's guidance on euro compatibility. Not every IT system needs to be converted into a system capable of running full dual currency capability. If a department's business needs can be met with a reliable and cheaper solution, then that solution provides better value for money and should be chosen. This road map helps the public sector identify its needs and ensure that value for money principles are applied when they select their solutions.

Stored data

11.30 Many public sector IT systems hold large sterling denominated databases. For example, those held by the Office for National Statistics (ONS) or student loan records.

11.31 The public sector would operate under a presumption that, in most cases, the data could continue to be stored in sterling, and would only be converted if any further processing were needed, for example, assessing a level of benefit at a future date. However, there would be some cases where conversion of stored data would be necessary, for example, the ONS would convert all national accounts going back to 1948.

11.32 Where data needed to be converted, there would be good practice guidance issued for the public sector. This would mean that original data would be archived; data protection principles and rules followed; and a proper audit trail put in place. It would be clear for any future processing that the original source data had been converted. Draft guidance for the public sector on dealing with stored data is included at Annex G.

Local authorities

11.33 Local authorities play a key role across the UK and are responsible, amongst other things, for teachers', police and fire service pay, police pensions, and the payment of housing benefit. They would play a pivotal role in a changeover. High-level guidance has been prepared, in consultation with the Office of the Deputy Prime Minister (ODPM), the Local Government Association (LGA) and the Audit Commission to help local authorities make preparations. This guidance will be updated and extended, and discussed with local authorities at an early stage. The Audit Commission would monitor preparations and, together with HM Treasury and ODPM, assist and advise local authorities on euro issues.

Example of how a changeover might work in the UK (21)

In the week before E day, Bill receives a parking ticket when he overstays his time in a local authority car park.

The notices in the car park indicate the penalties in both sterling and euro. The parking ticket itself also shows the amount of the fine in both sterling and euro amounts.

As it is now close to E day, Bill's bank account has been converted from sterling to euro and he has been issued with a euro chequebook. He writes a euro cheque for the euro amount, and posts it to the local authority payments office.

Training

11.34 Public sector staff would need to be familiar with the euro and work with it. Common training needs have been identified and courses designed. This would be particularly important for public sector staff with direct dealings with citizens.

Communications

11.35 The public sector would have an important role to play in delivering information to citizens, and work is well advanced to identify all stakeholders and to ensure that the needs of all citizens, particularly vulnerable groups, are properly addressed.

II.36 Many parts of the public sector are in direct contact with citizens. As such, they should be able to provide clear information about the services their organisation would provide through a changeover. Further information on communication is provided in Chapter 6.

Consumers

II.37 The public sector would set an example to the rest of the economy in providing information to consumers about the euro and in treating them fairly. A public sector code of practice would be developed and promulgated, based on the principles set out in Chapter 7. The draft public sector code is set out below.

DRAFT PUBLIC SECTOR CONSUMER CODE OF CONDUCT

Overall Aim

To ensure that citizens can be confident that they would be treated fairly during a changeover. Consumers would be provided with adequate, targeted and easily understood information to help them through a changeover, and a contact point if they felt that standards of service were not being provided in accordance with this code. The public sector would be expected to show a strong lead in best practice during a changeover.

The details below cover the minimum standards that would be met by all public sector service providers. Implementation would naturally depend to some extent on the nature of the service provided and the relationship with the consumer. Some public sector service providers might wish to provide additional or earlier euro facilities.

This code outlines how a public sector service provider would act in the different phases of a changeover.

WHAT HAPPENS AND WHEN?

1. Up to T (before joining EMU)

1.1 There would be no immediate change to transactions between the service provider and the consumer. Payment for services would continue to be in sterling; euro cash would not be legal tender in the UK. This applies to cash payments and non-cash payments. Prices would continue to be displayed in sterling.

1.2 Service providers might choose to accept payment in euro, but would be under no obligation to do so. Service providers who accepted euro payments might apply their own exchange rate and a handling charge, but the terms would be made clear at the point of transaction.

2. T to E (from the start of the transition to the introduction of euro notes and coins)

2.1 From at least four months before E day, euro price information should be shown alongside sterling. Prices should be converted at the official six-figure conversion rate. The converted euro value would then be rounded to the nearest euro cent to give the legally equivalent euro value, in accordance with the EU conversion and rounding Regulations.

2.2 Service providers would continue to be under no obligation to accept euro cash. If they did, they could continue to apply a handling charge, but the terms must be made clear at the point of transaction.

2.3 Electronic euro payment services would be introduced gradually during the transition period. Payments made in euro at, for example, a point of sale (PoS) terminal, would be automatically converted by the banks to sterling for customers with sterling accounts. There would be no additional charge and the same clearing period.

2.4 As soon as a service provider offered any form of euro service, notices should be displayed at customer interfaces, including websites for internet transactions, to indicate which forms of payment (if any) would be accepted in euro, and from what date. The official six-figure exchange rate and any handling charge applied should also be made clear.

2.5 If change were given for a euro transaction, it could be either in euro or sterling to the legally equivalent value.

2.6 From at least four months before E day, where it is customary to issue a receipt for a service, this should show both the sterling and euro equivalent prices if the issuing equipment was capable of doing so. If that was not technically feasible, the price shown should continue to be in sterling until E day and in euro thereafter.

2.7 The euro € sign or currency indicator EUR should precede the euro price (e.g. €7.25 or EUR 7.25) and be clearly distinguishable from a price displayed in £ sterling.

3. *E day (the introduction of euro notes and coins in the UK)*

3.1 From E day, prices should be displayed in euro. Wherever prices are displayed now, including in information and promotional materials, sterling price information should continue to be displayed until at least the end of the dual circulation period when sterling notes and coin would cease to be legal tender (two months after E day). Service providers might continue to dual display in sterling after this point if they wish to offer this service to customers, but it is recommended that this should not continue longer than 18 months after the introduction of euro cash.

3.2 For payment in cash, customer service interfaces should accept either sterling or euro until the end of the dual circulation period. For payments accepted in sterling, the fixed conversion rate must be applied. No handling charges would be applied for euro or sterling payments.

3.3 Coin vended services, such as parking meters, would not need to accept both sterling and euro. However, all machines should be clearly marked to indicate to users whether they accepted, euro only or sterling and euro. For a very short time after E day operators might still have some machines accepting sterling only, but they should be converted to euro as soon as possible and within the two month dual circulation period.

3.4 Coin vended services might require a euro conversion to be smoothed to an operationally practical value. Any smoothing of converted euro amounts in the public sector should not disadvantage the citizen. Smoothing should be avoided where at all possible (so, for example, if £1 bought 60 minutes of parking time, €1 might buy a different number of minutes, so that the price per hour would be the same in both currencies).

3.5 Change tendered in cash transactions for services should be in euro only.

3.6 From E day, all non-cash transactions should be in euro only, except that cheques drawn in sterling that pre-date E day would continue to be valid for up to six months from the date of issue.

4. *Throughout a changeover*

4.1 The needs of vulnerable groups, such as older people, the visually and hearing impaired and those with learning difficulties, should be taken into account. Service providers should consult with representatives of vulnerable groups to develop a suitable method of addressing these needs.

4.2 All staff dealing directly with the public should be fully trained and able to give straightforward and relevant information about services during a changeover.

4.3 The consumer code euro logo would be displayed at all points of transaction and provide a customer service contact number for euro enquiries.

Public Accounting

II.38 Departments, HM Treasury, the National Audit Office (NAO) and the Audit Commission have agreed a set of draft principles as to how public accounts would operate during any changeover. The principles would need to be debated by Parliament. The guidance covers issues such as estimates, spending controls, published accounts and the dates from which euro would be used in public accounts as a changeover took place. These principles would apply to local government, NHS, police service and others as well as central Government, and have been designed with this in mind. Draft guidance for the public sector on accounting principles is included in Annex H.

NEXT STEPS

II.39 In developing the practical changeover preparations, HM Treasury will:

- distribute planning guidance to local authorities and support them in their preparations;
- finalise the tender for the IT consultancy framework arrangement;
- support departments in finalising their changeover plans;
- develop audit and monitoring systems to track implementation of those plans and minimise costs;
- support the NHS in reviewing and updating its preparations, following the limited NHS planning exercise held in 2000;
- distribute guidance on stored data in specific areas, for example pensions, and issue best practice guidance on how to convert data where this is necessary;
- consult on a public sector code of practice for consumers;
- disseminate best practice across Government;
- hold workshops, dealing with specific issues, to share experience across the public sector;
- support the devolved administrations in finalising their changeover plans; and
- develop and publish auditing guidelines in consultation with the NAO and the Audit Commission.

II.40 The NHS, other Government departments, devolved administrations, NDPBs and Agencies will continue to be responsible for their own preparations. HM Treasury will continue to assist and help share best practice on issues concerned with the mechanics of a changeover.

Example of how a changeover might work in the UK (22)

Bob's school receives a training pack for teachers which gives examples of how information about the euro could be introduced across the curriculum.

In the approach to E day, all pupils are given the opportunity to discuss the introduction of the new currency and share their experiences and understanding. Bob's class carries out some role play exercises where they practise making everyday purchases in euro, using examples of euro coins that pupils have collected on holiday in the euro area.

At the start of the school year before E day, Bob notices that a new set of maths textbooks includes problems to be solved using euro examples. Although older textbooks still refer to sterling, pupils are encouraged to practise converting amounts to euro.

11.41 For other policy areas, where other parts of the public sector would have responsibility, those departments would lead. These would include issues such as teacher training and the amendment of children's textbooks in schools. In this case, the Department for Education and Skills would take the necessary decisions in a timely fashion, in consultation with stakeholders.

12.1 In developing the practical changeover preparations, HM Treasury will:

Managing a changeover

- develop detailed options for the management framework for a changeover;

Timetable

- continue to develop the Managed Transition Plan through consultation with stakeholders across the economy;

Cash

- consult extensively on the approach to a cash changeover;
- work with the Bank of England (the Bank) and other key stakeholders to examine possible solutions to regional cash storage issues;
- work with the Royal Mint and other stakeholders to finalise estimates of coin requirements for a cash changeover;

Communications

- continue to consult on and develop the communication strategy;
- undertake further work on the specific needs of vulnerable groups, through a new working group;
- work with stakeholders to ensure co-ordination across the communication plans of public, private and voluntary sector organisations;

Consumers

- develop codes with individual sectors of the economy, in consultation with business, trade associations, trade unions and employee groups, consumer groups, voluntary sector organisations and representatives of vulnerable groups. Where relevant, regulators will also have an important role;
- verify that sector codes are consistent with the consumer code core principles;
- design a logo that could be awarded to public, private and voluntary sector organisations subscribing to a code;
- review how the existing consumer protection architecture could be used to deliver monitoring and enforcement of the codes;
- work with the Office for National Statistics to enable additional price monitoring to be carried out;
- encourage independent consumer groups to be prepared to undertake their own price monitoring and publicise the results;

Financial services

- work with financial services trade associations in the development of sector planning for a changeover for retail financial services customers;
- support the Bank in the further development of the planning for a changeover in the wholesale markets;

Business

- continue to provide information to UK business on dealing with the euro as a foreign currency to ensure that the impact of the euro on UK business competitiveness is recognised and addressed;
- develop the material and approach for a business information programme, in consultation with other Government departments and their Agencies, business support bodies and business representative organisations;

Voluntary Sector

- work with the National Council for Voluntary Organisations (NCVO) and the Charity Commission to identify generic operational changeover issues for voluntary and community organisations and consider what guidance would be appropriate;
- work with the NCVO and the Charity Commission to consider how guidance might be promulgated at national, regional and local levels;
- engage a wider range of voluntary and community sector organisations in the development of the communication strategy;

Public sector

- distribute planning guidance to local authorities and support them in their preparations;
- finalise the tender for the IT consultancy framework arrangement;
- support departments in finalising their changeover plans;
- develop audit and monitoring systems to track implementation of those plans and minimise costs;
- support the NHS in reviewing and updating its preparations, following the limited NHS planning exercise held in 2000;
- distribute guidance on stored data in specific areas, for example, pensions, and issue best practice guidance on how to convert data where this is necessary;
- consult on a public sector code of practice for consumers;
- disseminate best practice across Government;
- hold workshops, dealing with specific issues, to share experience across the public sector;

- support the devolved administrations in finalising their changeover plans; and
- develop and publish auditing guidelines in consultation with the National Audit Office and the Audit Commission.

The City guide explains how the changeover in sterling wholesale financial markets would be expected to be handled, in the event of UK entry. Many decisions on a changeover have not yet been taken. Responsibilities for taking them are set out in the City guide. Some decisions would be subject to legislation. Although not yet drafted, this would be expected to be broadly similar in nature for the UK as for the euro area. Individual financial institutions would be responsible for making their own preparations for a changeover, with the Bank of England (the Bank) playing a co-ordinating role.

SECTION I: FINANCIAL INSTRUMENTS ISSUED BEFORE, AND OUTSTANDING AT, ENTRY

Section I needs to be read in conjunction with Section II, which contains a brief description of the Bank's own preparations for possible UK entry.

Nominal Values

Treasury bills: If dematerialised before UK entry, Treasury bills would be redenominated on entry, using the same method as for gilts. The market would be consulted before a decision was taken.

Other money market securities (including CDs): If dematerialised before UK entry, there would be three main options: run-off in sterling; redenomination on entry; or redenomination at a later date. The choice would be for the market. Any remaining bearer instruments would not be redenominated.

Wholesale bank deposits: The principal amounts outstanding at UK entry would be expected to run off in sterling rather than be converted to euro.

Syndicated bank loans: Except where the loan documentation makes specific provision for UK entry, the principal amounts outstanding and the total commitment would not be converted until the end of the transition period.

Gilts in registered form would, under UK legislation, be redenominated on entry by individual holding (by cash stock account), and rounded to the nearest euro cent. Index-linked gilts would continue to be linked to the UK retail price index.

Gilts in bearer form, of which there are 13 issues, would be deemed to be redenominated on entry, but without requiring an actual exchange of paper instruments or physical 'stamping over'. The UK legislation covering gilt redenomination might need specifically to provide for this.

Gilt strips: In the event of UK entry, the euro threshold would be expected to be €10,000.

Bonds by other issuers (sovereigns, supnationals and corporates): Under UK legislation, sterling bonds by other issuers under English law could be redenominated, using the same method as for gilts; if corporate issuers wished to redenominate their sterling bonds, they would be encouraged to do so at an interval after entry, to minimise the market's workload at entry. If issuers did redenominate, the IPAA would prefer them to do so on a coupon date. Bearer bonds (for example, sterling Eurobonds) would not be redenominated.

⁶Source: Bank of England.

ISINs: ISINs on gilts would not change on redenomination. To date there has also been an assumption that ISINs on other sterling debt instruments should not change on redenomination. It would be for market firms to consider this approach.

Share capital: Subject to any UK legislation, it would be up to businesses whether, and if so when after entry, to redenominate their sterling share capital into euro, preferably using a method which left unchanged the number of shares held by each shareholder, in order to avoid corporate actions.

Over-the-counter derivatives contracts outstanding in sterling at UK entry would be expected to run off in sterling rather than be converted into euro.

Exchange-traded derivatives: Open positions on Short Sterling contracts expiring after UK entry would be converted on a mandatory basis using a ratio set by the LIFFE Board. In the case of gilt contracts, all delivery months listed after a decision on UK entry would have a notional value denominated in euro. The contract size would be determined after market consultation. In the case of equity index contracts, individual equity options would reflect the denomination in which the underlying share was quoted. On indices, a standard euro-denominated multiplier would be used for all newly introduced contract months.

Cash-flow payments

After UK entry, the Bank Registrar's Department would make cash-flow payments (i.e. interest and repayment of principal) on *gilts* in euro. Issuers of *other sterling* debt would make cash-flow payments in euro, whether or not the financial instruments concerned had been redenominated, with banks converting euro payments into sterling for their personal and small business customers. The only exceptions would be cash-flow payments on non-gilt securities managed by the Bank Registrar's Department and unquoted loan stocks, which would continue to be made in sterling until the end of the transition period, unless the issuer chose to redenominate earlier.

Euro/sterling swaps would give rise to cash flows in both directions during the transition period. If there were market demand for a multilateral protocol along the lines of ISDA's 1998 EMU Protocol, parties could determine whether payments between them should be made gross or net by adhering to the Protocol. Market participants that did not do so would be expected to be able to cope with netting payments on the basis of bilateral agreements.

In the case of *equities*, from UK entry, institutional investors would generally want payment in euro, but small investors in sterling. Company registrars would continue paying dividends in sterling, subject to the guidelines drawn up by banks, registrars and representatives of issuing businesses. Retail banks would convert sterling payments into euro for institutional investors.

Market conventions

Short-term sterling-denominated *money market* instruments and interbank deposits would keep existing conventions, except in the case of LIFFE's Short Sterling contract, which already allows for the possible adoption of euro market conventions, in the event of UK entry.

Gilts already use the same market day-count conventions as the euro area (i.e. actual/actual). It is expected that gilts would continue to be issued with semi-annual rather than annual coupons.

Other issues of sterling bonds currently use a day count of actual/365 in the case of domestic issues, and a day count of 30/360 in the case of international issues. If redenominated, market participants would prefer market conventions (i.e. the interest day count and payment dates) on these bonds not to change.

New financial instruments issued after entry

New financial instruments issued after UK entry would be denominated in euro rather than sterling, as would the associated cash-flow payments, with a few possible exceptions.

Market conventions: New financial instruments issued in euro after UK entry would use the then prevailing euro market conventions, which differ from the currently used sterling market conventions in a number of ways.

Day-count conventions: From UK entry, interest rates would be quoted with actual/365 (as at present) for products that were not explicitly market-linked and actual/360 for market-linked rates, with appropriate annotation where the presumption did not apply. In the event of UK entry, all financial institutions would have to consider the day-count basis to be used for products and services for their personal and small business customers and the implications for their treasury management of any differences with the wholesale markets.

Settlement periods: If normal settlement periods in the sterling money market were to conform to those in the euro market, this would mean changing from settlement on the same day to settlement two business days' later.

Business days: CHAPS and CREST, which would settle only in euro from UK entry, would have to be open on all TARGET business days. BACS and the Cheque and Credit Clearing could settle only on days on which CHAPS was open, and would remain closed on UK Bank Holidays, in accordance with existing practice. Exchanges, like the London Stock Exchange, might continue to be closed on UK Bank Holidays, even when these were TARGET business days, as is currently the case with many exchanges in the euro area.

Financial transactions undertaken before entry but settled afterwards

Over-the-counter (OTC) transactions: It is not yet clear whether market practitioners would prefer OTC transactions to run off or be converted, except for OTC derivatives, which would be allowed to expire, though a limited number of market practitioners might agree to convert them on a bilateral basis.

Money market and foreign exchange transactions entered into in sterling prior to UK entry but settled afterwards would be expected to be settled in euro in accordance with the counterparty's existing standard settlement instructions (SSIs) for euro payments. Market participants should review their settlement arrangements in good time before entry, and any necessary SSI changes should be provided to counterparties at least six weeks before entry to allow time for processing. Sterling SSIs should not be used for market transactions after UK entry, but settlement of transactions with customers and non-market participants would be able to continue in sterling after entry until the end of the transition period.

Transactions involving sterling *price sources* would be replaced with euro price sources. The WMBA has already decided that SONIA would be replaced by EURONIA (as opposed to EONIA). The BBA has not yet decided how it would replace sterling LIBOR and would consult the market before doing so. If sterling LIBOR (which is fixed for same-day settlement) were replaced by euro LIBOR or EURIBOR (which are fixed for settlement two business days later),

there would be a mismatch between the value date and the corresponding period starting date. For sterling syndicated loans, the treatment of fixings would depend on the provisions in the loan documentation.

In the case of *gilts and any other debt instruments* redenominated on entry, financial transactions undertaken in sterling before entry but settled afterwards would, subject to market consultation, be settled in euro. Market firms would not reconfirm trades following redenomination, unless bilaterally agreed otherwise.

In the case of *repo* transactions, market participants would be encouraged to change over to euro in a particular way set out in the City guide.

In the case of *debt instruments* not redenominated on entry and equities, CREST proposes that transactions outstanding at entry should settle in sterling for a period of 25 business days after entry, when it would either convert to euro or request market firms to delete and reinput in euro.

Financial transactions undertaken after entry

Cash and derivatives transactions undertaken after entry would be settled in euro, unless bilaterally agreed to settle in sterling.

In the case of *debt* instruments, the consideration (including accrued interest) would be calculated in euro and settled in euro after entry.

In the case of *equities*, the London Stock Exchange has proposed that all shares not already priced in euro (rather than sterling) before UK entry would be priced in euro from entry, and all equity transactions after entry should be priced and settled in euro (rather than sterling).

SECTION II: BANK OF ENGLAND PREPARATIONS

The Bank has been planning for possible UK entry into EMU, under the Government's policy of 'prepare and decide'. If the UK were to join, the Bank would become a full member of the Eurosystem, and a number of issues would need to be addressed in preparing for such a change. As well as amendments to the Bank's finances, balance sheet and Statute, changes would be needed in relation to: monetary policy operations; the payment infrastructure; accounting conventions; statistical requirements; Registrar's Department; and banknotes.

Monetary policy operations

The Bank would need to change the way in which it conducted monetary policy operations, in order to participate in the operational framework of the Eurosystem. This would also involve significant changes to the Bank's front, middle and back offices.

Minimum reserves: Banks and building societies in the UK (i.e. some 450 institutions) would be required to hold minimum reserves. The Eurosystem reserve requirement is currently set at 2 per cent of eligible liabilities; the Bank would pay interest on these minimum reserves at the ECB main refinancing operation (MRO) rate. Each bank or building society would need to meet its reserve requirement on average over the monthly maintenance period, and the balance on its reserve account could never become negative. To implement reserve requirements, new Bank systems would be required; and banks and building societies which used their reserves actively, in particular to provide intraday liquidity for payment system purposes, would also need an RTGS Enquiry Link, in order to monitor and access their account balances during the day.

Open market operations: Banks and building societies would be eligible to have access to the Eurosystem marginal lending facility and deposit facility via the Bank, at the rates determined by the ECB Governing Council, provided that they fulfilled certain prudential and operational criteria; and, subject to the same criteria, they would also be eligible to apply to the Bank to become counterparties in Eurosystem open market operations (OMOs). The Bank would receive bids for liquidity at the weekly and monthly ECB tenders, send the results in a timely way to the ECB, and allocate the relevant amounts to the successful counterparties. The ECB's regular operations are for next-day settlement, whereas the Bank's (daily) OMOs are for same-day settlement. Reserve averaging means that the ECB's OMOs do not normally need to have same-day settlement; but ECB fine-tuning operations may have same-day settlement.

Collateral: Assets eligible for use in operations with the Bank at present, whether for OMOs, standing facilities or intraday credit, would meet Eurosystem requirements (as set out in the General Documentation on Eurosystem Monetary Policy Instruments and Procedures, April 2002); so, in principle, they could continue to be acceptable as collateral in the event of UK entry.

Balance sheet data: By set times each day, the Bank would provide to the ECB estimates of the Bank's own balance sheet, and a forecast of the liquidity position in the UK money market for the rest of the maintenance period (up to 25 business days ahead).

Payment infrastructure

NewCHAPS: A high-volume wholesale real-time domestic system for making euro payments would be needed, if the UK were to join EMU. The NewCHAPS RTGS system, which was completed in August 2001, would provide this. The system was designed to replace outdated technology for making sterling payments with the more modern platform already used now for CHAPS Euro, allowing enhanced functionality. However, it also had the incidental benefit of enabling a single high-volume real-time euro payment system to be readily established if the UK were to join EMU. CHAPS sterling would be expected to close at T. However, it would be possible to send and receive sterling-denominated RTGS payments through CHAPS Euro until the end of the transition period, at E day. The current limits on the Bank's ability to provide (collateralised) intraday credit in CHAPS Euro would fall away on entry.

Enquiry Link: The upgrading of the Enquiry Link platform for settlement banks was completed in July 2001, removing the capacity constraint on the number of banks that could have access to a real-time enquiry link, if the UK joined EMU.

Delivery-versus-payment (DVP): The project to enhance DVP, by introducing settlement of securities in CREST against payment of central bank funds in real time, went live at the end of November 2001, and therefore meets the ECB requirement that, by 2002, only systems offering DVP are eligible for use in extending intraday credit in TARGET, as well as for Eurosystem monetary operations. Sterling money market instruments are due to be settled in CREST from the middle of 2003. From EMU entry, the removal of limits on the provision on intraday credit should allow banks taking delivery of securities, but not having sufficient funds on their account to pay, to use the securities being delivered as collateral against which to obtain intraday euro liquidity from the Bank (i.e. 'self-collateralisation').

Other changes on entry

Accounting conventions: On entry, the Bank would need to adopt Eurosystem accounting conventions, which differ in some respects from accounting conventions under UK Generally Accepted Accounting Principles. The Bank would also need to ensure that it could meet ECB reporting requirements on time and in the format required.

Statistical requirements: the Bank would need to introduce new statistical forms to provide the data required by the ECB for monetary policy purposes, and to comply with the ECB definition of eligible liabilities for minimum reserve requirements. Monetary and financial institutions would need to adapt their own reporting systems accordingly. In particular, the ECB would require a fuller breakdown of business with the rest of the euro area. The ECB also requires monthly balance of payments figures, and additional detail for the compilation of financial accounts for the euro area. The Bank is co-operating with ONS to make maximum use of existing sources, but some additional data collection would be needed for UK entry.

Registrar's Department: The main tasks of the Bank Registrar's Department would be: on entry, to handle the redenomination of gilts, using the method determined by the Government; and from entry, to handle the registration of euro-denominated gilts (and other registered stock), and generate dividend and redemption payments for them. Similarly, the Department would handle redenomination of sterling debt managed on behalf of issuers other than the UK Government.

Banknotes

The Bank would also have to plan for the introduction, at the appropriate time, of UK euro banknotes in place of sterling banknotes, and the withdrawal of sterling banknotes.

B

ANNEX B: MANAGED TRANSITION PLAN

The Managed Transition Plan (MTP) contains information on how financial and other services would develop during a changeover. The Government will continue to work with stakeholders across the economy to develop MTP in greater detail.

Implementing a UK changeover: who would do what, when?

The table below summarises the actions required at each phase of a UK changeover.

After a decision to join EMU and before a referendum (D to R)		
Organisation or sector	Action	Impact on citizens and business community
All sectors and organisations , including those that have not yet considered the possible impact of UK entry to EMU.	<ul style="list-style-type: none"> • Implement existing euro changeover strategy; <p>If no preparations work has been done:</p> <ul style="list-style-type: none"> • Obtain copies of the most recent central Government changeover planning documents; • Prepare a tailored euro changeover strategy for the organisation, considering the impact of a UK changeover on: <ul style="list-style-type: none"> – current business plans and existing change programmes, including those that could have to be postponed or stopped; – current products and services, (including the implications for pricing, marketing and the supply chain); – IT systems; – internal financial systems (for example, accounting, invoicing, purchasing); – internal and external communications; – staff training needs. 	<p>Limited.</p> <ul style="list-style-type: none"> • Preparations at this stage remain internal to each organisation; • Some organisations may publish planning documents.

After a decision to join EMU and before a referendum (D to R) (continued)

Organisation or sector	Action	Impact on citizens and business community
Wholesale financial market operators, including: Bank of England Clearing banks Investment banks Insurance companies Fund managers	<ul style="list-style-type: none"> • Start preparations for the wholesale financial market changeover (to be ready by T): <ul style="list-style-type: none"> – mobilise the design and build process for the wholesale markets changeover at T; – confirm new euro market conventions, such as the interest day count, where those conventions need to change from sterling market practices; – consider how the wholesale and retail markets would interact, for example, to ensure that retail investors could receive financial prices, and settle trades in sterling until towards the end of the transition period; – consider what client communication would be needed and when; – consider what staff training would be needed and when. 	Limited. <ul style="list-style-type: none"> • Some targeted client communication.
Bank of England	<ul style="list-style-type: none"> • Start preparations for the Bank to become a member of the Eurosystem from T. 	None.
UK banks, building societies and other account holding institutions/mortgage providers	<ul style="list-style-type: none"> • Mobilise the design and build process for <ul style="list-style-type: none"> – future conversion of business and personal bank accounts; – retail banking infrastructure systems; – retail banking product and customer systems. • If not yet done, prepare a euro changeover strategy (see suggested steps at the start of Annex). 	None.
Inland Revenue	<ul style="list-style-type: none"> • Start preparations for services to be offered during a transition period; • Start preparations for delivery of certain services with long lead times, for example, a euro stamp duty system for use from T. 	None.
HM Customs and Excise	<ul style="list-style-type: none"> • Start preparations for euro services to be offered from RT: <ul style="list-style-type: none"> – VAT; – excise services; – trade statistics; – international trade services. 	None.

After a decision to join EMU and before a referendum (D to R) (continued)

Organisation or sector	Action	Impact on citizens and business community
Insurers	<ul style="list-style-type: none"> • Mobilise the design and build process for conversion of policies from sterling to euro; • If not yet done, prepare a euro changeover strategy (see suggested steps at start of Annex). 	None.
Utilities Water Gas Electricity Telephone	<ul style="list-style-type: none"> • Start preparations for the conversion/ replacement of prepayment meters; • Pilot euro enquiry facilities for customers. 	• Some targeted customer communication.

Between a referendum and the date of UK joining EMU (R to T)

Organisation or sector	Action	Impact on citizens and business community
All organisations and sectors	<ul style="list-style-type: none"> • Review and/or implement existing euro changeover strategy. <p>If no preparations work has yet been undertaken:</p> <ul style="list-style-type: none"> • Prepare a euro changeover strategy (see suggested steps at start of Annex). 	Limited.
Bank of England Wholesale financial market operators	<ul style="list-style-type: none"> • Complete and test preparations for the wholesale financial market changeover and for the Bank to become a member of Eurosystem from T. 	None.
UK banks, building societies and other account holding institutions/mortgage providers	<ul style="list-style-type: none"> • Complete preparations to ensure that wholesale and retail financial markets can work with each other; • Start customer communications for wholesale financial market changeover; • Continue design and build process for future conversion of business and personal accounts; • Continue development of retail banking infrastructure; • Continue development retail banking product and customer systems. 	• Communication with wholesale banking clients.
Inland Revenue	<ul style="list-style-type: none"> • Start the full changeover programme in readiness for agreed transitional services and E day; • Undertake discussion with representative bodies on changeover proposals; • Establish customer enquiries facilities. 	• Discussion on changeover proposals.

Between a referendum and the date of UK joining EMU (R to T) (continued)

Organisation or sector	Action	Impact on citizens and business community
HM Customs and Excise	<ul style="list-style-type: none"> • Start the full changeover programme in readiness for agreed transitional services and E day; • Undertake discussion with representative bodies on changeover proposals; • Establish customer enquiries facilities. 	<ul style="list-style-type: none"> • Discussion on changeover proposals
Insurers	<ul style="list-style-type: none"> • Continue the design and build process for conversion of policies; • Finalise agreement of conversion strategies and approaches with intermediaries and brokers. 	None.
Utilities	<ul style="list-style-type: none"> • Consult representatives of consumer and vulnerable groups about information needs; • Discuss implications of euro changeover with utility regulators; • Start customer information programme. 	<ul style="list-style-type: none"> • Consultation on changeover proposals; • Limited customer communication.
Accountants	<ul style="list-style-type: none"> • Publish practical guidance on accounting issues for a changeover; • Train accountancy and finance professionals to support organisations that wish to convert their internal accounting to euro early. 	<ul style="list-style-type: none"> • Limited customer communication.
Software providers	<ul style="list-style-type: none"> • Update accountancy and financial software to function in both euro and sterling, meeting any requirements of the tax authorities, accounting guidelines and reporting rules. 	<ul style="list-style-type: none"> • Customer communication.

Between UK joining EMU and retail transition (T to RT)

Organisation or sector	Action	Impact on citizens and business community
<p>Bank of England Wholesale financial market operators</p>	<ul style="list-style-type: none"> • Implement and monitor wholesale financial market changeover and the operation of the wholesale/retail interface. 	<ul style="list-style-type: none"> • Gilt-edged securities would be redenominated to euro at T. From T, these securities would be quoted, traded and settled in the wholesale financial markets in euro. Private clients could continue to receive financial prices, and settle gilt and equity transactions in sterling; • Gilt coupons and redemptions would be paid in euro. Institutional investors would hold euro accounts and expect to receive payments in euro, while private clients could continue to hold sterling accounts; • UK companies would be free to decide whether to redenominate their share capital from sterling to euro at any time after T, but would be strongly encouraged to use a method which would leave the number of shares held by each shareholder unchanged; • Equities would be traded by market makers and settled in euro. Retail brokers would deal with market makers either in euro or in sterling, and with their retail clients predominantly in sterling; • Dividend payments would continue to be made in sterling until RT; • Flotations and rights issues would open to investors in both sterling and euro.

Between UK joining EMU and retail transition (T to RT) (continued)

Organisation or sector	Action	Impact on citizens and business community
UK banks, building societies and other account holding institutions/mortgage providers	<ul style="list-style-type: none"> • Complete the build phase of retail banking infrastructure systems and begin testing; • Complete the build phase and begin testing programmes for converting personal and business accounts from sterling to euro; • Start preparations for changeover of ATMs and related services; • Begin training staff in: <ul style="list-style-type: none"> – changes to payment systems; – changes to products and services; – the accounts conversion process; – information and communication for customers. 	<ul style="list-style-type: none"> • Accounts would continue to be denominated in sterling. (Euro accounts would already be available and held on foreign currency systems but with limited functionality.) Euro payments into sterling accounts would be converted to sterling before being applied. All account holding institutions would offer this service but the capacity of each to make the necessary conversions would be limited. No other euro functionality would be available on standard sterling accounts. Account transfers would be available between sterling and euro accounts; • Sterling account statements would continue with the full euro amount of any euro transactions shown in the narrative, or full details provided under separate advice; • Credit and debit cards would not be affected as they reflect the currency of the account to which they are attached. If a UK retailer had converted a PoS terminal to operate in euro, euro transactions would be accepted on sterling accounts (as is done presently for foreign currency transactions), but without any commission or handling charges being taken from the consumer; • Cheque guarantee cards Cheque guarantee limits might be expressed in both sterling and euro on cards issued and renewed after T; • Cash from euro area countries would continue to be treated as if it were a foreign currency. Sterling would remain the only legal tender, although some retailers might choose to accept euro cash.

Between UK joining EMU and retail transition (T to RT) (continued)

Organisation or sector	Action	Impact on citizens and business community
Insurers	<ul style="list-style-type: none"> • Convert some customer contract data from sterling to euro; • Introduce systems to enable the receipt and processing of euro denominated information from external organisations. 	<ul style="list-style-type: none"> • Some insurers may offer euro products for wholesale customers.
Inland Revenue	<ul style="list-style-type: none"> • Develop, install and test euro compatible tax systems for transitional services. 	<ul style="list-style-type: none"> • Payments from Inland Revenue to suppliers could be made in euro on request; • Information from the Stock Exchange system that records stamp duty on UK securities would be received by the Inland Revenue in euro only.
HM Customs and Excise	<ul style="list-style-type: none"> • Test euro indirect tax system to ensure that all current indirect tax, statistics and international trade services would be able to operate in euro from RT. 	<ul style="list-style-type: none"> • Payments from HM Customs and Excise to suppliers could be made in euro on request; • Overpayments made by businesses in euro would be refunded in euro.
Royal Mail Post Office Counters	<ul style="list-style-type: none"> • Begin education and training programmes for all Post Office counter staff; • Prepare strategies for conversion of prices for the carriage of mail. 	None.
Utilities		<ul style="list-style-type: none"> • By prior arrangement with the utility service provider, bills could be paid in euro by electronic means for larger customers.
Software providers		<ul style="list-style-type: none"> • Software accountancy packages available with both euro and sterling functionality.

Between retail transition and E day (RT to E)

Organisation or sector	Action	Impact on citizens and business community
All organisations	<ul style="list-style-type: none"> • Complete: <ul style="list-style-type: none"> – staff training; – IT conversion work in preparation for E day, such as accounting systems, legacy information systems, and customer contract data; – communication strategies for implementation in the run up to E day; – testing of all converted systems to be ready for E day. • Begin: <ul style="list-style-type: none"> – dual display of key figures (from at least four months before E day); – conversion of direct debits/credits to euro. 	<ul style="list-style-type: none"> • Customer communication; • Changes to bank accounts and payment systems; • Dual display of prices across the economy from at least four months before E day.

Between retail transition and E day (RT to E) (continued)

Organisation or sector	Action	Impact on citizens and business community
UK banks, building societies and other account holding institutions/mortgage providers	<ul style="list-style-type: none"> • Complete testing of the personal and business accounts conversion programme and begin mass implementation; • Begin extensive customer communication on the impact of a changeover, including dates when customers could expect to have their accounts converted; • Complete design and build phase for the introduction of euro notes and coins; • Convert ATMs to handle euro cash. 	<ul style="list-style-type: none"> • Accounts would be converted according to the strategies of individual banks and building societies, who would advise customers of timing. Sterling chequebooks could continue to be used on an account converted from sterling to euro. Some banks and building societies might offer euro chequebooks earlier in this period, but most would issue euro chequebooks shortly before E day. • Sterling account statements: would carry the following information from at least RT, and, following conversion to euro, until at least S (end of the dual circulation period): <ul style="list-style-type: none"> – the fixed, official conversion rate; – the closing balance in sterling and euro; – transactions displayed in both currencies, where the transaction originated in sterling on a euro account, or vice versa; <p>The exact presentation of account information would vary from bank to bank, as would the timing of the introduction of dual display on bank statements.</p> • Credit and debit cards transactions could be made in euro where the PoS terminal was denominated in euro. This transaction would not be treated as a foreign currency transaction; • Cheque guarantee cards would be valid with both sterling and euro cheques; • Sterling cash could be withdrawn by ATM or cashback from both sterling and euro accounts. If withdrawn from a euro account this would be converted at the fixed conversion rate.

Between retail transition and E day (RT to E) (continued)

Organisation or sector	Action	Impact on citizens and business community
Inland Revenue		<ul style="list-style-type: none"> • Self Assessment tax returns could be assessed in euro; • Business could submit euro tax returns by Internet, for the tax year in which RT fell; • Dual display of key amounts.
HM Customs and Excise		<ul style="list-style-type: none"> • All sterling services would also be available in euro; • Dual display of key amounts.
Insurers	<ul style="list-style-type: none"> • Begin to advise customers of euro equivalent values, eg direct debits; • Convert internal systems (general ledger and contract data); • Convert payroll. 	<ul style="list-style-type: none"> • Customer communication.
National Savings and Investments	<ul style="list-style-type: none"> • Prepare for transfer of account-based sterling products before E day; • Prepare to convert fixed term products to euro on maturity, where that maturity arose after E day. 	<ul style="list-style-type: none"> • Customer communication.
Royal Mail Post Office Counters Large and small retailers	<ul style="list-style-type: none"> • Implement dual display of prices from at least four months before E day until at least two months after E day; • Introduce euro compatible PoS terminals; • Determine pricing strategy after E day; • Liaise with banks on the return of legacy cash; • Liaise with vending companies to ensure provision of euro compatible services such as locks on trolleys, stamp machines. 	<ul style="list-style-type: none"> • Customer communication; • Dual display of prices; • New PoS terminals; • New vending and coin-slot machines.
Utilities	<ul style="list-style-type: none"> • Prepare systems conversions for pre-payment meters including training of staff who would be selling the new pre-paid units; • Inform customers of changes to direct debits and credits. 	<ul style="list-style-type: none"> • Customer communication; • Dual display of prices.
Public transport	<ul style="list-style-type: none"> • Introduce euro compatible ticket vending machines. 	<ul style="list-style-type: none"> • Customer communication; • New vending machines.

This annex summarises the European Commission (the Commission) report (Com (2002)747) on developments in the euro area a year after the introduction of euro cash.

PRINCIPAL CONCLUSIONS

- One year after the introduction of euro bank notes and coins the majority of citizens feel happy with the euro. The November Eurobarometer reports five times as many people do not have a problem compared to those having some difficulties. 92.8 per cent find it easy to handle the bank notes and 68.8 per cent have no problems handling euro coins.
- Citizens are well acquainted with coins issued in different euro area Member States, especially in border regions, big cities and tourist areas.
- 53 per cent of euro area travellers take euro with them when leaving the euro area, compared to 16 per cent taking US dollars. The euro is regularly used in many other countries. In the Balkans, for example Montenegro and Kosovo, the euro is, de facto, used as the local currency.
- In some euro area countries citizens linked the euro changeover to significant increases in prices, but the Commission state that this perception is not confirmed by the facts. The detailed analysis of the Eurostat Harmonised Index of Consumer Prices (HICP) indicates the impact of the changeover to be within the range 0.0-0.2 per cent. Analysis demonstrates a clear gap between perceived and measured inflation. This is explained by a number of significant price increases of certain frequently bought goods and services, particularly in the hospitality sector. These are held to be more significant in forming consumers' perceptions of inflation than less commonly purchased items where prices rises have been more subdued or prices have fallen.
- It is not clear at this stage whether the introduction of euro cash has influenced payment habits but the Commission note a significant increase in non-cash payments in 2002. There also appears to be an increase in the average amounts withdrawn at ATMs.
- Eurobarometer surveys indicate that for some transactions, euro area citizens continue to think in the legacy currency. 42.2 per cent of consumers already calculate mainly in euro, but this drops to 12.5 per cent when important purchases are being made (for example a house or car). Retailers continue to dual display prices, as this is still appreciated by certain categories of consumers. A small majority, 50.6 per cent, are said to no longer want dual display, while 47.2 per cent would prefer that dual display continue. The Commission believes that continued dual display risks delaying the mental changeover to euro prices and recommends, in agreement with Eurocommerce, that the retail sector discontinue dual display by 30 June 2003.

DETAIL

Euro cash

At the beginning of January 2002, approximately 7.8 billion euro banknotes and 40.4 billion coins were put into circulation. Amounts in circulation decreased as excess stocks flowed back to central banks until spring 2002, then increased steadily again until October 2002. The total value of euro notes in circulation reached €221.5 billion at the end of January 2002 and increased steadily to €320.9 billion by October 2002. The total value of euro coins introduced in January 2002 was €13 billion. The value of coins in circulation fell to approximately €11 billion in April 2002 before rising to €11.9 billion at the end of October 2002.

The €50 note is the most common denomination note in circulation and the quantity of euro coins in circulation is split relatively evenly between the different denominations.

Euro area citizens typically possess a mix of euro banknotes and coins from different Member States due to the migration of cash as euro area citizens travel on business, holidays or shop cross-border.

During 2001 many banks and currency exchange offices trained staff about the security features of the new euro notes and coins to improve detection of counterfeits. The Commission worked in collaboration with Member States, ECB and Europol to network information on counterfeit euro cash.

Counterfeiting in 2002 remained at levels considerably lower than in previous legacy currency years. The number of counterfeit notes and coins discovered was extremely small, and with a few exceptions, stemmed from amateur operations. This is attributed to state-of-the art security features of the euro notes. The Commission reports that the number of counterfeit euro coins was also extremely low.

The citizen and the euro

According to the November 2001 Eurobarometer, 51.5 per cent of euro area citizens have no difficulties with the use of the euro. The result ranges from 71.7 per cent in Ireland to 36.5 per cent in France.

According to Eurobarometer, 42.2 per cent of euro area citizens calculate most often in euro for everyday goods. 32.4 per cent still think in their legacy currency for day-to-day shopping. For major purchases, for example a house or car, only 12.5 per cent most often think in euro.

Dual display of prices considerably facilitated the changeover to the euro. The Eurostat November 2002 survey reported that a small majority, 50.6 per cent, no longer wanted continued dual display of prices. 47.2 per cent take the opposite view.

49.7 per cent of citizens consider themselves happy that the euro has become their currency, 11.1 per cent are neither happy nor unhappy and 38.7 indicate being unhappy. 68.7 per cent find it easy to distinguish and handle euro notes and 92.8 per cent euro coins.

The impact of the euro changeover on inflation

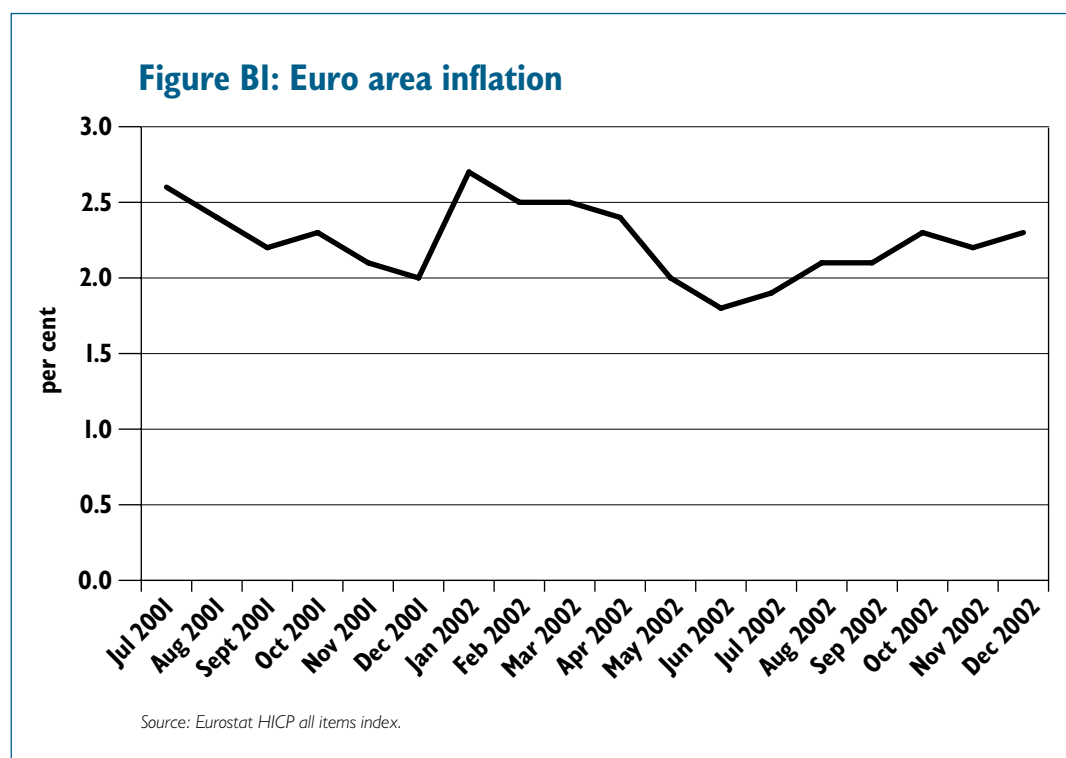
Public concern has arisen regarding the alleged impact of the changeover on prices. The Commission conclude that price increases have occurred in some sectors but that the overall effect on consumer price inflation is rather limited.

Eurostat, the central European statistical office, note that most of the observed increase in inflation could be explained by normal inflation patterns in most items and by some special factors not linked to the euro, like bad weather affecting produce prices, increased energy prices and some significant tax increases on tobacco. Eurostat's latest estimate of the likely inflationary effect of the euro changeover (for the period July 2001 to June 2002) is between 0.0-0.2 per cent.

The studies point to more significant price rises in the service sector, particularly in hotels and services to householders (repairs, haircuts etc.), as well as for frequently bought low price goods such as newspapers and magazines.

The Commission note a discrepancy between perceived and actual inflation. Many consumers associate the changeover with price increases and with widespread media coverage of individual cases of "euro-profiteering". The November 2002 Eurobarometer survey found that that 84.4 per cent of those surveyed believe that prices had been converted to the detriment of consumers.

The Commission advance two explanations for an apparent discrepancy between actual and perceived inflation. Firstly, that perceptions of general inflation are based on frequently bought goods and services. There appear to have been unusually large price increases in some sectors (for example, cafes and restaurants). Goods and services purchased less frequently have registered more subdued increases or, in the case of computers, photographic and audio equipment, prices have fallen. The second reason given is that the impact due to menu costs may have led to an unusually high proportion of organisations changing prices at the start of the year, coincident with the introduction of euro cash.



Developing a new scale of values in euro

It appears that on average euro area citizens have taken time to develop a new scale of values in euro. The November 2002 Eurobarometer found that for common purchases 42 per cent of euro area citizens thought most often in euro, 32 per cent as often in euro as in legacy currency and 25 per cent in their national legacy currency.

In several euro area countries, retailers have continued to dual display as a service to their customers. According to the November Eurobarometer survey, 47.2 per cent of citizens still found dual pricing helpful, while 50.6 per cent no longer wanted dual display.

The Commission has expressed the concern that dual display over a long period slows down the rate at which consumers adopt new scales of values. This seems to be supported by the November Eurobarometer survey. In Ireland, many retailers ceased dual display in March 2002 because they had to revise prices following the introduction of a new VAT rate. The November survey found that for common purchases 86 per cent of Irish citizens thought most often in euro, 5 per cent in both euro and legacy currency and 9 per cent more often in legacy currency. This indicates that more than twice as many Irish citizens thought in euro compared to the euro area average. The fact that dual pricing ceased shortly after the dual circulation period will have been a strong contributory factor towards citizens developing a new scale of values more rapidly than their euro area counterparts.

The Commission's December 2002 report recommended that dual display should not continue beyond June 2003.

ANNEX D: COUNCIL REGULATION ON CONVERSION AND COMMISSION RECOMMENDATION ON DUAL DISPLAY

COUNCIL REGULATION (EC) NO 1103/97 OF 17 JUNE 1997 ON CERTAIN PROVISIONS RELATING TO THE INTRODUCTION OF THE EURO

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the proposal of the Commission (1),

Having regard to the opinion of the European Parliament (2),

Having regard to the opinion of the European Monetary Institute (3),

(1) Whereas, at its meeting held in Madrid on 15 and 16 December 1995, the European Council confirmed that the third stage of Economic and Monetary Union will start on 1 January 1999 as laid down in Article 109j (4) of the Treaty; whereas the Member States which will adopt the euro as the single currency in accordance with the Treaty will be defined for the purposes of this Regulation as the 'participating Member States';

(2) Whereas, at the meeting of the European Council in Madrid, the decision was taken that the term 'ECU' used by the Treaty to refer to the European currency unit is a generic term; whereas the Governments of the fifteen Member States have achieved the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions; whereas the name given to the European currency shall be the 'euro'; whereas the euro as the currency of the participating Member States will be divided into one hundred sub-units with the name 'cent'; whereas the European Council furthermore considered that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets;

(3) Whereas a Regulation on the introduction of the euro will be adopted by the Council on the basis of the third sentence of Article 109l (4) of the Treaty as soon as the participating Member States are known in order to define the legal framework of the euro; whereas the Council, when acting at the starting date of the third stage in accordance with the first sentence of Article 109l (4) of the Treaty, shall adopt the irrevocably fixed conversion rates;

(4) Whereas it is necessary, in the course of the operation of the common market and for the changeover to the single currency, to provide legal certainty for citizens and firms in all Member States on certain provisions relating to the introduction of the euro well before the entry into the third stage; whereas this legal certainty at an early stage will allow preparations by citizens and firms to proceed under good conditions;

(5) Whereas the third sentence of Article 109l (4) of the Treaty, which allows the Council, acting with the unanimity of participating Member States, to take other measures necessary for the rapid introduction of the single currency is available as a legal basis only when it has been confirmed, in accordance with Article 109j (4) of the Treaty, which Member States fulfil the necessary conditions for the adoption of a single currency; whereas it is therefore necessary to have recourse to Article 235 of the Treaty as a legal basis for those provisions where there is an urgent need for legal certainty; whereas therefore this Regulation and the aforesaid Regulation on the introduction of the euro will together provide the legal framework for the euro, the principles of which legal framework were agreed by the European Council in

Madrid; whereas the introduction of the euro concerns day-to-day operations of the whole population in participating Member States; whereas measures other than those in this Regulation and in the Regulation which will be adopted under the third sentence of Article 109l (4) of the Treaty should be examined to ensure a balanced changeover, in particular for consumers;

(6) Whereas the ECU as referred to in Article 109g of the Treaty and as defined in Council Regulation (EC) No 3320/94 of 22 December 1994 on the consolidation of the existing Community legislation on the definition of the ECU following the entry into force of the Treaty on European Union (4) will cease to be defined as a basket of component currencies on 1 January 1999 and the euro will become a currency in its own right; whereas the decision of the Council regarding the adoption of the conversion rates shall not in itself modify the external value of the ECU; whereas this means that one ECU in its composition as a basket of component currencies will become one euro; whereas Regulation (EC) No 3320/94 therefore becomes obsolete and should be repealed; whereas for references in legal instruments to the ECU, parties shall be presumed to have agreed to refer to the ECU as referred to in Article 109g of the Treaty and as defined in the aforesaid Regulation; whereas such presumption should be rebuttable taking into account the intentions of the parties;

(7) Whereas it is a generally accepted principle of law that the continuity of contracts and other legal instruments is not affected by the introduction of a new currency; whereas the principle of freedom of contract has to be respected; whereas the principle of continuity should be compatible with anything which parties might have agreed with reference to the introduction of the euro; whereas, in order to reinforce legal certainty and clarity, it is appropriate explicitly to confirm that the principle of continuity of contracts and other legal instruments shall apply between the former national currencies and the euro and between the ECU as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94 and the euro; whereas this implies, in particular, that in the case of fixed interest rate instruments the introduction of the euro does not alter the nominal interest rate payable by the debtor; whereas the provisions on continuity can fulfil their objective to provide legal certainty and transparency to economic agents, in particular for consumers, only if they enter into force as soon as possible;

(8) Whereas the introduction of the euro constitutes a change in the monetary law of each participating Member State; whereas the recognition of the monetary law of a State is a universally accepted principle; whereas the explicit confirmation of the principle of continuity should lead to the recognition of continuity of contracts and other legal instruments in the jurisdictions of third countries;

(9) Whereas the term 'contract' used for the definition of legal instruments is meant to include all types of contracts, irrespective of the way in which they are concluded;

(10) Whereas the Council, when acting in accordance with the first sentence of Article 109l (4) of the Treaty, shall define the conversion rates of the euro in terms of each of the national currencies of the participating Member States; whereas these conversion rates should be used for any conversion between the euro and the national currency units or between the national currency units; whereas for any conversion between national currency units, a fixed algorithm should define the result; whereas the use of inverse rates for conversion would imply rounding of rates and could result in significant inaccuracies, notably if large amounts are involved;

(11) Whereas the introduction of the euro requires the rounding of monetary amounts; whereas an early indication of rules for rounding is necessary in the course of the operation of the common market and to allow a timely preparation and a smooth transition to

Economic and Monetary Union; whereas these rules do not affect any rounding practice, convention or national provisions providing a higher degree of accuracy for intermediate computations;

(12) Whereas, in order to achieve a high degree of accuracy in conversion operations, the conversion rates should be defined with six significant figures; whereas a rate with six significant figures means a rate which, counted from the left and starting by the first non-zero figure, has six figures,

HAS ADOPTED THIS REGULATION:

Article 1

For the purpose of this Regulation:

- ‘legal instruments’ shall mean legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than banknotes and coins, and other instruments with legal effect,
- ‘participating Member States’ shall mean those Member States which adopt the single currency in accordance with the Treaty,
- ‘conversion rates’ shall mean the irrevocably fixed conversion rates which the Council adopts in accordance with the first sentence of Article 109l (4) of the Treaty,
- ‘national currency units’ shall mean the units of the currencies of participating Member States, as those units are defined on the day before the start of the third stage of Economic and Monetary Union,
- ‘euro unit’ shall mean the unit of the single currency as defined in the Regulation on the introduction of the euro which will enter into force at the starting date of the third stage of Economic and Monetary Union.

Article 2

1. Every reference in a legal instrument to the ECU, as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94, shall be replaced by a reference to the euro at a rate of one euro to one ECU. References in a legal instrument to the ECU without such a definition shall be presumed, such presumption being rebuttable taking into account the intentions of the parties, to be references to the ECU as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94.
2. Regulation (EC) No 3320/94 is hereby repealed.
3. This Article shall apply as from 1 January 1999 in accordance with the decision pursuant to Article 109j (4) of the Treaty.

Article 3

The introduction of the euro shall not have the effect of altering any term of a legal instrument or of discharging or excusing performance under any legal instrument, nor give a party the right unilaterally to alter or terminate such an instrument. This provision is subject to anything which parties may have agreed.

Article 4

1. The conversion rates shall be adopted as one euro expressed in terms of each of the national currencies of the participating Member States. They shall be adopted with six significant figures.
2. The conversion rates shall not be rounded or truncated when making conversions.
3. The conversion rates shall be used for conversions either way between the euro unit and the national currency units. Inverse rates derived from the conversion rates shall not be used.
4. Monetary amounts to be converted from one national currency unit into another shall first be converted into a monetary amount expressed in the euro unit, which amount may be rounded to not less than three decimals and shall then be converted into the other national currency unit. No alternative method of calculation may be used unless it produces the same results.

Article 5

Monetary amounts to be paid or accounted for when a rounding takes place after a conversion into the euro unit pursuant to Article 4 shall be rounded up or down to the nearest cent. Monetary amounts to be paid or accounted for which are converted into a national currency unit shall be rounded up or down to the nearest sub-unit or in the absence of a sub-unit to the nearest unit, or according to national law or practice to a multiple or fraction of the sub-unit or unit of the national currency unit. If the application of the conversion rate gives a result which is exactly half-way, the sum shall be rounded up.

Article 6

This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Communities.

COMMISSION RECOMMENDATION OF 23 APRIL 1998 CONCERNING DUAL DISPLAY OF PRICES AND OTHER MONETARY AMOUNTS (98/287/EC)

Article 1

Definitions

For the purpose of this Recommendation, the following definitions apply:

- (a) a 'dual display' of a price or other monetary amount is the simultaneous display of an amount in the national currency unit and in the euro unit;
- (b) 'participating Member States' are those Member States which adopt the single currency in accordance with the Treaty;
- (c) 'national currency unit' is the unit of the currency of a participating Member State, as that unit is defined on the day before the start of the third stage of economic and monetary union;
- (d) 'euro unit' is the currency unit of the euro as referred to in the second sentence of Article 2 of the draft Council Regulation on the introduction of the euro;
- (e) 'transitional period' is the period beginning on 1 January 1999 and ending on 31 December 2001;
- (f) 'conversion rate' is the irrevocably fixed rate adopted for the currency of each participating Member State by the Council according to the first sentence of Article 109l(4) of the Treaty.

Article 2

Standard of good practice

1. Where a dual display of prices or of other monetary amounts is provided, the following provisions must be complied with pursuant to existing legislation:
 - (a) the conversion rates must be used for calculating the counter-values in dual displays;
 - (b) rounding to the nearest cent must be adhered to as a minimum standard of accuracy for prices or other monetary amounts which have been converted from a national currency unit into the euro unit;
 - (c) dual displays of prices and of other monetary amounts must be unambiguous, easily identifiable and clearly legible.
2. The following basic provisions should also be adhered to.
 - (a) With particular regard to the clarity of dual displays:
 - (i) it should be possible to distinguish between, on the one hand, the unit in which the price is set and in which amounts to be paid are to be calculated and, on the other hand, the countervalue which is displayed for information purposes only;

- (ii) dual displays of prices and other monetary amounts should not be overloaded with excessive numbers of figures. As a general rule, dual displays of prices on individual products may be limited to the final price which consumers have to pay. As a general rule, dual displays on receipts from retail outlets and on other financial statements may be limited to the total amount.
- (b) Retailers should indicate clearly whether they are prepared to accept payment in the euro unit during the transitional period.

Article 3

Implementation

1. Dual displays should form part of an overall communications strategy designed to facilitate the switchover of consumers and employees to the euro.
2. Dual displays on benchmark indicators such as bank statements and bills from utility companies should begin early in the transitional period.
3. The introduction of dual displays in the retail sector should be progressive, and will depend on the need to facilitate the changeover of clients and consumers and the pace at which they wish to make the changeover. It will also depend on the nature of the retail outlet, on the types of product being sold, and on the technical implications and cost of modifying existing price and financial display systems.
4. Professional associations should consider the possibility of establishing common formats or designs for dual displays. They are also invited to provide small retailers with assistance in developing dual display capabilities and other communication activities.

E

ANNEX E: COMMISSION EXAMPLES OF GOOD PRACTICE FOR THE INTRODUCTION OF NOTES AND COINS

In October 2001, the Commission identified forty examples of what it considered to be good practice for a changeover (Commission communication to the European Council, 10 October 2001 – COM(2001)561).

Twenty examples of good practice deemed ‘very important’ for facilitating a smooth changeover:

- setting prices in euro, along with the equivalent in the national currency unit;
- early changeover of bank accounts and non-cash means of payment;
- early changeover of main utilities bills;
- free unlimited exchange of national banknotes and coins for euro in early 2002 for customers at bank counters, subject to a period of notice for large amounts;
- free exchange of national banknotes and coins for euro in early 2002 for non-customers, up to a ceiling set by each bank;
- adapting cash dispensers to euro as early as possible;
- no charging of handling fees by banks for the return of national banknotes and coins by traders in early 2002;
- deferred debiting (in terms of the value date) of banknotes and coins sub-frontloaded to retailers;
- distribution to small traders of ready reckoners for calculating change;
- sending specialists to explain the changeover arrangements to traders;
- developing a dialogue on the euro within businesses between management and staff;
- giving check-out staff practical training in handling euro banknotes and coins in 2001;
- opening some or all bank counters on 1 January 2002;
- extending bank opening hours in early 2002;
- supplying small-denomination banknotes when household amounts are withdrawn at bank counters in early 2002;
- traders to give change exclusively in euro in early 2002;
- traders to comply with the commitment to overall price stability entered into by their representatives at European level;
- continuation of dual display of prices at least until the end of the dual circulation period;
- provision of practical training sessions specifically for vulnerable groups; and
- organisation by local authorities and associations of grassroots information campaigns for vulnerable population groups.

Twenty other examples of good practice also considered to be helpful:

- distributing simple tools for estimating cash requirements;
- with the customer's agreement, including kits of euro coins in change given during the last few days in December 2001;
- distribution of kits of euro coins by employers as a free gift to their staff;
- loading cash dispensers with smaller denominations of national banknotes during the final days of December 2001;
- organising operations to simulate euro payments;
- involving all local groups in euro information campaigns;
- postponing the starting date of the winter sales if these normally take place during the first week in January;
- appointing one or more members of staff in large supermarkets and department stores specifically to answer customers' questions about the euro;
- distributing standard packages for returning national coins;
- keeping in a separate place national banknotes and coins received at checkouts;
- placing converters at the disposal of customers;
- appointment of euro ombudsmen by local authorities or chambers of commerce;
- distribution to traders by local authorities and chambers of commerce of posters showing the euro banknotes and the full set of euro coins (all the different national sides);
- arranging for price movements to be monitored by public authorities, possibly in co-operation with consumer associations;
- organisation by national or local authorities of information campaigns catering for immigrant populations, with material drafted in the main languages they speak;
- frontloading of euro banknotes to traders in small denominations (€5 and/or €10 notes);
- placing printed conversion tables or discs on shopping trolleys in large supermarkets;
- distribution by the public authorities or voluntary associations of special converters for vulnerable groups;
- organisation by the public authorities or chambers of commerce of training in counterfeit detection for traders; and
- measures to stimulate payments in euro in 2001.

DRAFT RETAILERS' NATIONAL CONSUMERS' CODE OF CONDUCT

Overall aim

That consumers can be confident they would be treated fairly, and provided with adequate, targeted and easily understood information to help them throughout a changeover from sterling to euro, and that the needs of vulnerable groups, such as older people, the visually impaired and those with learning difficulties would be taken into account.

Before the introduction of euro notes and coins in the UK

- 1 In accordance with the Consumers' Code core principles, retailers should begin to provide dual currency information, in an appropriate form, from at least four months prior to E day. The extent of dual display would be at the discretion of individual retailers and this Code does not imply a commitment to dual price all merchandise. But, as a minimum, an approved conversion chart showing the official conversion rate should be displayed in store, preferably at the point of sale.
- 2 From at least four months before E day, till receipts should show the total value of the transaction in euro as well as sterling. The euro value may be limited to the final total (including VAT) paid by the customer. If the PoS system was unable to manage this calculation, alternative means should be available to allow customers to convert the total transaction, such as an approved conversion table displaying the official conversion rate.
- 3 The euro € sign or currency indicator EUR would precede the euro price, e.g. €7.25.
- 4 Consumers would be able to clearly distinguish between the £ and € symbol.
- 5 Retailers should indicate whether they would be willing to accept euro notes prior to their introduction as legal tender in the UK. The exchange rate and any handling charge should be made clear in advance.
- 6 Once the sterling/euro exchange rate was fixed, the official conversion rate should be applied and rounding rules adhered to in all dealings with consumers. Up until E day, a handling charge for euro cash payments could be applied, but the terms should be made clear to the consumer in advance.

After the introduction of euro notes and coins in the UK

- 1 From E day, retailers would continue to provide dual currency information in an appropriate form, until at least the end of the dual circulation period (two months after E day). This may include till receipts with the total value of the transaction in sterling as well as in euro. Retailers would progressively move price display from sterling prominence to euro prominence.
- 2 Appropriate reference guides to sterling equivalent values (e.g. approved conversion tables) should be maintained until at least the end of the dual circulation period (two months after E day).
- 3 The timing of the move to euro only pricing should be implemented once sterling ceased to be legal tender (two months after E day). Reference to sterling prices after the dual circulation period would be at the retailers' discretion.
- 4 From E day, retailers would accept payments in sterling and euro, and give change in euro only.
- 5 Retailers would continue to accept payment in sterling cash during the dual currency period, as sterling would still be legal tender for two months after E day.
- 6 Staff dealing with customers would be well trained and able to give consumers straightforward and relevant information about the retailer's approach to the euro.
- 7 Retailers who meet these requirements would be able to display the nationally approved euro logo confirming that they subscribe to the Retailers' National Consumers' Code on Euro Changeover. A national telephone helpline number would be shown on the euro logo.

PUBLIC TRANSPORT OPERATORS: DRAFT CODE OF BEST PRACTICE FOR A EURO CHANGEOVER

Overall aim

To ensure that customers can be confident that they will be treated fairly by all public transport operators as a result of the changeover from sterling to euro. Passengers would be provided with adequate, targeted and easily understood information to help them through the changeover, and a contact point if they felt that an operator was not acting in accordance with the code.

The details below cover minimum standards which would be met by all public transport operators who adopt the code. It is recognised that some companies would wish to go further and provide additional or earlier euro facilities.

I. Before the introduction of euro notes and coins into the UK (i.e. before E day)

I.1 Operators would accept payment in sterling until E day for either cash payment or, where this is currently possible, non-cash payment. Prices would continue to be specified in sterling. Where prices are currently displayed, including in information and promotional materials, they would also be displayed in euro from a minimum of four months before E day *[date]*, at least until the end of the dual circulation period *[date]*. Where prices are not currently displayed, operators would provide simple means of conversion at the point of sale. The dual display of prices would conform to the nationally published guidelines, and be subject to independent verification by the relevant consumer bodies. For pricing on the face of tickets, paragraph 1.8 applies.

I.2 Operators may also choose to accept payment in euro by any method, but would be under no obligation to do so. Prior to E day cash payment in euro notes and coins would not be legal tender and therefore there would be no requirement for transport operators to accept them, although they would be able to if they wish. Operators may refuse to accept mixed payments (e.g. some sterling cash and some euro cash) for a transaction.

I.3 After fixing of the conversion rate, any sterling prices for which euro payment is accepted would be converted to euro using the fixed conversion rate of €1 = [£x.yz], rounded to two decimal places (to the nearest cent) in accordance with the conversion and rounding rules (set out in Council Regulation (EC) No. 1103/97 of 17th June 1997). If the transport operator's bankers imposed a handling charge for accepting euro it could pass this on to customers. No other charges may be added. Any such handling charge would be clearly publicised at the point of sale.

I.4 Operators would not be obliged to give change for euro cash payment. If change were given, it could be either in euro or sterling. If in sterling, the amount of change given should be no less than the euro equivalent calculated as above.

I.5 As soon as an operator chooses to accept any form of euro payment (and preferably as soon as the conversion rate is fixed, if this is earlier), notices should be displayed at all the operator's own ticket outlets (including websites for internet sales and on vehicles where fares can be paid, including taxis, and at smartcard stored value 'top-up' machines (see section 4)) to indicate which forms of payment (if any) would be accepted in euro, and from what date.

This should display the exchange rate used and any handling charges. If providers were to refuse to give change on euro cash payments, this also would be included in any notices. The same information should be included in any fares related literature made available to the public by the operator.

1.6 From at least one month before E day notices would be displayed at all these places to explain arrangements for the transition to euro-only payment after E day.

1.7 For tickets sold by third parties, acceptance of euro would be at the discretion of the selling organisation but, if it were accepted, the same conditions would apply for exchange rates, handling charges and publicity as at the operator's own outlets.

1.8 Where it is customary to print the fare paid on a ticket, this should show both the sterling and euro equivalent prices if the ticket issuing equipment is capable of doing so. If that is not technically feasible, the price shown should continue to be in sterling until E day.

1.9 The euro € sign or currency indicator EUR should precede the euro price (e.g. €7.25 or EUR 7.25) wherever possible.

1.10 Taxi fare meters may be converted to display charges in euro up to four months prior to E day. In all cases where such meters were converted, charges would be made in accordance with paragraphs 1.3 and 1.4 above. The vehicles would display look-up tables showing the sterling and euro equivalent charges, and/or provide passengers with this information on printed leaflets. Vehicles operating sterling meters should also display similar information from at least four months before E Day. The fixed euro/sterling exchange rate would also be shown on these notices and leaflets.

1.11 Transport operators may wish to provide further information explaining the changeover timetable, method of conversion to the euro, and the payment options available to all customers.

2. After the introduction of euro notes and coins in the UK (i.e. from E day)

2.1 From E day prices would be specified in euro. Wherever prices are displayed now, including information and promotional materials (except on tickets, where paragraph 2.12 would apply), sterling equivalent prices would also be displayed until the end of the dual circulation period when sterling notes and coins cease to be legal tender (two months after E day) *[date]*.

2.2 For payment in cash, transport operators should, where possible, accept either sterling or euro until the end of the dual circulation period *[date]*. Where payment was accepted in sterling, the fixed conversion rate should be applied as specified in paragraph 1.3. No handling charges may be added.

2.3 Individual customer operated ticket vending machines would not need to accept dual currencies. However, all machines should be clearly marked to indicate to users whether they accepted euro only or sterling and euro. For a very short time after E day operators may still have some machines accepting sterling only (but they should be converted to euro as soon as possible) and these would be similarly clearly marked to indicate that they are sterling machines.

2.4 Some machines may be converted to accept euro instead of sterling shortly before E day, so long as cash payment in sterling could still be accepted in other machines or at ticket office windows (at or near the same location), or on board trains. Alternatively, converted machines could remain out of service until E day.

2.5 The aim of all transport operators would be to minimise the inconvenience to customers. In all cases clear and up to date publicity would be displayed at all locations indicating where cash payment could be made in each currency.

2.6 Where change is given it should be in euro only and the amount given would be no less than the difference between the euro equivalent of the sterling amount tendered (calculated as specified in paragraph 1.3 above) and the published euro price.

2.7 Where bus and light rail operators currently give change for sterling cash payment, it is desirable that they would continue to do so for payment in euro. Any permanent or temporary alterations to operators' policies on giving change should be fully publicised in advance at stops and on vehicles.

2.8 Operators may refuse to accept mixed payments (e.g. some sterling cash and some euro cash) for a transaction.

2.9 For fares collected on-vehicle operators may choose to refuse cash payment in sterling from a date following E day (but before the end of the dual circulation period) if they would face significant operational difficulties arising from accepting payment in both sterling and euro. For example, experiencing significant delays in boarding times and consequent timetable disruption (for pay as you board services) or insufficient inter-station times for all fares to be collected on frequently stopping train services. In these circumstances there would be clear and comprehensive publicity to inform passengers well in advance that such a policy would be adopted and the date from which it would apply.

2.10 From E day all non-cash transactions should be in euro only. *[But operators should accept company cheques made out in sterling which pre-date E day].*

2.11 Full publicity concerning the transition arrangements should be displayed at all points of sale at least until the end of the dual circulation period.

2.12 From E day, and for the length of the dual circulation period, where it is technically feasible there should continue to be dual display of the euro and sterling prices on tickets, the latter calculated as specified in paragraph 1.3 above. Where dual display is not possible, tickets should be printed with the price shown in euro only, using the euro € glyph or EUR currency indicator wherever possible.

2.13 Taxi fare meters not already converted to operate in euro would be so converted by the end of the dual circulation period *[date]*. All taxis, whether with meters operating in euro or in sterling, would either display the euro/sterling look-up tables or provide passengers with leaflets with this information (as in paragraph 1.10 above) until the end of the dual circulation period.

2.14 Further information explaining the remaining changeover timetable, the method of conversion to the euro, and the payment arrangements should be made available to all customers.

3. Redenomination and smoothing

3.1 Where, for operational reasons (e.g. for coin acceptance in customer operated ticket machines), it would not be operationally practical for the exact equivalent of the sterling price to be charged in euro, it would be necessary for the new amount to be 'smoothed' in euro. When this happens all operators should either endeavour to limit the overall effect to being revenue neutral or combine the conversion with a suitably publicised general price revision.

3.2 If the former approach is adopted amounts should only be smoothed to the minimum extent necessary for operational reasons (e.g. 5 cents or 10 cents) for ticket issuing equipment to be able to function in euro.

3.3 Transport operators should, where practical, aim to achieve a neutral revenue impact within ticket types (e.g. a reduction in the average season ticket price should not be used to balance an increase in the average ordinary single or return fare), but it is recognised that for National Rail there are “fares baskets” in operation.

3.4 If conversion is combined with a general fare revision this revision should be in accordance with any regulations and restrictions applying to the operator’s price changes (such as SRA fares regulation of Train Operating Companies’ prices or Transport *for* London’s control of licenced taxi tariffs in London by means of Cab Orders).

3.5 In this case, all publicity relating to the conversion would give equal prominence to the fact that average prices are being changed, and would indicate the percentage change in the average fare. Where appropriate operators may also wish to display the old and new prices, with percentage change, for a selection of the most popular fares.

4. Smartcard ticketing

4.1 Stored value smartcards for use on public transport are expected to be widely available by the time of a euro conversion. Systems are still being developed and technical specifications are likely to differ between operators but this does not affect the principles which should be common to all smartcard systems, as listed below.

4.2 Entry to or exit from a station or public transport vehicle would not be prevented because the credit balance on the card was held in euro and the reader operated in sterling, or vice versa. Full publicity would be displayed at the point of use if passengers would be restricted in the specific gate or reading device they can use because of the currency held on their card.

4.3 If value could be added to a smartcard by cash payment, then this should be accepted in sterling until the end of the dual circulation period, regardless of the currency held on the card. (This does not preclude accepting euro as well.)

4.4 If value could be added to a smartcard by cash payment then this should be accepted in euro from E day, regardless of the currency held on the card. (This does not preclude accepting sterling as well.)

4.5 If value could be added to a smartcard by electronic payment then, where possible, it should be accepted in the currency of the account from which it is drawn.

4.6 If value could be added to a smartcard by electronic payment, then this should be accepted in euro from E day, regardless of the currency held on the card.

4.7 If conversion between euro and sterling is required to add or subtract stored value to or from the card it would be at the fixed conversion rate (or to the passenger’s advantage) without commission or handling charge.

4.8 As a minimum, displays on readers and ‘top-up’ machines (where relevant) should show fares charged, remaining value and amount to be added in the currency of the card presented, so long as the approved currency symbol is used.

4.9 Where possible, readers and ‘top-up’ machines (where relevant) should display both sterling and euro equivalents at least from four months before E day or the time that euro payment is first accepted, whichever is sooner, until sterling has been completely withdrawn. If this is not possible, then conversion charts should be displayed prominently nearby.

5. Throughout the transition

5.1 The needs of vulnerable groups, such as the elderly, the visually and hearing impaired and those with learning difficulties, should be taken into account.

5.2 All retailing staff dealing directly with the public should be fully trained and able to give straightforward and relevant information about their company’s and that sector (e.g. National Rail) of the transport industry’s approach to the euro changeover.

5.3 Operators should, as far as reasonably practicable, maximise the number of passenger operated ticket vending machines available and ticket office sales points open during the cash changeover period.

5.4 Passengers would be given a well publicised point of contact (which may be different for each operator or for different types of transport service) if they feel that an operator who has adopted this Code is not acting in conformity with the code.

January 2003

Revision 6

AN INTRODUCTION TO THE CONVERSION OF STORED DATA

This introduction, developed by HM Treasury's Stored Data Working Group, is part of a wider group of documents that give advice to the public sector on technical preparation issues and should be read in conjunction with guidance on Accounting Issues and Rounding and Smoothing.

Introduction

All public sector bodies should identify whether they would need to convert stored data in the event of a changeover. This paper offers a short introduction to the issue.

Key points

- euro area countries generally converted stored data only when necessary. In a changeover, the UK would adopt a similar approach;
- departments would need to decide whether to convert stored data based on the business case for conversion;
- in the overwhelming majority of cases where departments decide to convert stored data to euro and the data relates to a sterling currency transaction or record, the exchange rate for conversion would be the official euro/sterling. Appropriate EU conversion and rounding Regulations would apply (see Case Studies 1-3); and
- the exception to the above (relevant to a small number of departments) is where data relate to a foreign currency transaction in euro before T. In this situation, existing business rules would apply (see Case Study 4).

What are stored data?

Stored data are defined as information held on departmental systems (IT or otherwise) that exists before the introduction of UK euro notes and coins. This includes information generated or stored in either euro or sterling before T. Data might be live (continues to be required for processing purposes) or dormant (unlikely to be required for operational purposes).

Examples include:

- earlier years' Self Assessment return data (Inland Revenue);
- past VAT returns (HM Customs and Excise);
- records of agricultural grant payments (Department of the Environment, Food and Rural Affairs (DEFRA));
- records of benefit contributions (Department for Work and Pensions (DWP));
- business survey data (Office for National Statistics (ONS)); and
- records of fines and fixed penalty payments (Court Service).

Why would stored data need to be converted?

It is unlikely that there would be any legal or regulatory requirement to convert the vast majority of stored data in a changeover. Existing legal requirements pertaining to the retention of data in the original form for use as evidence, should the need arise, would continue to apply. To avoid unnecessary expense, departments should, in consultation with stakeholders, only convert data where there is a strong business case.

Stored data might need to be converted for a number of reasons, some of which are set out below:

Comparison purposes Organisations might need to compare data produced in sterling before a changeover with data produced in euro after a changeover. For example:

- ONS is considering which of the economic series that feed into National Accounts would be converted to euro and for how many years. Some series have existed since 1948;
- Inland Revenue would convert data from its NIRS2 (national insurance) database to maintain accuracy of future pension and benefit calculations;
- HM Customs and Excise might need to convert stored data from earlier VAT declarations; and
- DEFRA might need to convert stored data to compare sets of annual accounts for schemes of aid payments.

Operational reasons Departments might have an IT system that can only deal in one currency. Departments might therefore have payments and receipts in a different currency which needed to be converted. For example:

- DWP's IT approach to euro conversion would exclude the use of dual currency systems, thus avoiding functionality that might only be required for a short time. The intention would be to convert all data held on the live database to euro. Archived data would remain as sterling. This would mean that euro payments and values received pre E day would be converted to sterling manually and inputted in that currency. Similarly, sterling payments and values received after E day (cash payments only until S) would be converted to euro prior to input.

This list is not exhaustive. There may be other business reasons for conversion.

Factors to consider

Costs and benefits Costs of conversion might include:

- new or upgraded software and hardware;
- programming and testing required for the conversion exercise;
- system and human resources to process conversion;
- potential system downtime to implement the conversion; and
- the need for an audit trail.

These costs should be balanced against the benefits of:

- potentially easier and more accurate trend analysis; and/or
- avoiding operational difficulties that would arise by not converting data.

Further guidance on data that might need to be converted is set out in Appendix A.

Conversion of financial information Departments need to consider whether all financial data should be converted or only balances or summaries (subject to any rounding regulations). Departments might wish to adopt a different approach for different types of data but the chosen approach(es) should be made clear.

Use of data by different business areas Where a decision was taken to convert only stored data that were live, it would be important that all business areas were fully consulted, as what might not be live data for one business area might be live data for another business area.

Timing of conversion

Departments might need to convert data at different points during a changeover. The timing of conversion would not affect the exchange rate to be used.

During a transition period (between T and E day) and prior to any IT systems changes coming into force, departments might need to convert data for comparison or operational reasons. Departments might also see a rise in the volume of euro denominated transactions shortly before E day, with conversions to sterling happening where systems were not yet operating in euro.

After E day departments might need to convert data received in sterling or convert some or all of previous years' financial data. Business reasons might include:

- making amendments to financial information in earlier years or to review or re-open past years for audit and investigations;
- converting closing account balances at the point of internal conversion;
- using stored financial information as part of financial calculations in current euro periods; and
- converting past period information for financial trends and statistics.

How should data be converted?

Any data conversion should apply the appropriate exchange rate.

The exchange rate to be used in converting stored data to euro would be the rate agreed at the time of joining EMU except as otherwise required by UK or European Union legislation.

Note that, in the vast majority of cases, the exchange rate which prevailed at the time the original data were stored would not be relevant for the subsequent conversion. The official rate should be used (see Case Studies 1-3).

An exception would relate to assessment of foreign currency claims which involved evidence or data submitted in euro prior to T. This would be of relevance only to departments that assess claims using foreign currency data. Existing business rules would apply (see Case Study 4).

Good practice in converting data

Good practice in converting data would be:

- **audit trail** – the National Audit Office (NAO) might require an audit trail to transaction level. The NAO would be willing to guide departments about the systems required to provide an acceptable audit trail [see guidance on Accounting Issues for further information – Annex H];
- **archiving and access arrangements for original data** – original data should still be accessible. This might not be possible with new software; old computer software or hardware or the original material in hard copy might need to be retained to ensure access. There should be clear archiving policies for each system. Further guidance is included in Appendix B;
- **back-up copies** – where full databases were converted, a back-up copy should be retained at conversion dates, perhaps held on separate read only databases;
- **legal requirements** – departments should consider any potential legal requirements for presenting financial information in cases where information was contested. For example in a dispute over payment, only the original record of the actual amount paid might be admissible as evidence;
- **Data Protection Act requirements** – where data referred to living individuals, any conversion would need to comply with the Data Protection Act. This should not pose a problem, but departments should seek advice from their legal advisers prior to any conversion;
- **communication** – where data represented converted amounts, this should be clearly stated in any outward-facing communication. Departments should also consider how best to advise customers that calculations had been processed using converted data and how the conversion had been derived;
- **conversion discrepancies and reconciliation issues** – conversion of data using individual transactions or summary balances might lead to different sums because of rounding errors; and
- **accuracy of data for audit and investigation purposes** – where the same data were held by different parties, the interested bodies should discuss whether similar treatment with respect to conversion was required. Where it was agreed to adopt a different approach, bodies should make clear the reasons for this and the different approaches to be adopted.

CASE STUDIES

Case Study 1: Irish Revenue

Refund of Irish punt tax liability originally paid in euro

Example

This is a fictitious example using the rate of exchange between the Irish punt and the euro. Assume that a taxpayer's liability was initially assessed at IEP 1000 before the rate between the Irish punt and euro was fixed. Using a floating exchange rate of EUR 1 = IEP 0.814657, the liability of IEP 1000 was paid as EUR 1227.51. Currencies were then locked at EUR 1 = IEP 0.787564. After the introduction of euro notes and coin in Ireland, the assessment was reduced by IEP 100 to IEP 900. An overpayment therefore needed to be refunded in euro.

Question

What amount had to be refunded?

Answer

The answer would have been EUR 126.97 (from IEP 100/0.787564). Although the calculation using the original exchange rate might suggest EUR 122.75, (i.e. one tenth of EUR 1227.51), the rate applied would have been the fixed rate. The rate on the day of the original transaction would not have been used.

Case Study 2: Inland Revenue

Conversion of NIRS2 Database

The Inland Revenue would convert all data on its NIRS2 Database (national insurance records). The Inland Revenue has concluded that converting all the stored data would maintain accuracy at lower cost. Other options would cost significantly more.

As part of its euro preparations, the Inland Revenue is considering access and archiving arrangements. One possibility would be to provide a facility for a snapshot of account details prior to bulk conversion. This could be coupled with an account retrieval facility and would essentially provide a further element of the audit trail required to underpin bulk conversion.

Case Study 3: Office for National Statistics (ONS)

Conversion of Business Survey Data

The ONS might convert business survey data. Operationally, data conversion should not be problematic, given that a constant divisor would be used. For time series data, ONS already has a Central Shared Database that holds data with unique identifiers and a range of statuses for each time-series. Upon conversion, converted data could be marked as "data converted to euro" for operational purposes.

Consistent with their current data policies, for archiving purposes, original data would be retained in the form in which they were received. Any conversion of data would be undertaken during processing.

Case Study 4: Department for Work and Pensions (DWP)**Pre T Assessment of claims made in euro****Example**

A pensioner living in Germany might advise DWP of income received in euro prior to T as part of their Income Support claim. At the time of the claim, the variable daily exchange rate would be applied to convert the declared income into sterling for assessment purposes. After T they advise that they previously provided incorrect information and provide DWP with the correct figure for reassessment. A retrospective calculation would be required as income would be attributed to the period in which it was paid.

Question

Which conversion rate should be used – the variable rate used at the time of the original claim or the rate applicable from T?

Answer

Existing business rules would apply. The income amount used to assess the claim should be represented by the value of the income when realised, i.e. when recalculating the assessment, the variable exchange rate in use at the time of the original claim should be used.

New business rules in force after T would apply prospectively and not retrospectively.

APPENDIX A

Deciding whether or not to convert stored data

No.	System features	Reasons for conversion	Reasons against conversion	Recommendation
1.	<ul style="list-style-type: none"> • systems with fixed boundaries, typically an income tax year; • each year is self contained and governed by year specific legislation and may work with year specific forms; • options would be to leave sterling periods in sterling with no data conversion and switch the IT allocation to deal with new euro years in euro; or to convert all the past sterling years' data to euro. 	<ul style="list-style-type: none"> • avoids having to change and test established system processing to handle two different currencies, i.e. sterling for sterling years and euro for euro years and the needs for features such as screen toggling; • saves IT cost of system changes. 	<ul style="list-style-type: none"> • problem of setting euro equivalent legislative amounts retrospectively for past years, particularly difficult if system does not work in decimals; • underlying customer and departmental paper records (e.g. tax returns) would still be in sterling, could create customer service problems; • risk of creating unbalanced records because of vertical rounding discrepancies. This could in the worst case cause previously closed records, to be brought, through automatic processes, back as a live record. 	<ul style="list-style-type: none"> • do not convert; • leave sterling years/periods in sterling.
2.	<ul style="list-style-type: none"> • systems which are highly retrospective, e.g. tax years which could be reopened for the previous 6 years; • any system where there would be a retrospective audit requirement. 	<ul style="list-style-type: none"> • as 1. above. 	<ul style="list-style-type: none"> • as 1. above; • customer records would be very likely to remain in sterling for pre E day years. 	<ul style="list-style-type: none"> • do not convert; • leave sterling years/periods in sterling.

No.	System features	Reasons for conversion	Reasons against conversion	Recommendation
3.	<ul style="list-style-type: none"> systems which would require continuity of processing, i.e. where all or part of the data held, however old, would contribute to current calculations; examples would be debt management systems, pension calculation systems, accounting systems. 	<ul style="list-style-type: none"> as I. above; all data involved in calculations of current balances would be in the same currency; avoids major IT changes (but some applications changes might still be necessary to provide for currency recognition e.g. to enable dual display and screen toggling; and it might still be necessary to extend field sizes and remove hard coded sterling references). 	<ul style="list-style-type: none"> as I. above. 	<ul style="list-style-type: none"> crucial factor would be integrity of calculations and costs and risks involved in changing the system to work in two currencies; would probably be best to convert stored data which contributed to current calculations; and to archive data which would be closed or would not support current calculations.
4.	<ul style="list-style-type: none"> systems with a large external customer base, where customers make regular returns which serve as inputs to the systems and receive outputs after processing. 	<ul style="list-style-type: none"> as I. above. 	<ul style="list-style-type: none"> as I. above. 	<ul style="list-style-type: none"> do not convert; leave stored data as sterling.
5.	<ul style="list-style-type: none"> systems for Accounting, Budgeting, MIS, Statistics. 	<ul style="list-style-type: none"> as I. above and; aggregate figures could be converted at low cost; no or minimal link or audit trail with underlying transactions; minimal link with customer records; * crucially comparisons and trends could be made in a common currency. 	<ul style="list-style-type: none"> potential cost of the conversion exercise (but likely to be low particularly if conversions were done at the aggregate level). 	<ul style="list-style-type: none"> convert stored data, at least at presentational level; consider further need to convert at transaction level.

No.	System features	Reasons for conversion	Reasons against conversion	Recommendation
6.	<ul style="list-style-type: none"> systems which are single currency and where the cost of implementing a dual currency solution would be prohibitive e.g. off the shelf packages such as payroll or pensions systems where the calculations would work equally well with sterling or euro but not a mixture of both. 	<ul style="list-style-type: none"> as I. above 	<ul style="list-style-type: none"> as I. above 	<ul style="list-style-type: none"> careful analysis required of risks and costs; cost might be the determining factor; on balance, recommendation would be to convert stored data.

APPENDIX B

Guidance on archiving

Types of archiving strategy

1. Back-up procedure – restores system to acceptable state with minimum data loss.
2. Data secured away from normal environment for business, operational or legal reasons.

Euro considerations would be relevant to the second type.

Archiving policy

Each system should have an archiving policy that specifies how long and for what reasons data is retained on a system and under what circumstances data may be removed to another less readily accessible storage medium and/or deleted.

Areas that should normally be considered when implementing an archive strategy include:

- preparation – what data are to be archived, what method and frequency;
- storage – where are archived data to be stored including security;
- retrieval – what processes are to be used and who has responsibility for retrieval of archive data;
- retention – dependent on customer and legal requirements and how frequently the data are accessed;
- destruction – what happens when the retention timeframe is reached;

Impact of euro event on existing archive strategies

To evaluate the impact on existing archiving work, consider:

- should existing process be changed to reduce the impact of a potential euro data conversion exercise? (e.g. reduce data volume, system downtime); and
- if no existing process, should one be introduced in advance of any euro event?

Deciding what data should be archived from an operational system

In deciding what data should be archived, the following should be considered:

- the data would no longer be required for current operational update purposes;
- the data would no longer be required to support immediate current operational needs, including legislative and audit needs;
- retention of data would adversely affect performance, access times or run times;
- data storage requirements might become excessive; and
- system updates and database updates or restructures (e.g. euro conversion) would have excessive implementation run times.

Deciding archiving options

In determining archiving options consider:

- data required to support less immediate operational, legislative or audit needs, could be removed to an offline storage medium;
- where data might be brought back into a system they would have to be stored in a format where they could be readily reinstated into the system;
- data for view only purposes might be archived to CD, microfiche or paper; and
- where data would no longer be required this could be archived and deleted.

Deciding euro specific archiving requirements

In determining euro specific archiving options consideration should be given to:

- reduce impact of euro data conversion exercise (e.g. in terms of costs, complexity, rounding discrepancies);
- preserve a record of the converted data in their original form for audit purposes;
- provide an audit trail of conversions from sterling amounts to euro amounts.

To avoid repetition, sections that replicate Chapters of the third outline National Changeover Plan have not been reproduced here, references to the relevant sections of the third outline National Changeover Plan are included in the square brackets.

ACCOUNTING ISSUES

Introduction

In a UK changeover, all parts of the public sector would require a strategy for the treatment of financial information. This document is intended to give departments guidance on accounting issues to assist with euro preparations. Drawing on lessons learnt across the public sector and the euro area, the principles have been developed by HM Treasury's Accounting Issues Working Group. The requirements of the National Audit Office (NAO), Audit Commission and HM Treasury have also been taken in to account.

Status of guidance document

The principles outlined here are only suggestions on possible approaches and would need to reflect the views of Parliament – principally from the Public Accounts Committee and the Treasury Select Committee.

Accordingly, this guidance should be considered to be a first step in the process of consulting more widely. Subsequent issues that arise will be addressed on an iterative basis and included in the guidance.

Roles

Responsibility for directing how public sector bodies should prepare their accounts is split between HM Treasury and the relevant departments. Detailed requirements are disseminated in various ways including Government Accounting, Dear Accounting Officer Letters, the Resource Accounting Manual (RAM), Trading Funds Accounts Guidance, Executive Non-Departmental Public Bodies – Annual Reports and Accounts Guidance.

The Comptroller and Auditor General (C&AG) is the independent auditor of central Government bodies. He forms an opinion on the accounts of central Government bodies, as to whether they give a true and fair reflection and are free from material mis-statements. He also gives an opinion as to the regularity of expenditure and income. The C&AG also ensures that the accounts properly reflect the requirements of UKGAAP accounting standards (Generally Accepted Accounting Practice in the UK), and the RAM, and also where appropriate, Government Accounting. Auditors appointed by the Audit Commission carry out a similar function in giving opinions on the financial statements prepared by local authorities, NHS bodies and other bodies in accordance with the relevant financial reporting frameworks.

Structure of the guidance document

Section A briefly sets out high level background on the potential euro changeover timetable, the Public Spending timetable and how these might interact.

A changeover would impact on accounting policy, systems, records, transactions, budgeting, and reporting and audit arrangements. These issues fall into two broad categories:

- strategic policy issues – high-level departmental accounting requirements in relation to public expenditure planning and control, namely departmental spending review plans, Estimates and Published Accounts; and
- operational and delivery issues – including issues such as rounding discrepancies and audit trail requirements.

Following these broad categories, Section B considers strategic policy principles and Section C operational and delivery matters.

SECTION A – GENERAL ISSUES

Outline National Changeover Timetable

[See Chapter 4 for further details].

Expenditure Plans and Accounting Timetables

Departments currently submit expenditure plans in accordance with timetables for Spending Reviews, public expenditure system (PES) database exercises and the Estimates/Appropriation Act. How these timetables relate to the changeover timetable is shown at Appendix D. Further details about the suggested timing of the first euro Estimates and resource accounts are covered in Section B.

SECTION B – STRATEGIC POLICY ISSUES

Published Accounts

It is proposed that departments would prepare Estimates and resource accounts in euro in respect of the first full financial year after T. This would avoid the difficulty of submitting euro Estimates and accounts in a year in which there would be both fluctuating and fixed rates. However, the content and structure of the Supply Estimates during the changeover period would need to reflect the views of Parliament.

Where Estimates and resource accounts were submitted ahead of T but the financial year commenced after T, they could be converted at the fixed rate to produce euro denominated Estimates and resource accounts. Any problems could be taken up in Supplementary Estimates.

To afford departments maximum flexibility, they could choose the most convenient time to convert internal systems. The euro/sterling rate in force for the duration of that (post T) year would be the locked rate. For example, if T were after 1st April 2XX1 and before 31st March 2XX2, the first year for euro accounts would be 2XX2-2XX3.

Departments would be able to continue to operate accounting systems and maintain in-year control in sterling post T provided that published accounts were reported in euro in respect of the first full financial year after T. Given that the euro/sterling rate would be fixed for the year it would be a mechanical process to convert Main Estimates and Supplementary Estimates to sterling.

Minimum HM Treasury requirements

In considering the preparation of accounts during a changeover, the following minimum HM Treasury requirements would continue to apply:

- the relevant accounts direction governing how the accounts should be prepared would be followed. This would mean compliance with HM Treasury's Resource Accounting Manual (RAM);
- in accordance with the RAM, the accounts would be drawn up to present a true and fair view of the state of affairs of the department at year-end and of the income and expenditure and cash flows for the year;
- in preparing the accounts, the requirements of the RAM need not be applied to immaterial items. Appendix B contains an extract from the RAM describing materiality; and
- figures should be presented in round thousands of the currency unit in which the accounts would be produced i.e. existing practice would be followed where figures are presented to the nearest £1000, for example, £2,608,000.

Some euro area countries produced dual currency notification during transition, producing separate euro and legacy currency accounts. The approach adopted by Ireland is outlined in Appendix A.

The need for dual currency notification in the UK context would require the view of Parliament nearer to a changeover. Were the need for euro/sterling first year and previous year comparatives to be agreed by Parliament, sterling amounts would be expressed in euro using the official rate. (Using the example above, the previous year would be 2XX1-2XX2). The official conversion rate would apply even though transactions, during the previous year, before T, would have occurred when the rate would have been floating. Using the official rate would preserve trends in expenditure between the two years and would avoid reflecting exchange rate fluctuations in the previous year figures to which the department was not in fact exposed.

Impact on accounts of other bodies

The minimum HM Treasury requirements set out above should apply also to the accounts of other Government bodies such as Supply-financed Executive Agencies and trading funds. While presentationally it would make sense for the whole of the public sector to move to presenting its first set of euro accounts in the same year, there would need to be consultation with other bodies such as NHS trusts and local government. The departments with a policy remit for those bodies would also have a view.

The relevant parent departments are responsible for issuing accounts directions for their Non-Departmental Public Bodies (NDPBs). It should be noted that following the above, HM Treasury requirements would be subject to any overriding requirements in respect of those NDPBs that are incorporated as companies and those which have charitable status.

Should public sector bodies introduce euro-based accounts in different years, consolidation of different currencies for Whole of Government Accounts (WGA) would be a mechanical process using the official rate.

SECTION C – OPERATIONAL & DELIVERY ISSUES

Audit trails

Some departments have queried what requirements the NAO might have with regard to audit trails for currency translations. Departments are advised to discuss such matters in detail with their NAO contacts. In principle, however, there may be cases where the NAO, in completing relevant audit work, would wish to scrutinise individual transactions. Audit trails should therefore be adequate to facilitate such scrutiny.

The NAO's financial audit methodology rests upon an analysis of the key risks of material mis-statement within the accounts, and also an appraisal of a department's own controls. A currency changeover would represent, for some departments, a major undertaking, and it may figure in the NAO's overall risk analysis. This analysis would also rest upon the NAO's judgement as to the materiality of the sums involved, and the adequacy of the controls put in place by the department to manage the process. Normal requirements in terms of audit evidence and testing would remain.

Accounting issues affecting local authorities and NHS trusts would be covered by separate guidance that would be produced prior to any changeover. That guidance would cover issues such as the recommended timing of the conversion of accounts from sterling to euro. It is likely that authorities and NHS trusts would be given significant flexibility about the timing of any changeover of their internal financial systems. Furthermore, standard accounting and audit requirements would not change upon the introduction of the euro.

Conversion discrepancies through rounding

Rounding discrepancies can be:

- horizontal, arising from euro-sterling-euro conversions and re-conversions (there is no problem with sterling-euro-sterling conversions because the smallest unit of sterling (1 pence) would have a higher value than the smallest unit of euro; or
- vertical, where the sum of a column of converted figures does not equal the straight conversion of the total.

The general principle would be that unless there are serious operational consequences, it is the reckonable total for a transaction that would be converted and rounded in accordance with EC Regulations, rather than the sum of the converted and rounded components. *[For further details about rounding, see Chapter 11, paragraphs 11.23-11.25].*

A large number of small discrepancies could add up to a significant figure. The likelihood that such rounding discrepancies could lead to a material mis-statement of accounts is low, but there may be other factors (e.g. customer/client service) which necessitate that detailed records be maintained. The NAO is happy to work with departments on their plans to identify and store discrepancies.

In considering the cost/value of accounting for discrepancies on the one hand, and striving for accuracy on the other, the materiality (Appendix B) of those discrepancies should take precedence over other criteria. This would allow for effective customer service in the way discrepancies are presented to take precedence over more detailed accounting solutions. An example of the sort of decisions departments might have to make in presenting discrepancies is set out in Appendix C. However the system for managing discrepancies would be discussed between departments and the NAO and discrepancies accounted for appropriately.

Departments should only convert stored data where there is a strong business case for doing so. *[For further information, see Annex G]*

APPENDIX A

Irish experience in dealing with accounting issues in the public sector

To facilitate accountability to Dáil Éireann (the Irish Parliament), and in particular the Committee of Public Accounts, annual accounts were prepared in both Irish punts and euro for the last two transition years (2000, 2001) on grounds of:

- ease of comparison;
- transparency for users of the accounts.

Departments and State Bodies under their direction were assisted by guidelines drawn up by the Euro Changeover Board of Ireland (ECBI) and the Office of the Comptroller and Auditor General to provide:

- smooth transition to euro accounting;
- maintenance of comparability between accounts for different years.

Guidelines included cross-references to guidelines on preparation of the Finance Accounts, the Appropriation Accounts and the accounts of commercial State bodies and Health Boards.

Accounts of Non-Commercial State Bodies

Non-commercial State bodies (about 200) were encouraged to adopt a common approach to preparation of annual accounts during the transition period. They were advised to prepare accounts in Irish punts for 2000 and 2001 with equivalent amounts being shown in euro. The transactions of the last two transition years continued to be conducted in Irish punts but guidelines introduced euro comparison in a two-step process to ensure that by 2002 there would be two previous years results reported in euro. The tables below were used in guidelines to show how the comparisons would be handled for presentational purposes:

Year 2000 Accounts

1999	2000	2000
IEP	IEP	EUR

Year 2001 Accounts

2000	2001	2001
EUR	IEP	EUR

This was the agreed minimum requirement but agencies wishing to show the euro equivalents of both current and prior years in each set of accounts i.e. for 2000 and 2001 were told this was quite acceptable.

Commercial State Companies

Accounts of the commercial State companies are not, in the main, subject to audit by the Comptroller and Auditor General. But companies were already taking steps during the transition period to present their accounts in euro. The guidelines were issued by the Office of the Comptroller and Auditor General to remind those bodies to continue their efforts in that regard.

Appropriation Accounts

Main points:

- the Appropriation Accounts for the years 1999, 2000 and 2001 were in IEP;
- accounts for 2002 and succeeding years were in EUR; and
- any balances carried forward from 2001 in IEP to 2002 were converted to EUR.

1999	2000	2001	2002	2003
IEP	IEP	IEP	EUR	EUR

Finance Accounts

Main points:

- the Finance Accounts for the years 1999, 2000 and 2001 were in IEP;
- the Exchequer Account (a summary of the Finance Accounts) was shown in both IEP and EUR;
- the Finance Accounts for 2002 were in EUR;
- the Exchequer Account was in both EUR and IEP; and
- for succeeding years the Exchequer Statement will be in EUR only.

Finance Account

1999	2000	2001	2002	2003
IEP	IEP	IEP	EUR	EUR

Exchequer Account

1999	2000	2001	2002	2003
IEP/EUR	IEP/EUR	IEP/EUR	IEP/EUR	EUR

Health Boards

The Department of Health and Children had taken steps to advise Health Boards of the currency to be used for reporting purposes for the transition years. The Health Boards provided a euro column for their primary outturn tables in respect of 2000 in order to have a track record for comparison with 2001 and 2002.

APPENDIX B

Materiality

Materiality is the final test of what information should be given in a particular set of financial statements. The Accounting Standards Board's (ASB) *Statement of Principles for Financial Reporting* defines and explains materiality as a threshold quality which is demanded of all information given in the financial statements. An item of information is material to the financial statements if its mis-statement or omission might reasonably be expected to influence the economic decisions of users of those financial statements, including their assessment of management's stewardship.

Whether information is material will depend on the size and nature of the item in question, judged in the particular circumstances of the case. The ASB's Statement sets out the principal factors to be taken into account as:

- a. the item's size is judged in the context both of the financial statements as a whole and of the other information available to users which would affect their evaluation of the financial statements. This includes, for example, considering how the item affects the evaluation of trends and similar constraints;
- b. consideration is given to the item's nature in relation to:
 - i. the transaction or other events giving rise to it;
 - ii. the legality, sensitivity, normality and potential consequences of the event or transaction;
 - iii. the identity of the parties involved; and
 - iv. the particular headings and disclosures which are affected.

The process of preparing accounts, which entails the measurement, aggregation, classification and presentation of all relevant elements of the financial statements, thus gives rise to two types of materiality judgements:

- a. whether an item needs to be disclosed; and
- b. what margin of error, if any, is acceptable in the amount attributed to an item.

The treatment adopted will depend on the nature and relative importance of the amounts concerned. The following factors are relevant:

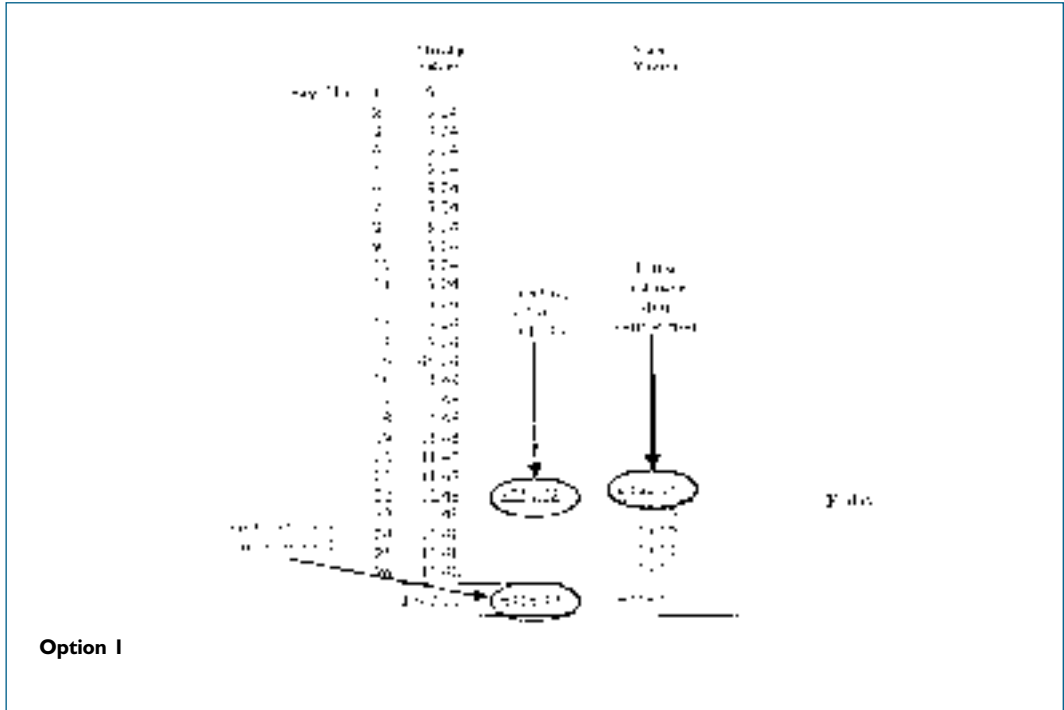
- a. inherent approximation: some figures used for the accounts will be estimated (examples include bad debt provisions and legal claims). Their lack of precision may be a factor when considering materiality;
- b. excessive precision: detailed disclosure of immaterial items can serve to obscure the more important messages in the accounts; and
- c. offset and aggregation: the effect of offsetting two or more items, which would be material if considered separately.

APPENDIX C

Presenting discrepancies – New Tax Credit example

The following scenario is for consultation only

Potential E day Events



APPENDIX D

Parliamentary Supply timetable

STAGE	FINANCIAL YEAR 0 (Y0)	FINANCIAL YEAR 1 (Y1)
Main Estimates (Year 1)	<ul style="list-style-type: none"> • Jan-Feb Y0: Initial work on text and PES database figures. • Mar Y0: Final pre-Budget drafts. 	<ul style="list-style-type: none"> • Apr Y1: Publication 3 weeks after Budget.
Summer Supplementary/ Revised Estimates (Year 1)		<ul style="list-style-type: none"> • Apr-Jun Y1.
Appropriation Act		<ul style="list-style-type: none"> • Jun-Jul Y1: Would provide detail Parliamentary authority for Excess Votes for Year -1, Supplementary Estimates for Year 0, Main Estimates for Year 1.
Winter Supplementary Estimates (Year 1)		<ul style="list-style-type: none"> • Mid-Sept-Nov Y1.
Vote On Account (Year 2)		<ul style="list-style-type: none"> • Oct-Nov Y1: This would provide authority for departmental spending in the following financial year in advance of the Appropriation Act.
Consolidated Fund Act		<ul style="list-style-type: none"> • Dec Y1: Votes the total amount of resources and cash sought in the Winter Supplementary and Vote on Account.
Spring Supplementary Estimates (Year 1)		<ul style="list-style-type: none"> • End-Dec-Feb Y1.
Statement of Excesses (Year 0)		<ul style="list-style-type: none"> • Jan-Feb Y1: Would set out the Excess Votes relating to Year 0
Consolidated Fund Act		<ul style="list-style-type: none"> • Mar Y1: Votes the total amount of resources and cash sought in the Winter Supps and Statement of Excesses (Years 1 and 0)

Appendix D sets out, in broad terms, the normal timetable for the Parliamentary Supply Estimates. The actual timing of changes to the currency in which Estimates and related documents and legislation would be presented would need to be cleared with Parliament. For present purposes it has been assumed that resource accounts and Supply Estimates would be presented in euro (as well as sterling, if not instead of) in the first full financial year after T.

ANNEX I: ORGANISATIONS INVOLVED IN CHANGEOVER PLANNING

All Government departments are represented on Working Groups and are involved in changeover planning.

Age Concern England	Improvement and Development Agency (IDeA)
Association of Convenience Stores (ACS)	Institute of Chartered Accountants in England & Wales (ICAEW)
Association of Corporate Treasurers (ACT)	Institute of Directors (IoD)
Association of Private Client and Investment Management Stockbrokers (APCIMS)	Intellect
Association of British Insurers (ABI)	International Paying Agents Association (IPAA)
Association of Investment Trust Companies (AITC)	International Petroleum Exchange (IPE)
Association for Payment Clearing Services (APACS)	International Primary Market Association (IPMA)
Association of Train Operating Companies (ATOC)	International Securities Lending Association (ISLA)
Automatic Vending Association of Britain (AVA)	International Securities Market Association (ISMA)
Bank of England	International Swaps and Derivatives Association (ISDA)
British Bankers' Association (BBA)	International Underwriting Association (IUA)
British Chambers of Commerce (BCC)	Investment Management Association (IMA)
British Retail Consortium (BRC)	Law Society
Building Societies Association (BSA)	Legal Services Commission
Business Application Software Developers Association (BASDA)	LIFFE
Charity Commission for England and Wales	Lloyd's of London
Chartered Institute of Public Finance and Accountancy (CIPFA)	Lloyd's Insurance Brokers' Committee
Commission for Racial Equality (CRE)	Local Authorities Coordinators of Regulatory Services (LACORS)
Confederation of British Industry (CBI)	Local Government Association (LGA)
Confederation of Indian Organisations	London Bullion Market Association (LBMA)
Consumers' Association (CA)	London Clearing House
Convention of Scottish Local Authorities	London Investment Banking Association (LIBA)
Council for Travel and Tourism	London Metal Exchange (LME)
CRESTCo Limited	London Money Market Association (LMMA)
District Audit	London Stock Exchange (LSE)
Engineering Employers' Federation (EEF)	Mencap
Federation of Small Businesses (FSB)	National Association of Citizens Advice Bureaux (NACAB)
Finance and Leasing Association (FLA)	National Association of Pension Funds (NAPF)
Financial Services Authority (FSA)	National Consumer Council (NCC)
Foreign Banks & Securities House Association (FBSHA)	National Council for Voluntary Organisations (NCVO)
Forum of Private Business (FPB)	National Federation of Retail Newsagents
FTSE International	Royal Mail
Futures & Options Association	Royal Mint
Futures Industry Association	
Health and Safety Executive (HSE)	
Hundred Group of Finance Directors	

Royal National Institute for Deaf People
(RNID)
Royal National Institute for the Blind
(RNIB)
Securitas UK Ltd

Trades Union Congress (TUC)
Utilities Forum
Wholesale Market Brokers' Association
(WMBA)

ANNEX J: OTHER USEFUL PUBLICATIONS ON A UK CHANGEOVER

Below is a list of useful publications from a variety of sources on a potential UK changeover to the euro.

HM Treasury	www.euro.gov.uk
Outline National Changeover Plan	February 1999
Second outline National Changeover Plan	March 2000
Euro compatibility – A Technical Guide for Managers in Central Government	November 2001
Fifth business survey on dealing in euro now	November 2001
Sixth Report on Euro Preparations	July 2002
Lessons from the Changeover in the Euro Area: a Summary of Reports by Private Sector Organisations in the UK	July 2002
Bank of England	www.bankofengland.co.uk
Practical Issues arising from the euro	May 1996 – Nov 2002
British Bankers' Association/ Association for Payment Clearing Services	www.bba.org.uk www.apacs.org.uk
The UK banking industry outline euro blueprint	June 2002
The British Chambers of Commerce	www.britishchambers.org.uk
Euro Fitness Guide: Steps that UK business can and should take now to ensure that they are ready for all eventualities	June 2002
British Retail Consortium	www.brc.org.uk
Implementing the Euro in Retail: How eurozone retailers managed the changeover	April 2002
European Central Bank	www.ecb.int
Evaluation of the 2002 cash changeover	April 2002
European Commission	www.europa.eu.int
Review of the introduction of euro notes and coins (COM(2002)124 final)	March 2002
The introduction of euro banknotes and coins – one year after (COM(2002) 747 final)	December 2002

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ANNEX K: GLOSSARY

	Definition
AIWG	Accounting Issues Working Group.
ASB	Accounting Standards Board.
BACS	BACS is the UK's automated clearing house, processing electronic financial transactions. It runs two of the major payment systems, direct debit and direct credit.
Base currency	The currency in which an organisation prepares its accounts and operates most financial transactions.
Base currency conversion	The process of converting the internal operating currency of an organisation from legacy currency to euro.
BIC	Bank Identification Code.
Big Bang	Conversion from legacy currency to euro on a single date.
Bank	Bank of England.
Cash changeover	The process of changing notes and coins from sterling to euro.
CCWG	Cash Changeover Working Group.
CEG	City Euro Group.
CHAPS	Clearing House Automated Payments System. CHAPS provides for same day, real time payments.
CITs	Cash in transit companies.
Commission	The European Commission.
Consumer Code	A voluntary code of practice designed to promote best practice during a changeover. There would be different codes for each main sector. Consumer codes cover such things as dual display of prices, rounding and smoothing, and meeting the needs of vulnerable groups.
CWG	Communications Working Group.
D	Decision. The Government's decision on EMU membership.
Dehoarding	The process of collecting and returning to circulation, notes and, in particular, coins that have been saved or accumulated by citizens.
Dual currency circulation period	The period during which sterling notes and coins would circulate alongside euro notes and coins.
Dual display of prices	The display of prices for goods and services in both euro and sterling.

DVP	Delivery-versus-payment: a mechanism in an exchange-for-value settlement system that ensures that the final transfer of one asset occurs only if the final transfer of another asset occurs simultaneously.
DWP	Department for Work and Pensions.
ECB	European Central Bank.
ECBI	Euro Changeover Board of Ireland.
ECS	Euro Changeover Secretariat. The working title for the Government body that would oversee a UK changeover.
E day	The point at which UK euro notes and coins would be introduced into circulation and become legal tender in the UK. Also the point at which non-cash transactions would have to be in euro.
EMU	Economic and Monetary Union.
Enquiry Link	The system that allows account holders in the UK RTGS Processor to interrogate balance and other information, and to perform certain other functions; supported by the SWIFTNet Network.
EONIA	Euro Overnight Index Average: the weighted average of all overnight unsecured lending transactions in the interbank market, initiated by the EURIBOR contributing panel banks; calculated by the ECB.
EU	European Union.
EUR	The currency indicator for euro.
EURIBOR	Euro Interbank Offered Rate: the average rate at which euro interbank unsecured term deposits are offered by one (EURIBOR panel) prime bank to another prime bank.
Euro	The common currency of the euro area.
Euro area	All the Member States of the European Union who use the euro as a common currency.
Eurobarometer	A regular survey of public attitudes in the euro area conducted by the Commission.
Euro compatibility	A term used to signal that a system has the capability to work with euro.
Euro LIBOR	Euro London Interbank Offered Rate: the average rate at which the 16 UK-based contributor banks can borrow unsecured funds in euro.
EURONIA	Euro Overnight Index Average: the weighted average rate, of all unsecured euro overnight cash transactions brokered in London.
Financial year	A single calendar year defined for accounting purposes. Can begin on any date.
Fiscal year	Tax year. The UK's tax year begins on 6 April each year.

Fixed exchange rate	The rate of exchange at which the euro and sterling would be locked. This would take place at T.
Frontloading	The supply of euro notes and coins to retail banks in advance of E day.
GAAP	Generally accepted accounting principles.
IBAN	International Bank Account Number. IBANs standardise the identification of bank accounts and are not new account numbers. IBANs are already used in the UK where customers make or receive regular euro payments and would be introduced throughout the UK in a changeover.
IEP	The currency indicator for the Irish punt.
Information multipliers	Individuals or organisations that help spread information by passing it on to those with whom they have contact.
Internal conversion	The process by which an organisation would make the change from operating in a sterling environment to a euro environment. This could include switching the base currency for accounting from sterling to euro, training staff, and adopting new forms for issuing invoices.
ISIN	International Securities Identification Number: a standardised identification (eg GB0031790826) of securities and other financial instruments within a uniform system.
Legacy currency	The former national currency of a country that has adopted the euro.
Legal tender	Legal tender is not a means of payment that must be accepted by the parties to a transaction, but a legally defined means of payment that should not be refused by a creditor in satisfaction of a debt.
MFIs	Monetary and financial institutions: in a UK context, MFIs are broadly equivalent to banks and building societies.
Mint	Royal Mint.
MRO	Main Refinancing Operation: regular OMO used by the ECB to provide 14-day funds to the banking system.
MTAG	Managed Transition Advisory Group.
MTP	Managed Transition Plan.
NAO	National Audit Office.
NCS	Note Circulation Scheme.
NCWG	Notes and Coins Working Group.
NDPB	Non-Departmental Public Body.
NHS	National Health Service.

OMO	Open Market Operation: transaction undertaken between a central bank and its money market counterparties, at the initiative of the central bank.
ONS	Office for National Statistics.
PoS	Point of Sale.
Price transparency	The ability to understand and compare euro prices for goods and services across different countries in the euro area.
PSAG	Public Sector Advisory Group.
R	Referendum. The date that would be selected to seek views of UK citizens on whether the UK should join EMU.
RAM	Resource Accounting Manual.
Redenomination	Conversion of an amount of money from one currency to another.
Regulators	Those with responsibility for ensuring that legal requirements are met, and that standards of best practice are set and upheld.
Rounding	<p>Part of the process of converting legacy currency to euro. There are strict rules about how this must be done. European Union Regulations state that currency amounts must be converted using the fixed conversion rate of six significant figures. Calculations must be made EUR 1: to national currency unit. Inverse rates must not be used. The amount in euro must then be rounded to the nearest euro cent:</p> <ul style="list-style-type: none">• figures ending in 5 and above must be rounded up; and• figures ending in 4 and below must be rounded down. <p>The conversion rate must never be rounded.</p>
RSWG	Regulated Sectors Working Group.
RT	Retail Transition. The date from which retail banking and payments systems would be available in euro.
RTGS	Real Time Gross Settlement.
S	Sterling withdrawal. End of dual circulation period. After this date, only euro would be legal tender in the UK.
Scriptural amounts	Electronic payment transactions, such as direct debits, credit or debit card payments, BACS and CHAPS payments.
SME	Small- and Medium-sized Enterprise.
Smoothing	The process of changing an awkward number after euro conversion to a more acceptable or memorable number. This could happen, for example, if a computer only accepts numbers without decimal points: a figure in legacy currency which converted to EUR 5.02 could be smoothed to EUR 5.

SONIA	Sterling Overnight Index Average: the weighted average rate of all unsecured sterling overnight cash transactions brokered in London.
SSIs	Standard Settlement Instructions: used by firms in the wholesale market to facilitate the payment and settlement process, by making available to counterparties standardised instructions regarding relevant bank or settlement account details.
Starter kits/starter packs	A sample set of euro coins available to purchase in advance of E day.
STIR	Short-Term Interest Rate: normally used in the context of a three-month interest rate futures contract.
Stored data	Information held on systems (IT or otherwise) that exists before E day.
Sub-frontloading	The distribution of UK euro notes and coins to retailers in advance of E day.
T	The date of joining EMU and start of transition period. From T, sterling would become a subset of euro.
TARGET	Trans-European Automated Real-Time Gross Settlement Express Transfer system: links the 15 euro-denominated RTGS systems in the EU and the ECB payment mechanism, to provide an EU-wide RTGS system.
Transition period	The period from the locking of exchange rates between sterling and euro (T) until the introduction of euro notes and coins (E day).
WGA	Whole Government Accounts.

