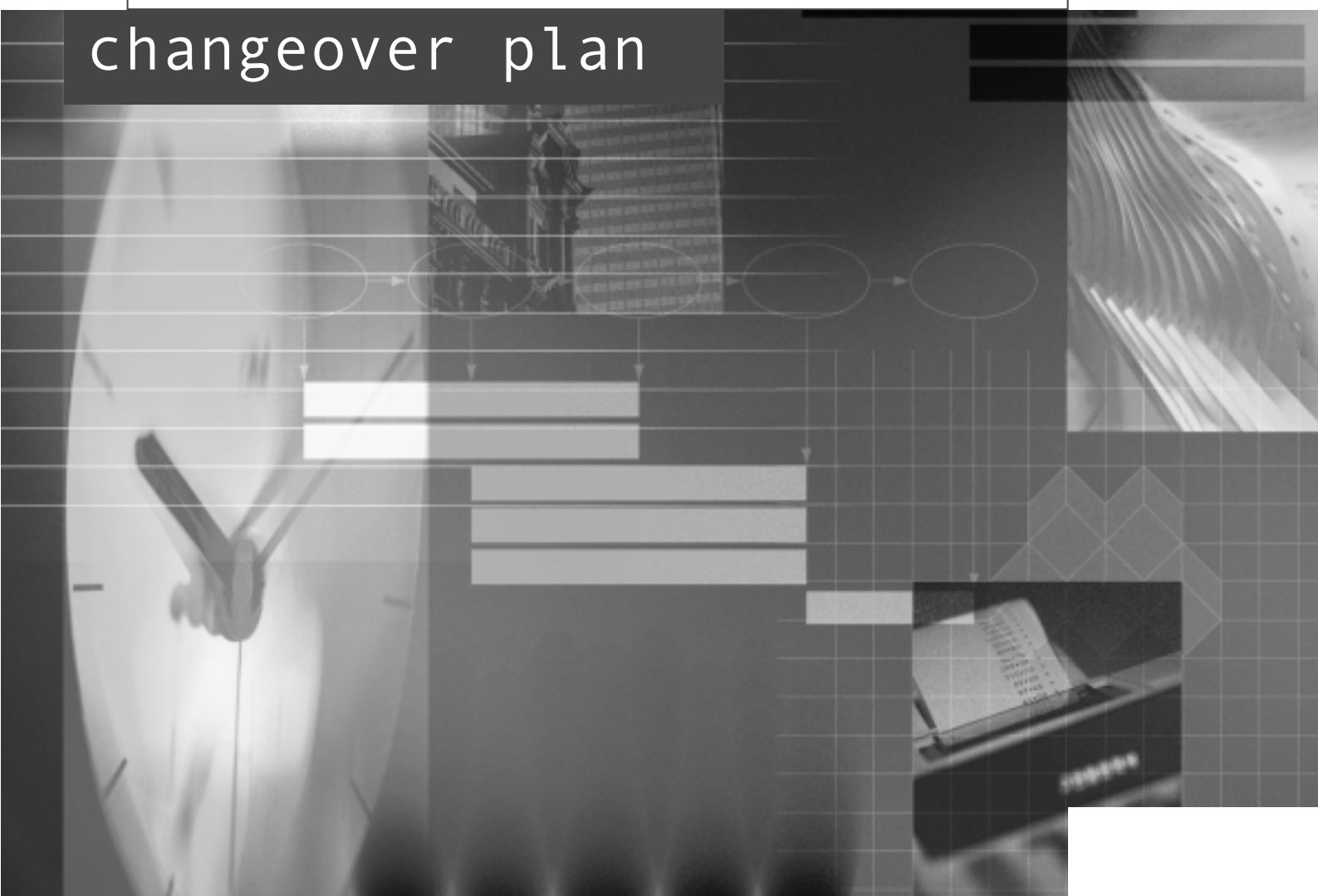




HM Treasury

Second outline national changeover plan



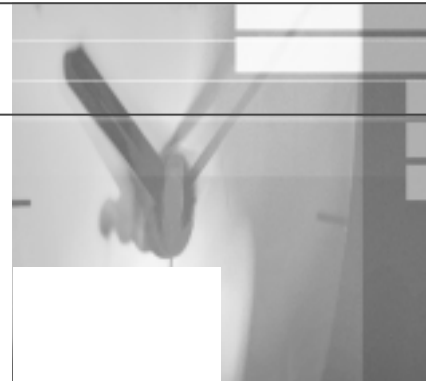
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A supplement to Chapter 4 is at the centre pages

The text of this document is available in larger print,
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1. Executive summary



Government policy on the single currency remains as set out by the Chancellor of the Exchequer in a statement to Parliament in October 1997 and as restated by the Prime Minister when he launched the first Outline National Changeover Plan in February 1999.

The determining factor underpinning any Government decision on membership of the single currency is whether the economic case for the UK joining is clear and unambiguous. Because of the magnitude of the decision, the Government believes - as a matter of principle - that whenever a decision to enter is taken by Government, it should be put to a referendum of the British people. Government, Parliament and the people must all agree. The Government has set out five economic tests which will have to be met before any decision to join can be taken. The Government has said that it will produce an assessment of the five economic tests early in the next Parliament.

The Prime Minister said that Government and business should make active preparations to give the UK the genuine option to decide to join the euro early in the next Parliament. This second Outline National Changeover Plan shows that, through making targeted preparations during 1999, the UK has maintained the option to make a decision early in the next Parliament to join a successful single currency, and for a smooth and cost-effective changeover should Government, Parliament and the people, in a referendum, decide to join. This has been achieved both by preparations in the public sector and through a coordination of planning effort across the whole economy. The illustrative timetable remains as set out in the first Outline National Changeover Plan.

During 1999, the public sector has shown a commitment to prepare:

- all Government departments have produced individual outline changeover plans, considering for the first time what services they would provide during a changeover, how they would convert their systems to the euro and identifying lead times and key planning activities. This planning has shown that Government departments are on track to be ready should the UK make a decision early in the next Parliament to join and that a common approach would

be most effective in planning for certain key tasks, such as how departments would change sterling amounts for benefits and charges into euro amounts;

- by the end of February 2000, the public sector as a whole had spent around £6.3 million on planning for the possibility of the UK joining the single currency, mainly in DSS and the revenue departments;
- using latest estimates of likely demand from discussions with UK businesses and also based on the experience of the first wave, the Inland Revenue and Customs & Excise (the revenue departments) have worked up options for tax services (the reporting and collection of taxes in euros) during a changeover. They are considering a phased approach to introducing euro services; and
- legislation has been passed to allow departments on the critical path - the revenue departments and the Department of Social Security (DSS) - to invest in preparations for their large and complex IT systems. The three departments are planning to invest around £20m in total in 2000/2001.

Working in partnership with business is producing real results.

- A key issue from the first Outline National Changeover Plan was how much demand there would be for euro services during the different phases of a changeover, especially during a transition period between locking currencies and introducing notes and coins. This is particularly relevant to those, like the revenue departments and retail financial institutions, who provide business services. The Retail Financial Services Working Group has looked at this question. Evidence so far suggests that demand for euro services at the beginning of a transition period might be fairly low. If this did turn out to be the case then service providers would not need to provide a full suite of euro services for all their customers at the point of joining. Rather, they could adopt a phased approach to providing services during a changeover.
- Another key question from the first Plan was how to maintain consumer confidence during a changeover. All but one of the first wave countries believe that the interests of consumers and suppliers are best served by adherence to voluntary codes of conduct rather than by legislation. During 1999, the Consumer

Issues and Retail Services Working Group drew up a draft Consumers Code of Practice. This aims to distil the key elements of best practice into a set of principles. This Code is currently being developed further by key sectors.

- The first Plan identified that general information campaigns associated with a changeover would need to focus on business and the general public, including consumers. Within this latter group, additional, appropriately designed, information would need to be made available to the vulnerable groups. These include older people, visually impaired people, younger people and those with learning and perceptual difficulties. During 1999, the Information Working Group has set out for the first time the potential timings of specific communication programmes during the different phases of a changeover. To ensure that consideration is given to the needs of vulnerable groups, a Sub-Group was set up with membership from a wide range of organisations, including the voluntary sector.
- At the end of a transition period, and in a relatively short timeframe, all of the UK's sterling notes and coins would need to be withdrawn from circulation and at the same time replaced by euro cash. This would obviously be a major logistical task. The Notes and Coins Working Group has identified a set of key requirements for a distribution plan. It would be important to make sure that enough euro cash was available to meet the demands of consumers. Producing the notes and coins takes time and is on the critical path. This is why the first Plan identified the estimates of the volume of euro cash needed as being important. During 1999, the Notes and Coins Working Group updated the estimate of notes and coins needed (it now stands at two billion notes and 13-14½ billion coins).
- The City Euro Group, led by the Bank of England, has taken forward planning for a conversion of wholesale financial markets. As part of ongoing systems development, the clearing banks have decided to enhance their principal electronic money transmission systems (CHAPS) which would make it easier to switch to the euro should the UK decide to join the single currency. Good progress has also been made on a range of technical issues, such

as how the fund management industry might approach a changeover.

How monitoring the first wave has helped

The UK has a unique opportunity to see how the eleven participating Member States manage their changeover to the single currency. The first wave successfully converted their wholesale financial systems in time for the locking of currencies. The evidence from the first wave backs up what those UK businesses who have considered how they would make a changeover are saying - that demand for euro services early in a transition period would be limited mainly to wholesale financial markets and larger businesses. Although a UK changeover would not necessarily follow the same pattern, the UK can still learn from monitoring the first wave.

The first wave has adopted a common approach to the introduction of notes and coins, with most countries aiming to complete the introduction of euro cash in two months, rather than six months as originally planned. The UK will continue to monitor the plans of the first wave and would aim to tailor the approach to the UK's specific needs.

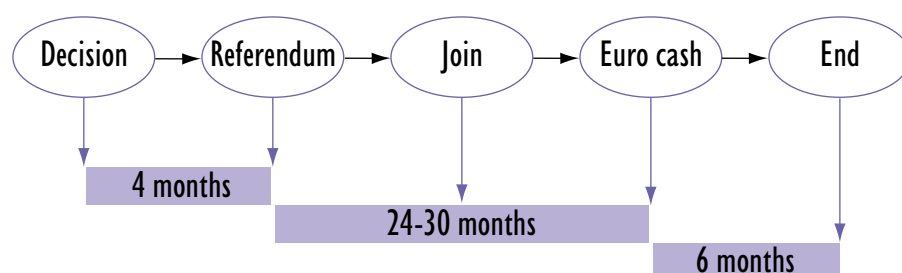
In the public sector, most countries have delegated planning, with individual departments being given a considerable degree of autonomy in making their own preparations. But there are common approaches to many issues - for example most countries have introduced one piece of legislation to allow for the conversion of state charges and benefits into euros.

From monitoring the first wave, the Government has confidence that the UK's own planning, including in the public sector, is on track. Many key planning structures are in place and the critical path, lead times and key issues have been identified.

The first wave has also adopted a variety of structures for managing the changeover, ranging from a considerable degree of central management to a more decentralised approach. There is a strong role for Government in facilitating a changeover and the UK should continue to monitor the first wave.

A phased approach to a changeover

Taking all of this work together, the Government now has a clearer picture of what a changeover in the UK might look like. The illustrative timetable remains as set out in the first Outline National Changeover Plan.



On the basis of the evidence from the first wave and discussions in the UK so far, wholesale financial markets and larger corporates might use the euro at joining. Smaller businesses and personal customers would not be likely to use the euro until nearer to an introduction of notes and coins. Most businesses would be expected to make their internal changeover towards the end of a transition period. The public sector would also phase in services during a transition period. Some services, particularly tax services such as VAT returns and stamp duty on corporate securities, could be available from the start of a transition period. Like business, most of the public sector would switch its internal operating currency towards the end of a transition period.

But it is important to continue to update estimates of likely demand during the different phases of a changeover. The volume of demand for euro services from the retail banks and revenue departments is very sensitive to small percentage changes because of the sheer number of transactions. The consultation with business must continue and the UK must watch the first wave closely. It should also be remembered that a changeover to the euro in the UK would be likely to be different from the first wave changeover because:

- the euro already exists;
- businesses in the first wave held back from making preparations for the euro during 1999 because they concentrated on dealing with the Millennium Bug; and
- businesses might make a changeover at different times of year because of different accounting periods and conventions.

Next steps

The Government, working in partnership with business, the wider public sector and the voluntary sector, will continue the necessary planning to give the UK a genuine option to take a decision early in the next Parliament to join.

- The Retail Financial Services Working Group will continue to show the lead in developing an understanding of likely demand for euro services during a changeover. Discussions on likely demand will continue, for instance through working with the British Chambers of Commerce. The revenue departments will draw up proposals by Summer 2000 to consult on the tax services they would offer during a changeover. This work, alongside continued monitoring of the first wave, will improve the current understanding of the speed with which the UK could move from a positive referendum result to joining.
- Having identified the services that they plan to provide during a changeover, all Government departments will consider how to involve external stakeholders in the next phase of their planning. They will also draw up strategies during 2000 for the internal conversion of systems.
- Changeover planning will be extended to local authorities and NHS bodies in a rolling programme during 2000. The experience of the first wave suggests that early planning here is important.
- The Treasury's Euro Preparations Unit (EPU) will in Spring 2000 set up working groups to look at technical issues which would affect all sectors (for example, the handling of conversions between sterling and euro).
- The Consumer Issues and Retail Services Working Group will lead a process through which individual sectors will take the principles from the draft Consumers Code of Practice and use them to work up more detailed codes for use in their own sectors with a report on progress by the end of 2000.
- The Information Working Group will look at issues of good practice on communication during a changeover, review the UK experience of conducting major information campaigns and monitor information activities in the first wave. A draft glossary of key EMU terms will be produced for comment by Summer 2000.

- The Notes and Coins Working Group will continue to develop a distribution plan for euro cash, alongside considering how sterling might be withdrawn. Specific outputs during 2000 will include identifying warehouse storage capacity and a survey of transport needs for an introduction of euro notes and coins.
- EPU will continue to monitor the success of the different approaches to managing the changeover in the first wave and develop options by Autumn 2000 for planning structures that could be used in the UK.
- The Bank of England will continue to take the lead in coordinating, where necessary, preparations in the City, and will continue to report progress, primarily through its regular *Practical Issues* publication and through its website. Over the next year, the Bank will set out in detail the way in which a changeover might be handled for each of the different sterling financial instruments and will draw out the interdependencies between wholesale and retail financial services.



2. Preparations in the UK

Government policy on membership of the single currency was set out by the Chancellor of the Exchequer in October 1997 and restated by the Prime Minister in February 1999. The determining factor underpinning any Government decision on membership of the single currency is whether the economic case for the UK joining is clear and unambiguous, on the basis of the Government's five economic tests.

The Chancellor's October 1997 statement acknowledged that to share a common monetary policy with other states does represent a major pooling of economic sovereignty. It also stated that if the economic benefits are clear and unambiguous, there is no constitutional bar to British membership of EMU. Because of the magnitude of a decision, the Government believes - as a matter of principle - that whenever the decision to enter is taken by Government, it should be put to a referendum of the British people. Government, Parliament and the people must all agree.

The Government has set out five economic tests which will have to be met before any decision to join can be taken. These are: whether the UK economy has achieved sustainable convergence with the economies of the single currency; whether there is sufficient flexibility in the UK economy to adapt to change and other unexpected economic events; whether joining the single currency would create better conditions for business to make long-term decisions to invest in the UK; the impact membership would have on the UK financial services industry; and ultimately whether joining the single currency would be good for employment.

These tests are challenging. Making a decision, during this Parliament, to join is not realistic. A period of stability and settled convergence is needed before membership can be considered. But preparations should be made in this Parliament so that, should the economic tests be met, a decision to join a successful single currency can be made early in the next Parliament. Without preparation, it would not be a practical option. The British people should be in a position to exercise genuine choice. The Government has said that it will

produce an assessment of the five economic tests early in the next Parliament.

Making preparations

This second Outline National Changeover Plan addresses preparations for the possibility of the UK joining the single currency. These are distinct from preparations to help business to deal with the euro following its introduction in the eleven participating Member States on 1 January 1999. Progress on the latter was reported in the *Third Report on Euro Preparations*, published by HM Treasury in November 1999.

The Government's approach to preparations for the possibility of the UK joining the single currency is to coordinate planning and to facilitate the appropriate level of preparations. This involves: identifying those areas that would be key to a smooth and cost-effective changeover; working together with the key parties and helping to agree effective ways forward; providing a framework against which organisations can take forward their planning; setting out a critical path; and showing a lead by planning in the public sector.

A key feature of the approach is the way that the Government works in partnership with all the key organisations. Changeover planning is overseen by a Standing Committee drawn from the public and private sectors and chaired by the Chancellor of the Exchequer. The members of Standing Committee include: the Governor of the Bank of England; the Secretaries of State for Wales, Northern Ireland and Scotland; the Economic Secretary to the Treasury; the Minister for Energy and Competitiveness in Europe; the Chair of the Financial Services Authority; the President of the CBI; the President of the British Chambers of Commerce; the General Secretary of the TUC; the President of the British Bankers' Association; and the Head of the Home Civil Service. During 1999, the membership of Standing Committee was expanded to include the Chair of the British Retail Consortium and the Chair of the Cross Party Parliamentary Group on Euro Preparations. In addition, over 100 organisations from the public, private and voluntary sectors have taken part in Working Groups (see Annex 2).

The first Outline National Changeover Plan

The first Outline National Changeover Plan was published in February 1999. It set out illustrative timescales for a changeover and identified critical path activities. It set out the work that was needed over the following year to ensure the UK remained on track for a smooth and cost-effective changeover and focussed particularly on those areas that were already deemed to be on the critical path. The Government's preparations work over the past year has therefore concentrated on:

- taking forward planning in the public sector;
- assessing the demand for euro services during the different phases of a changeover;
- planning for a possible introduction of euro cash;
- taking forward discussions on how best to maintain the confidence of consumers during a changeover; and
- developing approaches to providing consistent information at the right time to key audiences during a changeover.

The work programme set out in the first Outline National Changeover Plan marked a step change in changeover planning activity and a new coordination challenge. No single organisation can plan in a vacuum - multiple linkages exist between tasks and organisations.

Planning since the first Outline National Changeover Plan

To take forward the work identified in the first Outline National Changeover Plan, representatives from the public, private and voluntary sectors were brought together in working groups covering retail financial services, consumers, retailers, information, notes and coins, and the City. In addition, working groups have looked at issues surrounding government banking and accounting, and public sector IT systems.

Planning has begun in all Government departments and key agencies. They have considered what services they might provide during a changeover, how they would convert their systems to euros, and have identified lead times and key planning activities. More details are set out in subsequent chapters.

Planning work is now overseen by a Project Management Group (PMG), whose membership reflects the need to draw together common threads between the working groups and to reinforce the linkages between planning in the public and private sectors. PMG includes representatives from the CBI, the British Retail Consortium, the British Bankers' Association, the Bank of England, the Royal Mint, Customs & Excise, the Department of Social Security and HM Treasury. A diagram of the current changeover planning structure is at Annex 2.

The purpose of the second Outline National Changeover Plan is to maintain the effective planning needed to ensure a smooth and cost-effective changeover, should the Government, Parliament and the people decide to join the single currency. It is designed to provide a framework against which organisations can plan, to provide a picture of what the different phases of a changeover might look like, to facilitate dialogue on changeover planning issues as well as to report on progress. The Government will provide updates on changeover planning in its regular progress reports.

Please send any comments on this second Outline National Changeover Plan to:

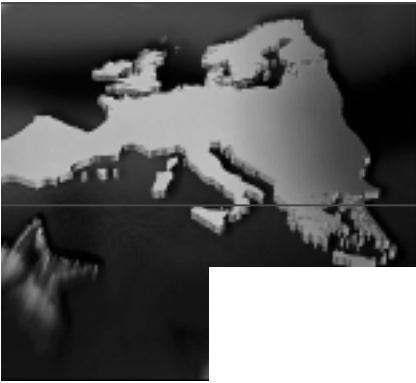
changeover.plan@hm-treasury.gov.uk

Or write to:

Euro Preparations Unit
HM Treasury
Parliament Street
London SW1P 3AG

The website for EPU is <http://www.euro.gov.uk>

Further copies of this Plan can be obtained from HM Treasury's Public Enquiry Unit, tel: 020 7270 4558.



3. Learning from the first wave

The first Outline National Changeover Plan stressed the importance of learning from the first wave. The UK has a unique opportunity to see how the eleven participating Member States actually make their changeover to the single currency.

The UK will not have this opportunity again so it is important that the UK learns as much as possible now. Of course, a UK changeover would be likely to be different but lessons can still be learned from monitoring:

- how euro use grows during the changeover, how it spreads to different sectors of the economy, how this impacts on preparations by individual businesses and the behaviour of consumers;
- how well the different approaches to maintaining consumer confidence during the changeover work;
- the different approaches to providing information to the public, including vulnerable groups;
- how well different countries deal with the task of introducing euro cash and withdrawing legacy cash;
- how well different structures for managing the changeover work; and
- the feedback on the changeover from the public in the first wave.

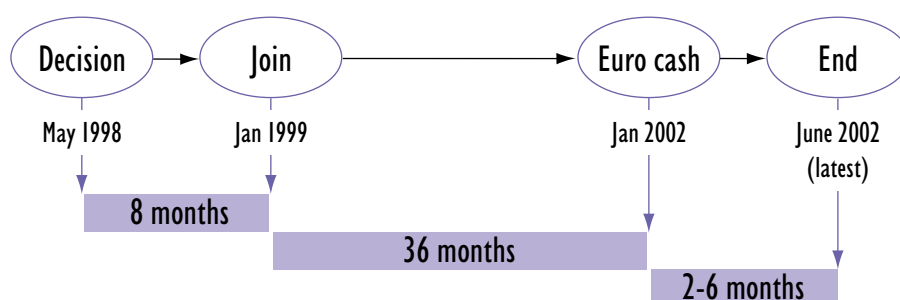
The UK approach to learning from the first wave

During 1999, the UK has learned by:

- holding discussions with participating Member States. EPU has met a range of organisations from the public and private sectors in the first wave - including finance ministries, retail banks, business representatives, national information providers, local authorities as well as changeover boards;
- participating in regular EU networks which look at national euro information issues and the changeover in public administrations; and

- direct contacts through the Working Groups, embassies and secondments. Most bodies on the Working Groups have developed a network of contacts with linked organisations in the first wave.

This has allowed the UK to share information on levels of euro use, the state of preparations of public authorities and business, the approach to information and preparations for the introduction of euro cash in the first wave on 1 January 2002. The diagram below shows the timetable adopted in the eleven participating Member States.



The Government believes that the UK would be able to move more quickly than the first wave because:

- the euro already exists. For many UK businesses the euro is already a business reality. The City is already dealing in euros and the public sector is already offering some facilities in euros; and
- the UK would be able to learn from the solutions adopted in the first wave.

Key findings

With one year of the changeover completed in the first wave:

- the first wave (and the UK) achieved a successful conversion of wholesale financial systems on 1 January 1999;
- euro use across most of the first wave is low and concentrated in the wholesale financial markets and large corporates (see Annex 1);
- most public authorities, particularly those in central government, have been able to handle euro transactions from 1 January 1999 (although demand for these has been low);
- when planning, many large organisations in both the public and private sectors are building in a period of six months before the

introduction of euro cash to allow for testing, including testing links with other organisations. This means that most large organisations are aiming to complete their own internal changeovers by the end of June 2001;

- information activities aimed at encouraging small business to prepare for the euro have been undertaken in first wave countries. Although some firms have prepared, others are planning to make changes at the latest possible date. To encourage earlier preparations many first wave countries are running information activities during 2000 aimed at small and medium sized enterprises (SMEs); and
- the first wave plans to concentrate information campaigns for the general public towards the end of the transition period. The provision of a significant amount of information at a very early stage has not been welcomed by all parties. Feedback also indicates many target groups did not feel that early communication to the public on the physical appearance of notes and coins was necessary.

Information campaigns

Communication campaigns in the first wave are still developing. Many countries will not be running intensive campaigns aimed at the general public until later in the changeover. However, some common themes are emerging from the first wave campaigns. These include the need to tailor information for specific audiences and to take information directly to the public, as well as making information available from a central source.

Most campaigns are aimed at key groups - business, consumers and vulnerable groups. At this stage, the first wave has carried out little evaluation of the effectiveness of communication campaigns. But the following activities could form part of a UK campaign:

- events carried out in supermarkets, shopping centres, banks and post offices;
- euro education games which help younger people understand the new currency;
- travelling roadshows and seminars which take information directly to firms and to the public; and
- appropriate campaigns for vulnerable groups.

In addition:

- most countries aimed to complete strategic planning on the production and distribution of notes and coins by the end of 1999, two years ahead of the introduction of euro cash;
- most of the first wave now plan a dual currency period of four weeks to two months rather than six months and to ensure a sufficient quantity of notes and coins are available for the introduction of euro cash, banks and retailers should be provided with euro cash sometime before then. This is seen as key to the successful introduction of notes and coins. Some thought has also been given to providing cash in advance to consumers; and
- there is no single approach to managing the changeover. In the public sector, most countries have given individual institutions a considerable degree of autonomy in making their own preparations. And it is important to begin planning early in local as well as central government.

In taking forward planning, the UK has been able to use this evidence from the first wave to complement the evidence from businesses who have considered how they would make a changeover in the UK. The evidence on euro use backs up the view that demand for euro services might be limited mainly to wholesale financial markets and large corporates at the beginning of a changeover, with smaller businesses and the public wanting services towards an introduction of euro cash.

Next steps

The UK can continue to learn over the next two years up to the introduction of euro cash in the first wave and beyond.

- The UK will have the opportunity to see how businesses actually behave, when euro use does pick up and when businesses convert systems.
- Although the participating Member States are well advanced in introducing legislation to convert state charges and benefits into the euro, they have not yet settled on a strategy for when to make these changes nor have they yet announced the new euro amounts.
- Plans for the distribution of euro cash will continue to develop. The UK will closely monitor plans in the first wave for delivering euro notes and coins.

- EPU will be able to assess the advantages of different approaches to managing a changeover.

Specific next steps for the year 2000

- EPU will continue to gather information on the experiences of the first wave and will maintain its network of contacts with its first wave counterparts.
- EPU will continue to monitor information on euro preparations from first wave countries and the European Commission.
- All bodies involved in euro preparations will be encouraged to develop contacts with their counterparts in the first wave.

4. A changeover in the UK



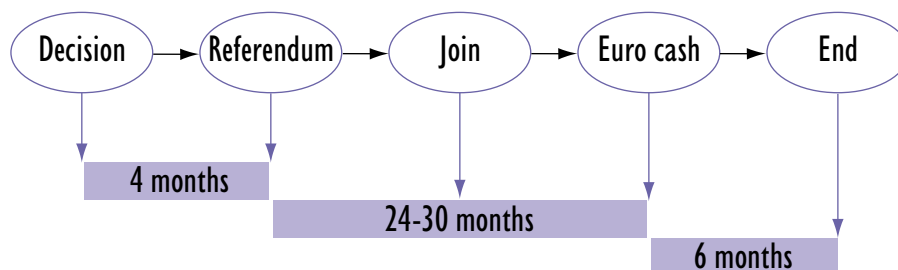
The first Outline National Changeover Plan described the phases of a changeover and included an illustrative timetable for a changeover in the UK.

Planning over the past year has enabled a fuller picture to develop of what might happen at the different stages of a changeover in the UK.

This chapter and the supplement at the centre pages look in some detail at each of the phases.

An illustrative timetable for the UK

The Government believes that a changeover, from a Government decision to join to a withdrawal of sterling, could be completed in 40 months or less. The illustrative timetable below remains the same as that shown in the first Outline National Changeover Plan.



Before a Government decision to join

Some UK exporters are already being asked to price and invoice in euros and such requests will gather pace as businesses in the first wave switch to the single currency. UK firms with euro revenues may start to invite their domestic suppliers to invoice in euros, leading to the use of the currency trickling down through supply chains (see Annex I). Many service industries - including banks, utilities and retailers - are already offering euro facilities which tend to be aimed at specialist users.

In the public sector, taxes and duties due to the Inland Revenue and Customs & Excise, including VAT, can be paid in euros. Customs declarations can be supported by euro invoices and companies are able to prepare and file their accounts in euros. The Government pays some EU grants in euros.

From a Government decision to a referendum

If, on the basis of the five economic tests having been met, the Government decided to recommend joining, and Parliament agreed, then practical arrangements for a referendum would be put in place.

Legislation would need to be taken through Parliament to enable the referendum to be held and to set the question and the date of the poll. The referendum would be held in accordance with the provisions of Part VII of the Political Parties, Elections and Referendums Bill (which received a second reading in the House of Commons in January 2000).

From a referendum to joining

If the people decided in a referendum to join the single currency, a number of factors would influence the speed with which the UK could join. The European Commission and the European Central Bank (ECB) would need to report to the Council on whether the UK economy had achieved a high degree of sustainable convergence with the euro area. These reports would form the basis of a decision on whether or not the UK met the necessary conditions to join. The Council would also need to take other decisions necessary to enable the UK to proceed to membership. Further UK legislation would also be needed to ensure the statutes of the Bank of England met the requirements of the EC Treaty.

The start of this phase would probably be the best time to finalise the appropriate structures for managing a changeover. The first wave countries have adopted a range of solutions, from a changeover board to a government-led changeover, to a decentralised approach. It is likely that a changeover structure would draw on the experiences of the first wave and of the UK's management of decimalisation.

During this period, euro notes and coins issued by the first wave would not be legal tender and businesses and individuals could not be obliged to make or accept payment in euros. However, there would equally be no restriction on two parties using euros - including euro cash - if both agreed to do so.

The public sector would continue to accept and offer the payment of certain taxes and grants in euros but would be unlikely to offer additional services. Euro bank accounts would also be available. However, it is likely that

demand from the small business and personal sectors would be low since people tend to hold bank accounts in the currency in which they are paid and few people would be likely to be paid in euros until an introduction of euro cash. Cheques and credits in euros would continue to be treated as foreign currency items. Similarly, the wholesale and large corporate markets would continue to deal in euros, but as a foreign currency.

Managing a changeover

A changeover board

One option would be to create a new body which could be dissolved on completion of a changeover. Its powers would be established by legislation. It would have its own staff and might report to a high level changeover committee made up of representatives from across the economy. It would probably have links to key Government departments. This was the approach adopted for UK decimalisation, and is similar to the Euro Changeover Board of Ireland (ECBI). The ECBI is made up of representatives of organisations from a wide cross-section of Irish life.

A government-led changeover

Another option would be to build on existing structures. Preparations could be centrally managed from a Government department. The focus would be on facilitating preparations work across the economy, but perhaps with close involvement to make sure all key sectors delivered. The Netherlands is using this mechanism, overseen by a 'National Forum' similar to the UK's Standing Committee on Euro Preparations.

A decentralised approach

Under this approach, much changeover work would fall to individual sectors. Oversight of sectoral preparations would be the responsibility of sectoral representative bodies. These bodies would report regularly on progress. This is the approach adopted in Italy, where business organisations like *Confindustria* drive business preparations, though reporting to a Committee chaired by a government minister.

After any positive referendum result, it is likely that a nationally coordinated public information campaign would begin. Experience from the first wave suggests that soon after any positive referendum result, people

would need reassurance that the withdrawal of sterling cash was not imminent. This message could be repeated in the run-up to joining. The public would also receive information on the expected timetable for a changeover and when they could expect key changes, such as dual pricing and a switch of benefit payments to euros, to occur. Nearer to joining, information could include what a locking of exchange rates would mean for travellers in the EU and for businesses.

From joining to an introduction of euro cash

The first wave is now a year into this phase, the transition period. On joining, the exchange rate between sterling and the euro would be locked and no exchange rate movement could occur. No euro notes and coins would have been issued by the UK. If the UK were subject to transitional arrangements equivalent to those applying to the first wave, any euro cash from the first wave would not be legal tender in the UK. Sterling notes and coins would continue to circulate. By law, sterling would be a denomination of the euro with a fixed euro value. Businesses and individuals would not be obliged to use euros during this period, but some might decide to do so for commercial reasons.

The revenue departments might add to the existing facility to pay taxes in euro by phasing in additional euro services during a transition period. Some of these services could be available from the start of a transition period, particularly those used by businesses as they would be more likely to make the conversion at an earlier stage. For example, Customs & Excise could offer VAT returns in euro from the beginning of a transition period, and phase in a full VAT service before an introduction of euro cash.

The wholesale financial markets plan to switch their operations into euros on the day of joining. Government debt would be converted immediately into euros, as would remaining sterling share prices (some of which may have switched before joining). Retail banks would continue to make services available to allow their customers to receive dividends and interest payments in sterling, if they wished.

A phased approach to introducing euro services, in response to demand from customers, would be an option for retail banks. It may be that there would not be much demand for euro services from personal and small business customers until towards the end of this period and so some services,

for example, euro cheque cards, might not be available immediately. All services would need to be in place well before an introduction of euro cash. In the public sector, the Department of National Savings would aim to match the euro financial services offered by its private sector equivalents.

No compulsion, no prohibition

Part of the legislative framework for the first wave is Council Regulation (EC) No 974/98. This provides that during the transition period all transactions have to be settled in the denomination originally intended, unless both parties agree to change it. In practice, this means that no-one can be compelled to use euros; but that if both parties agree they cannot be prohibited from so doing. This concept has become known as “no compulsion, no prohibition”.

There are two exceptions to this. First, it is possible for participants to make arrangements to redenominate their debt unilaterally (this would allow the Government to switch gilts to euros without having to discuss it with individual holders). Second, if an agreement allows a debtor to settle an obligation by paying money direct into a creditor’s bank account (rather than by sending a cheque, for example) then the debtor can choose which denomination to use, and it is up to the creditor’s bank to make any necessary conversion.

In practice, these exceptions are unlikely to affect the vast majority of businesses or individuals.

Retailers would be likely to use a transition period to familiarise their customers with euro pricing. Some retailers might start to use dual pricing immediately, although the draft Consumers Code of Practice (see Chapter 6) suggests that, in order to have the maximum impact, efforts could be concentrated in the period starting four months before an introduction of euro cash. Euro equivalents might start to appear on some bills and salary slips. No retailer or customer would be obliged to use euros - it would be entirely a matter of choice.

If a code of practice was considered to be the most effective way of maintaining consumer confidence, then the most likely time for its introduction would be at the start of this phase. A code would be designed to ensure that, throughout a changeover, consumers could be confident that

they would be treated fairly and that key information would be clear and consistent. It could cover all types of retail operation - banks, supermarkets, insurance companies as well as the public sector.

Businesses which have short term contracts with their customers (for example, motor insurers) could start to convert contracts to euros as they fell due for renewal, thereby avoiding the need to make changes part-way through a contract term.

It is likely that a phase of a national information campaign would start in the approach to an introduction of euro notes and coins. The public might find it useful to receive information explaining:

- how to recognise euro cash;
- how the notes and coins would be distributed; and
- the procedures for paying in euros for key services.

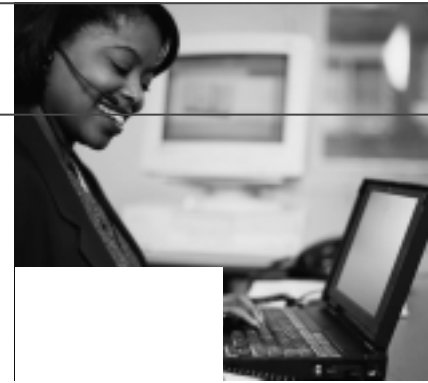
From an introduction of euro cash to a withdrawal of sterling

Remaining references to sterling would automatically be converted to euros at the official rate. In practice, sterling cash would continue to be used, for a short period, but would progressively be withdrawn and replaced with euros. Some retailers could be giving change in euros. Retailers would also be pricing in euros, and some would continue to show sterling equivalents for information.

Over this period, automatic telling machines would have to be converted to allow them to dispense the new notes. Coin-operated vending machines, for example drinks machines and parking meters, would also need to be converted.

During this period, a national information campaign could focus on explaining when sterling would no longer be legal tender and how to exchange sterling for euros.

5. Public sector



A smooth changeover in the public sector would be critically important to a successful changeover in the UK. The public sector accounts for 40 per cent of the economy, and has links with every other sector, every business and every individual.

It would be essential for both central Government and the wider public sector to develop a coherent approach to a changeover, presenting business and individuals with a clear and coordinated timetable for change.

The first Outline National Changeover Plan explained that most of the public sector would only need to provide services in euros towards the end of a transition period - as an introduction of notes and coins approached. The exceptions would be the revenue departments which might face significant levels of demand for euro services once currencies were locked. Early preparations would need to be made in these departments so they would be ready to meet that demand. DSS would also need to begin preparations at an earlier stage because the size and complexity of its systems means that it has longer lead times than the rest of the public sector. As a signal of the public sector's commitment to prepare, the Prime Minister, in February 1999, announced legislation to allow these three departments to spend money on preparations in advance of a referendum.

Key achievements

During 1999, the public sector has shown its commitment to prepare.

- All Government departments and key agencies have produced individual outline changeover plans, considering what services they would provide during a changeover, how they would convert their systems to the euro and identifying lead times and key planning activities. This planning has shown that Government departments are on track to be ready, should the UK make a decision early in the next Parliament to join. It has also shown that a common approach would be most effective in planning for certain key tasks, such as how departments would change sterling amounts for benefits and charges into euro amounts.

“... the Inland Revenue and Customs & Excise have worked up options for tax services during a changeover...”

- Up to the end of February 2000, the public sector as a whole had spent around £6.3 million on planning for the possibility of the UK joining the single currency, including £1.6 million by DSS, £1.8 million by Customs & Excise, £1.3 million by the Inland Revenue, £0.6 million by the Bank of England and £0.5 million by HM Treasury’s Euro Preparations Unit.
- Legislation has been passed to allow departments on the critical path - the revenue departments and the DSS - to invest in preparations for their large and complex IT systems. The three departments are planning to invest around £20m in total in 2000/2001. This comprises around £5m each for DSS and Customs & Excise, and around £10m for the Inland Revenue.
- Using latest estimates of likely demand from discussions with UK businesses and also based on the experience of the first wave, the Inland Revenue and Customs & Excise have worked up options for tax services during a changeover.

Planning during 1999

The committee of Euro Ministers has provided strategic direction to public sector planning, reporting to Standing Committee. The planning has been carried out by a network of euro coordinators.

As well as taking forward planning in their own organisations, public sector bodies have also contributed to the broader changeover planning effort:

- a public sector working group has been set up, to contribute to discussions on the draft Consumers Code of Practice (see Chapter 6);
- the revenue departments and DSS have worked with partners in both the private and public sectors to share best practice; and
- key public sector bodies are represented on both Standing Committee and the Project Management Group (see Chapter 2).

Departmental changeover planning

Following the first Outline National Changeover Plan, Euro Ministers agreed that all Government departments should move forward their internal planning and prepare outline departmental plans by the end of 1999. Departments used a template-based planning approach - EPU worked with consultants to design a model, which was piloted and rolled out to all departments and designated key agencies. All departments prepared internal planning documents by the end of 1999.

Departments considered what services they might provide during a changeover, how they would convert their systems to the euro and identified key planning activities with lead times. This planning has confirmed that only DSS and the revenue departments have lead times that require them to start detailed development before a referendum. Many public sector bodies are already drawing on the experience of the first wave and working with the private sector to further develop their planning.

A public sector changeover

The Government now has a clearer view of how a changeover might work in the public sector (a picture of a changeover across the whole economy is given in Chapter 4).

Prior to a referendum, the euro would continue to be treated as a foreign currency by public bodies. Departments and local authorities would only offer services in euros where there was a clear value for money case. This situation would continue after any positive result in a referendum, though public sector organisations would need to respond to greater interest from business and individuals in the new currency.

If demand for services followed the pattern of the first wave, most parts of government could introduce euro services towards the end of a transition period. There would be exceptions to this, most notably the revenue departments. Some tax services, particularly those used by business, could be made available in euros from the start of a transition period to meet demand.

As an introduction of euro notes and coins approached, the public sector would start to make more use of dual pricing.

“...some tax services could be made available in euros from the start of a transition period...”

By the time of an introduction of euro notes and coins, all departments would need to be able to offer all services to the public in euros. Public sector bodies would need to ensure that any parts of their organisation that handled cash would be ready to accept euro notes and coins as soon as they were introduced.

Public sector plans for levels of service are not fully developed. Where the users have considered their potential needs, the Government believes that further discussion might be helpful. EPU and relevant departments will work with the public and private sectors in the coming months to explore this issue further.

Taking this work forward

Issues have been identified which would affect most or all public sector organisations during a changeover. Examples of these issues include how to convert sterling amounts into euro amounts, and internal conversion (see box), the provision of training, communications strategies and the handling of pay and pension arrangements. In some areas, individual bodies might need to develop their own solutions, but there would also be a role for central guidance and coordination.

Common Issues

By the end of a changeover, every sterling amount would need to have been changed to a euro amount. There could be two elements to this: the conversion from a sterling figure to a euro amount and an adjustment in price to ensure that the new euro amount was a sensible price point.

For example, local authorities collect a large number of fees and charges that would need conversion. DSS makes a range of payments which would need a value in euros. How to do this and maintain public confidence would be important to a changeover (the private sector would, of course, also face the same issue with price points).

Regulations already exist at a European level to underpin conversion and rounding. But there would need to be guidance for all public sector bodies to ensure certainty for both them and the public. That is why a coordinated approach across government would be sensible.

A conversion of the internal operating currency from sterling to euros would be a major issue for all public sector bodies, but their plans for handling it vary considerably. For instance, the Export Credits Guarantee Department would aim to convert using a 'big bang' approach. On the other hand, the Ministry of Defence would plan to make the change with a more staggered conversion of systems. But despite these differences, sharing of best practice on IT solutions and possibly IT procurement would be useful, and central guidance might be issued if that was what departments wanted.

Beyond central Government

Public sector euro preparations work in 1999 has concentrated on Government departments and key agencies. The work has drawn out themes which are applicable across the public sector. Experience from the first wave suggests it is important to start initial planning early in the wider public sector. Euro coordinators have been appointed in all NHS bodies and most local authorities. Some have already started internal planning.

Next steps

- The revenue departments will draw up proposals by Summer 2000 to consult on the tax services they might offer during a changeover.
- Having identified the services that they plan to provide during the changeover, all Government departments will consider how to involve external stakeholders in the next phase of their planning. They will also draw up strategies during 2000 for the internal conversion of systems.
- Changeover planning will be extended to local authorities and NHS bodies in a rolling programme during 2000.
- Key public sector bodies will be represented on a working group to look at how to convert sterling amounts into euro amounts. In Spring 2000, EPU will set up working groups to look at other common issues in the public sector.
- A public sector working group will take the principles from the Consumers Code of Practice and work up a more detailed code for the public sector by the end of 2000.

6. Consumers



Maintaining consumer confidence would be a high priority during a changeover. The first Outline National Changeover Plan noted that there would be a need to achieve this in a way which offered real help to consumers and also avoided putting unnecessary regulatory burdens on business.

Developments in the first wave

In the first wave it has been agreed that consumer issues raised by the introduction of the euro are best tackled at national rather than European level. The European Commission's role has been in coordinating information and also brokering a voluntary code, subscribers to which adhere to standards in the way they display and transact in euros. In return, they are permitted to display a specified symbol.

Most of the first wave opted for a voluntary approach with only one country using legislation to control the way in which euro and legacy currency values are displayed. Some have adopted the European code and others are developing their own codes. While there are broad similarities between the fundamental principles of the codes, they are far from identical. Some countries, for example France, advocate dual display throughout the changeover process while others, like Germany and Ireland, seek to concentrate activity around the time that cash is introduced. Some countries have established comprehensive infrastructures to monitor compliance while others favour self-regulation.

Many UK organisations favour a voluntary code should the UK join the single currency and point out that to be really effective such an approach would need broad support from retailers and consumers.

“Many UK organisations favour a voluntary code...”

A draft Consumers Code of Practice

Against this background a working group has been considering the approach that might be adopted were the UK to join the single currency. This group - the Consumer Issues and Retail Services Working Group - involves a wide range of organisations representing retailers and consumers.

The Group has developed a set of draft core principles to form the backbone of a Consumers Code of Practice. The aim of the Code is to ensure fairness for the consumer, relevant and understandable information, and clear and accurate display of sterling and euro values. These core principles can be used as a framework for different sectors and organisations to develop detailed implementation guidelines so that a consumer could feel confident whether dealing with a bank, supermarket, insurance company or local authority.

“The aim of the Code is to ensure fairness for the consumer, relevant and understandable information, and clear and accurate display of sterling and euro values . . . ”

The Group believes that, were the UK to join the single currency, a code should apply from the locking of currencies until sterling is withdrawn, taking into account that consumers would need extra support when euro notes and coins were introduced. The Group also believes that a code's adoption by all organisations, in both the public and private sectors, in all their dealings with consumers, should be encouraged; and that a code should be supported by a coordinated background information campaign involving a wide range of organisations, with Government playing a leading role. More detail on an information campaign is set out in Chapter 8.

A code would need to be entirely consistent with other legislation and Government policy (for example, the Disability Discrimination Act and price marking legislation).

It is planned that these core principles will be continually refined and updated in the light of lessons emerging from the first wave. The latest draft is set out below. Readers - whether suppliers or consumers of goods and services - are encouraged to send comments to EPU at the address at the end of Chapter 2.

A draft Code

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.

Core Principles

- Where an amount was 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 should be applied and rounding rules adhered to in all dealings with consumers.
- Consumers paying in euro and sterling should be treated equally, although a clearly displayed fee might be charged where euro notes and coins are accepted before their formal introduction in the UK.
- Accurate, clear and targeted information should be provided to assist consumers with a changeover from sterling to euro.
- Dual currency information in sterling and euros 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 coins is 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 shall be well-trained and able to give consumers straightforward and relevant information about the organisation's approach to the euro.

The Group has agreed that for a voluntary code to be effective it would have to be clear how compliance and redress would be managed. In some sectors (for example, banking) there are already well-established mechanisms in place which might lend themselves to being used here: but in others no such arrangements exist. It is also clear that any procedures must be easy for consumers to understand and, if necessary, to use. Further work, which looks particularly at what lessons might be drawn from the first wave, is planned in this area.

Applying the Core Principles to Sectors

“These groups may well adopt different approaches - a corner shop and a unit trust company would not adopt identical methods of displaying euro and sterling equivalents...”

The draft core principles are just a starting point. Because of the importance of securing wide-ranging support for the Code, its principles are framed in broad terms, leaving issues of practical, detailed implementation to sectoral groups. These groups may well adopt different approaches - a corner shop and a unit trust company would not adopt identical methods of displaying euro and sterling equivalents, for example - but all should support and be consistent with the core principles which have been agreed.

A number of industry and public sector bodies are developing their ideas on what their sector code might look like. As an indication of the specialised issues being tackled, the British Retail Consortium sees a need for some detailed best practice guidance on how sterling and euro equivalents should be displayed and explained to consumers. The Association of British Insurers (working with the Financial Services Authority) has an interest in how euro and sterling equivalents might best be set out on quite complex documents, such as policy illustrations and maturity projections. The British Bankers' Association is considering what methods might be appropriate and effective to ensure that their millions of bank account holders would be given clear and consistent messages about the migration of services. The Public Sector Working Group on the Consumers Code of Practice is considering how to ensure its guidance has the flexibility to cover a wide range of organisations with a huge variety of functions, dealing with every individual and business in the UK.

Planning is proceeding at industry level. Consultations will continue between EPU and the various sector representatives to ensure that this work is properly coordinated.

Next Steps

- Comments on the draft Code are invited during 2000 to the address at the end of Chapter 2. These will help the Consumer Issues and Retail Services Working Group develop the core principles.
- The experiences of the first wave will be followed and analysed, so that relevant lessons can be used in subsequent drafts of the Code.
- Work on detailed implementation at sectoral level will continue, including on appropriate redress mechanisms, with a further progress report being made around the end of the year.

7. Notes and coins



In a changeover, sufficient notes and coins would need to be produced to meet demand for euro cash from the first day of its introduction (euro cash day). The task of distributing the notes and coins needed for euro cash day presents a major logistical challenge.

The key to success would be to ensure that the right quantities of cash were delivered to the right locations at the right time. Any distribution of new cash would have to be managed in parallel with a withdrawal from circulation of sterling notes and coins.

The Notes and Coins Working Group has taken forward planning in a number of key areas identified in the first Outline National Changeover Plan, including:

- the volume of notes and coins needed for euro cash day;
- the development of distribution and withdrawal plans;
- a feasibility study for a campaign to bring back into circulation those sterling coins which are hoarded by the public (dehoarding); and
- an analysis of the type of information needed by the public around a euro cash day.

The membership of the Group reflects the cross-cutting nature of the subject and includes representatives from a wide range of organisations.

How many notes and coins might be needed?

Public use of and therefore demand for notes and coins in the UK fluctuates during the year with the peak at Christmas and the lowest level in February. This creates a strong incentive to introduce notes and coins in February. The estimates produced by the Working Group of the volumes of notes and coins needed assume that euro cash would be introduced at a time when demand for notes and coins was low.

Following the methodology for calculating euro notes and coin requirements which has been used by first wave countries, the Royal Mint

“Any distribution of new cash would have to be managed in parallel with the withdrawal from circulation of all the sterling notes and coins...”

and the Association for Payment Clearing Services have calculated that the UK would require between 13 and 14½ billion euro coins at euro cash day. The Bank of England has estimated the note requirement at two billion.

These estimates will be kept under review. A number of factors could lead to their revision, for example:

- any changes to the agreed methodology;
- lessons learned from more detailed planning in the first wave for their introduction of notes and coins in January 2002; or
- changes in the pattern or level of demand for notes and coins in the UK.

On the basis of these estimates, it would take up to 30 months to produce the necessary coins. Euro notes could be produced in less time. This is consistent with the illustrative timetable in Chapter 4. The production of euro notes and coins would reduce sterling production capacity. However, there would still be a need during a transition period for new sterling cash to be put into circulation. Production of sterling notes and coins would need to be managed in advance to help keep supplies at the required level once production of euro cash starts.

“It would make sense to introduce any new notes and coins when demand is low...”

The distribution of euro cash and a withdrawal of sterling

Coordination between many different organisations would be vital to the success of this exercise - banks, retailers, secure hauliers, vending machine operators, providers of storage facilities, insurers and Government would all be involved.

The key objectives for a successful distribution of euro cash and withdrawal of sterling would be:

- that sufficient cash was provided to banks and retailers (including transport operators, restaurants, pubs, clubs etc);
- that as far as possible the quantity, packaging and timing of delivery of new euro cash met the requirements of the end users;
- that the public, including vulnerable groups, received information which facilitated a smooth cash changeover (see chapter 8); and
- a smooth withdrawal of sterling notes and coins.

In order to achieve these objectives an integrated approach to planning is needed. The Group has discussed:

- regional coordination including the possible establishment of a

series of regional centres well before euro cash day to store coins (and possibly notes);

- the delivery to banks and retailers of euro notes and coins ahead of a euro cash day (for storage and later distribution on euro cash day);
- packaging of notes and coins at source by the Bank of England and the Royal Mint;
- the need for a variety of channels to move notes and coins into the hands of euro users and to withdraw sterling from circulation; and
- the potential benefits of putting hoarded sterling coins back into circulation prior to euro cash day to reduce the need to produce new sterling coins during this period and to ease the logistical task of withdrawing sterling coins later.

Learning from the first wave

The Group has established a network of contacts across the first wave. The members regularly attend meetings with colleagues from the first wave and report back on planning there. Plans for the distribution of euro cash are still being developed. However, in the first wave some common messages are emerging:

- there could be advantages in placing the new notes and coins in a series of regional warehouses and in providing banks and retailers with euro cash ahead of 1 January 2002;
- the vending industry is likely to convert its machines gradually over the weeks following 1 January 2002 to accept euro notes and coins; and
- there is a need for an effective information campaign to minimise any consumer confusion around 1 January 2002.

The first wave has adopted a common approach to the introduction of notes and coins. Most countries are aiming to complete the introduction of euro cash in two months rather than six. The UK will continue to consult on this issue and to monitor the first wave to ensure that any approach taken would be the most appropriate for the UK.

Next steps

- To conduct a survey of storage capacity and to model transport requirements to allow a draft distribution plan to be prepared by the end of 2000.
- To produce a draft plan during 2000 for a withdrawal of sterling notes and coins. The operation to recover sterling notes and coins from the economy following a euro cash day would be as large and as complex as a distribution of the new cash.
- To review the distribution plans of the first wave countries as they become available. It will be important that the Notes and Coins Working Group continues to learn from the first wave and applies that learning to the development of a distribution and withdrawal plan.
- To develop cost-effective means of encouraging dehoarding of sterling ahead of a euro cash day.



8. Communication

The first Outline National Changeover Plan identified a number of challenges for the provision of public information which would arise from a UK changeover to the euro.

“... people assimilate information most effectively when it is communicated by those from whom they expect to hear it...”

The issues included the large scale nature of any communication exercise that would be required as well as the need to provide information to particular groups in appropriate formats. The first Plan also identified the opportunity to learn from the experiences of the first wave’s communication activities.

In 1999, the Information Working Group was set up to take this work forward, together with a Sub-Group looking at the information needs of vulnerable groups. The Groups include bodies representing vulnerable groups, major public-facing bodies in the private and public sectors, and the Central Office of Information (the Government’s communications agency). The Groups are helping to develop an understanding of the likely wider information and communication requirements of business, the general public and consumers, should the UK join the single currency.

Issues and the first wave experience

The size and complexity of the communication task which would be required following any positive vote in a referendum raise a number of issues:

- people assimilate information most effectively when it is communicated by those from whom they expect to hear it (for example, information on prices from retailers; on pensions and benefits from government; on salaries from employers; and on financial services from banks);
- information is also most effectively communicated where it is reinforced from a variety of credible sources over a period of time;
- the role of information multipliers to help with reinforcement is vital. Information multipliers are those organisations which have regular contact with key groups and who are trusted to provide reliable information. For example, members of the National Carers Association have important links into certain sectors of the population who could require additional support in dealing with the euro, and small firms look to business support organisations

and trade associations to provide guidance and information on key issues;

- so clear, consistent, coordinated and accessible communication would be required from all parties providing information, not just from Government;
- information would be required at the right time, so that people would be ready to receive and act upon it;
- where information would be provided to specific groups there may be a need for a variety of formats (for example, braille, audiotape versions for the visually impaired or signed versions for the hearing impaired) but messages should be consistent;

The German Economics Ministry publishes a newsletter which aims to meet the information needs of small firms and to help them find solutions to their euro issues.

The Spanish Government has published leaflets giving basic information on the euro, eight million of which have been sent to people drawing pensions.

The Euro Changeover Board of Ireland (ECBI) has prepared information inserts for older people, to be included with pension payments to over 40,000 public service pensioners.

- however, information for the public during a changeover should be provided in a format which is accessible to as many people as possible (for example in a sizeable typeface; using illustrations and diagrams; and using easily-understood language rather than jargon or technical terms);
- the activities of the first wave provide a valuable source of expertise which in some cases could be applied should the UK join. Further details are given in Chapter 3;
- campaigns in some first wave countries which have involved taking information about the euro directly to the people appear to be particularly effective.

“... clear, consistent, coordinated and accessible communication would be required from all parties providing information, not just from Government...”

In Italy, the Government has promoted the use of “euro facile” symbols in shops, to denote those which are offering euro services, including pricing in both euros and national currencies.

The Finnish Federation of the Visually Impaired has produced an information booklet about EMU and the euro for 8,000 Finnish speaking and 1,000 Swedish speaking visually impaired people in Finland.

“...all mainstream information should be provided in a format which is accessible to as many people as possible ...”

Establishing a new “scale of values”

The requirement to communicate information on a changeover to the euro would involve more than a need to describe the physical features of the new notes and coins. It would require everyone in the UK to develop a new “scale of values”. If the UK were to join, consumers might face a similar situation to that currently being addressed in Ireland, namely a public perception that incomes, receipts and prices could be raised by the introduction of the euro (a result of the exchange rate at which the Irish pound was fixed against the euro). This misconception could lead to difficulties, particularly for vulnerable members of society.

“In Ireland, a loan of IR£1,000 will be converted on 1 January 2002 to €1,269.74. Although the euro amount looks higher, the value remains the same.”

Source: “*The Euro and you: A Consumer’s Guide*” published by the Euro Changeover Board of Ireland, 1999

The key to dealing with this specific issue could be an ongoing communication programme. Such a programme could use a variety of formats, including advertising in the national and local press, on TV and radio, but could also utilise different formats to ensure that the issues were understood. Such a programme would be likely to continue throughout a changeover in order to continue to provide core information on the effects of a changeover.

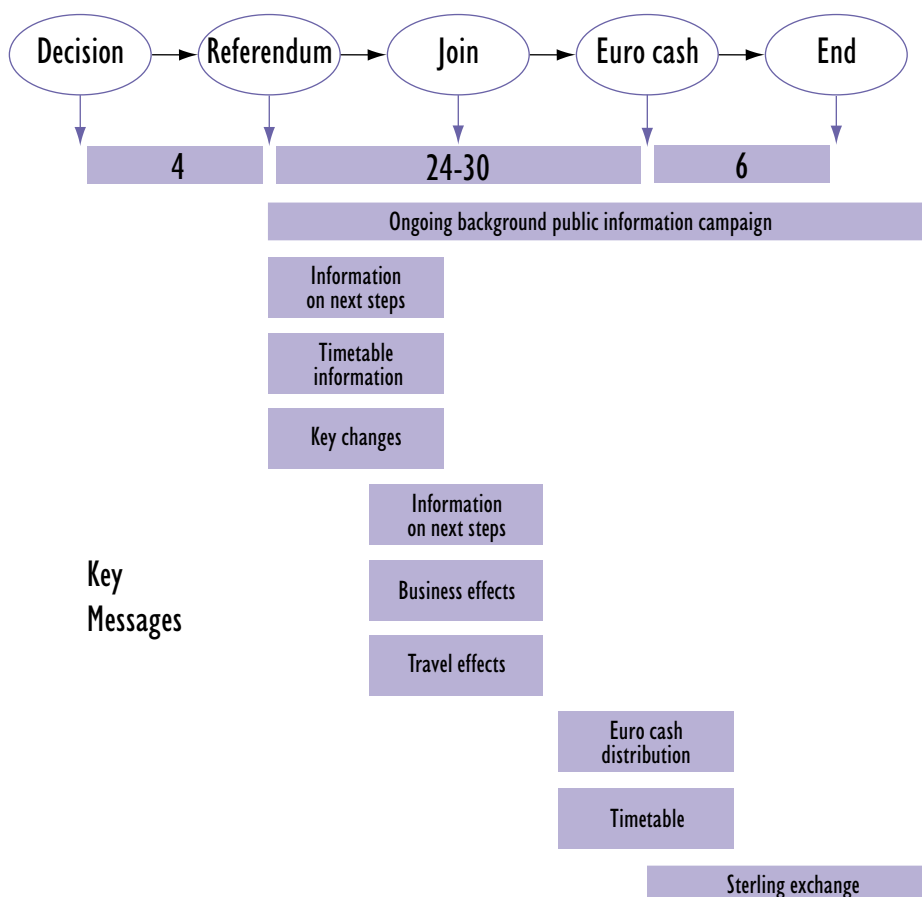
Information campaign phases

There may also be a requirement for ongoing phases of information provision, focussed around key events within a changeover timetable, which might overlap to reinforce certain key messages. As already noted, this overlapping

effect could be bolstered by similar messages stemming from a wide variety of sources.

Other Working Groups have helped to identify key points at which specific communication could be needed to ensure a smooth and effective changeover. An illustration of a possible phasing is shown below. This does not look at the provision of information in advance of, or during, any referendum campaign.

This diagram does not purport to show actual lengths of any campaigns. The sizes of individual boxes do not reflect the relative weights of any specific elements of a campaign.



The diagram above highlights a potential need for specific communication programmes.

- If there were a positive referendum result, information would be needed afterwards in order to inform the population that the withdrawal of sterling was not imminent; to set out an expected timetable for the following years; and to provide information on when key changes (for example from pricing in sterling to dual pricing) might be expected to occur.

“... ongoing phases of information provision might overlap to reinforce certain key messages ...”

- Information would be needed in the approach to, and at, joining: to make clear that this would not mean the imminent issue of euro notes and coins; to note the possible immediate effects for those travelling elsewhere in the euro area once exchange rates were locked; and to highlight the consequences for business.
- Before issuing euro notes and coins, to reduce the amount of hoarded and stored sterling cash in the economy.
- Before issuing euro notes and coins: to explain how to recognise the new currency, including security features; to explain the distribution mechanisms; and to set out as an example a likely timetable for the switch to making payments for key services in euros.
- Up to, and following, sterling's withdrawal: to explain the approaching deadline beyond which sterling would not be legal tender; to outline arrangements for returning sterling and exchanging for euros; and on a continuing basis to set out the longer-term arrangements by which sterling could be returned, and exchanged for euros, after it ceased to be legal tender.

This outline is not meant to be definitive, but suggests some of the key issues on timing and messages which need further development. Furthermore, the outline does not currently show any additional coverage which could be required for particular groups. This might include an extended communication programme aimed at those for whom establishing a new value system could take more time.

Coordination

Coordination across all major public-facing bodies in the private and public sectors would be essential. Information transfer would be most effective if the messages from all parties used broadly similar themes at broadly similar times. Exploring how this coordination could work might be a theme for further work.

Following the considerations outlined above, in order to help consistency and to ensure that any information would be provided in easy-to-understand language, the Group has been working on issues of good practice. Good practice could include the provision of a minimum level of key information on the euro from all parties at a pre-determined standard.

Alongside the work on issues of good practice, work has been underway on the development of a glossary of key EMU terms, which could

be adopted by those providing information. The glossary aims to ensure consistency and clarity in the key terms used by those involved in changeover planning and in communicating a changeover to the public. A draft glossary will be made available for comment later in the year.

Next steps

- Draw out lessons from major UK Government information campaigns by Summer 2000, to inform any post-referendum communication activities.
- Further work on developing issues of good practice on communication during a changeover, by Winter 2000.
- Produce a glossary of key EMU terms for comment, by Summer 2000.
- Continue to learn from the experiences of the first wave countries (ongoing).



9. Retail financial services

Retail financial services are a significant business sector in their own right, and are also suppliers of vital services to other parts of the economy. Banks and other retail financial services companies are on the critical path of a UK changeover.

“Banks and other retail financial services companies are on the critical path of a UK changeover...”

The first Outline National Changeover Plan identified the conversion of core systems and customer communication as being key changeover issues for the sector. It noted that there are significant preparation lead times across the industry and recognised the need for further work on how demand for services might develop during a UK changeover.

The Retail Financial Services Working Group - which brings together representatives of the retail banks, building societies, insurers and others - has made good progress in developing understanding of these issues. Outside the Group a great deal has been achieved by the many industry groups which have been considering more specialised issues over the last year.

Demand for euro services

One of the main influences on how many customer focussed organisations would tackle the conversion of their systems is the way in which demand for euro services developed. This is also of particular importance to many public sector organisations, such as the revenue departments.

Establishing a reliable picture of possible patterns of demand for euro services during a UK changeover is not straightforward for a number of reasons:

- countries joining the single currency after the first wave would have to form a view on the likely impact of the use of the euro as a foreign currency in their economies (see Annex I). There is currently no precedent for this but the influence could be significant for a country such as the UK which may see considerable use of the euro;
- the scale of some of these services - particularly those directed at the personal and SME markets - means that relatively small percentage changes in demand can produce significant volume

changes. It is the volume of transactions - not their value - that matters. In processing terms a cheque for £1,000,000 is essentially the same as one for £5;

- individuals and smaller firms (which together account for a high proportion of the service volume) would be unlikely to focus on detailed issues such as when they would want to start accounting for VAT, receiving benefits or paying utility bills in euro until they had to. But suppliers of such services need to make assumptions on these questions at the design stage of their conversion projects; and
- suppliers of euro services are, of course, themselves customers of euro services so it is therefore often difficult to isolate the external drivers of what is a relatively integrated process.

Planning during 1999

To establish possible patterns of demand, the Group has facilitated a series of discussions between key groups of suppliers and users of financial services with the aim of trying to produce a common set of assumptions for the likely pattern of demand for euro services during a UK changeover. These discussions will form a basis for future work to develop an understanding of the likely pattern of demand. The work will take into account the experiences of the first wave and the evolving expectations of suppliers and customers.

This process has involved the retail banks, the utilities (through the Utilities Forum), the Inland Revenue, Customs & Excise, the Department of Social Security, the Association of British Insurers and the British Retail Consortium. Work on the needs and expectations of those in the wholesale financial markets who rely on retail linkages (for example, the fund management industry) is being taken forward by the City Euro Group (see Chapter 10). Further consultation is planned, including discussions with representatives of the large and small corporate markets.

Preliminary conclusions

There is broad agreement amongst the groups consulted that high volume customer demand for euro services would be most likely to appear only late during the transition period. Volume is the key. There would certainly be some demand for euro services earlier (and the extent to which the euro is

“... a changeover in the retail financial services sector might naturally, as in the first wave, fall into a series of phases...”

already being used in the UK would have a bearing here - see Annex I), but for most suppliers the working assumption is that (just as in the first wave) early demand would come predominantly from the large corporate and wholesale financial markets.

Those suppliers who are offering services in euro while the UK is outside the single currency need to consider how demand for those services would be affected by joining. For most personal customers locking currencies should offer little immediate reason for switching to euro, although there would almost certainly be exceptions - for example, frequent travellers to the euro area or those who already had significant dealings in euros.

On this basis, a changeover in the retail financial services sector might naturally, as in the first wave, fall into a series of phases, with wholesale financial markets and large companies making some use of euros fairly early and with smaller firms and individuals using euros later in the process. The Group will continue to take forward consultations between key user groups to refine demand assumptions as the experiences of the first wave become clearer and, in particular, as understanding of the possible impact of euro use develops. It would be key to a smooth and orderly changeover for all groups to have a clear understanding of exactly what services would be available when, and developing and building consensus behind such a model would be an important task for Government.

Customer communication

The second key issue is the way in which providers of financial services could help their customers to understand a changeover. While Government would have an important role in making sure that the process and implications of a changeover were understood, customers might be expected to turn to their banks, insurers and financial advisers for guidance on more specialised issues. For them a changeover process might be made easier if all suppliers of services were to have a consistent approach to information. For example, suppliers might agree a common language for EMU banking terms. Similarly, it might be helpful if suppliers described the phases of a changeover in a consistent way.

Following discussion with EPU, the Association of British Insurers and the British Bankers' Association are currently studying the types of issues which might appropriately and helpfully be tackled in a coordinated way (in some areas, such as the provision of payments services, the

interdependencies between the banks makes this essential). This work is developing well, and has been looking at establishing a standard user-friendly language, considering how the conversion rate and euro/sterling equivalents might be displayed in bank branches and insurance documentation, and how small rounding effects arising from conversion processes might be treated.

This line of work has wide-ranging importance. Some areas may benefit not just from being coordinated within the financial services industry, but across the economy - and as such, there are clear linkages with work on the Consumers Code of Practice (see Chapter 6). As these projects develop it is intended that they be progressively shared with other bodies in the public and private sectors, the aim being to find sensible, pragmatic and coordinated solutions to some quite complex issues.

“...a changeover process might be made easier if all suppliers of services were to have a consistent approach to information...”

Next Steps

- Consultation - including regional discussions with the British Chambers of Commerce - to develop and refine assumptions on the pattern of demand for euro services will be widened and taken to a further level of detail with the target of publishing a further progress report in Autumn 2000.
- Assumptions on demand for euro services during a UK transition will be refined as the experiences of the first wave, and patterns of euro use in the UK, become clearer.
- Industry projects on sharing best practice will be developed (these are, of course, already closely tied in to work on the Consumers Code of Practice).



10. The City

The City of London is one of the world's major financial centres, conducting a very large percentage of global financial business. The euro is already being heavily used in the City of London.

“... there is euro activity in each of the City's international financial markets ...”

This business covers the financial markets - the foreign exchange, money, bond, equity and derivatives markets; other financial activity like bank lending, fund management, advice on mergers and acquisitions and insurance; and related services.

Much of this activity is now denominated in euro and there is euro activity in each of the City's international financial markets. In addition the related payments are generating significant cross-border flows between the UK euro payment system (CHAPS euro) and those elsewhere in Europe.

The task of converting the sterling markets into euro would require as intensive and extensive preparations as those completed successfully before the euro's launch. The banking system would be at the heart of a changeover, and all the major City institutions would be heavily involved.

The Bank of England has responsibility for coordinating preparations, where necessary, in the City. To assist in this task, and particularly to help as a communication channel on the necessary preparations, it has established the City Euro Group with broad representation from across the City.

A changeover in wholesale financial markets

Wholesale market trading would be expected to switch from sterling to euro from joining, as in the first wave, so the necessary preparations would need to be complete by then. It is estimated that around twelve months would be needed to make these preparations, assuming prior planning and market consultation, so they would need to start no later than a year before entry. In some areas it may be prudent to allow more than twelve months. In practice, implementation of the necessary investment could start before a Government decision. The major financial institutions have analysed the changes to their internal systems which would be necessitated by joining the single currency and this planning phase is now well advanced.

Just as in the first wave a UK entry date would be immediately followed by a so-called ‘conversion weekend’, during which many outstanding amounts in sterling would be converted into euro at the announced official conversion rate. It would be useful to have a long weekend to complete this work, as in the first wave.

During the conversion weekend, all gilt-edged securities would be expected simultaneously to have their nominal values changed from sterling to euro, in a process known as redenomination. No final decisions have yet been taken but, of the different possible methodologies available, there would be advantage in making the necessary calculations at the level of investor holding, by each stock account, and rounded to the nearest euro cent. Gilts would subsequently be transferable in multiples of one euro cent nominal.

In relation to other, non-Government, outstanding sterling debt, legislation to enable non-Government issuers to redenominate their sterling bonds into euro without explicit investor consent may be helpful, providing investors’ interests were safeguarded. This was the approach taken in a number of first wave countries. Again, no decisions have yet been taken on this. In any event, issuers of such debt would need to consider carefully whether any benefits from redenomination might justify the costs involved.

Even where the nominal value of any underlying securities remained in sterling, trading would be expected generally to be conducted in euros.

Throughout the wholesale financial markets, issuing and trading of euro instruments from entry would be expected to conform to the agreed harmonised euro market conventions, including for calculating accrued interest.

In the equity market, all share prices currently quoted in sterling would be expected to convert to euro over the conversion weekend in time for post-entry trading, although some prices might switch from sterling to euro ahead of entry, particularly once it became clear that the UK would join.

The Department of Trade and Industry will publish soon a consultation document on legislation for share redenomination, which would allow a company to decide to convert the nominal values of part or all of its share capital into equivalent values denominated in a different currency (including euro).

“The banking system would be at the heart of a changeover . . .”

“...all share prices currently quoted in sterling would be expected to convert to euro in time for post-entry trading...”

A changeover in wholesale payments

The wholesale payment system would need to cope with a significant increase in euro payments, from some 14,000 daily currently to a much higher figure after joining. As part of ongoing system developments, the clearing banks have decided to migrate CHAPS sterling from its present basis onto the system on which CHAPS euro currently operates. One of the benefits would be that any future transition to the euro could be simpler.

Whilst wholesale payments would be expected to be predominantly in euro from joining, including payments relating to wholesale financial instruments like gilts and equities, many individual recipients would almost certainly want to receive these amounts in sterling for some time. The banks would credit the relevant amounts to their customers in the denomination of their accounts, at the official conversion rate.

A changeover in fund management

Many of the preparations for fund managers would be similar to those for the rest of the financial services industry. There are, however, some issues specific to fund managers, which fund management associations and custodians have begun to consider.

In the case of unit trusts and open ended investment companies, pricing and accounting information during the transition period would be expected to be denominated in the base currency of the scheme concerned, whether sterling or euro. The timing of the change in base currency from sterling to euro (and the change in pricing) would be at the discretion of the fund manager.

In the case of pension funds, trustees would be free to choose whether to require accounts to be prepared in sterling or euro during the transition period. It would be helpful to the fund management industry, and reduce costs to pension funds, if a uniform approach were adopted by pension funds. The National Association of Pension Funds would recommend that pension funds should normally account in euro for both management and published accounting periods which start after a UK entry.

Wholesale market regulation and supervision

The Financial Services Authority (FSA) believes that only minor modifications would be required to wholesale market regulations. The supervisory approach taken by the FSA during the preparations for UK entry would be likely to be similar to the approach taken for the launch of the euro in the first wave.

Further information

In order to help communicate as widely as possible with the financial sector, the Bank continues to publish *Practical Issues Arising from the Euro*, and has introduced on its website a series of questions and answers about technical aspects of the changeover. The Bank intends to use its website (<http://www.bankofengland.co.uk/euro>) to provide a central source of publicly available information to the financial sector about the practical preparations for possible UK entry, and to keep the website up to date with relevant new information.

Next steps

- The Bank of England will continue to take the lead in coordinating preparations in the City, reporting progress through its regular *Practical Issues* publication and through its web site.
- The Bank of England over the next year will set out in detail the way in which a changeover might be handled for each of the different sterling financial instruments.
- The Bank of England over the next year will draw out the critical interdependencies between wholesale and retail financial services.

Annex 1. Growth of euro use

Why might UK firms use euro while the UK is not a member of the single currency?

As firms in the first wave switch to euros many will want to receive quotations and pay their suppliers in euros. Even those that currently pay for goods and services in foreign currencies may find that, with more potential suppliers across the euro area switching to euros, there is less incentive to consider quotations in anything else. So UK exporters, initially those that currently quote in legacy currencies but over time those that quote in sterling, may find themselves encouraged (or may see a competitive advantage) to move to euro pricing.

For those that do, multiple revenues in former national currencies and in sterling will gradually become consolidated into a single euro income stream. Firms - importers and exporters - with a spread of currency risks will have just one, and will look for the most cost-effective way of dealing with it. This may include paying their own suppliers in euro (and, equally, suppliers may see a commercial advantage in offering to take euro from a potential customer) even if these are based in the UK. And so the process might spread out through the economy.

How likely is this?

A number of large firms with substantial export business in the first wave have already announced an intention to ask suppliers to quote in euro. The question is how extensive this trend might become.

There are no exact parallels, and no reliable forecasts. Some commentators see the use of the euro extending even into the payment of salaries and the use of cash (once that is available in the first wave on 1 January 2002). Others see its use more confined to businesses.

Why is it significant?

Whether or not the UK joins the single currency, it is important that businesses understand the significance of the launch of the euro and keep an eye on how it is likely to affect their markets. Some action may be needed to protect existing markets, and there may be opportunities for breaking into new areas.

In addition, were the UK to join the single currency the pattern and scale of euro use would have some influence on a changeover. In broad terms, it might be expected that if the euro were in widespread use at the start of a UK transition period demand for euro denominated services could

build more rapidly than has been seen in the first wave. But there are currently no direct precedents and it is therefore important that there is an effective system in place for collating, comparing and disseminating information and views on this question. It is equally important that individual firms and public sector institutions have in place robust planning and risk management arrangements.

The story so far . . .

If the financial sector is excluded, euro use in the UK and in the first wave is currently low. This was to be expected. It has been recognised for some time that most firms in the euro area would be unlikely to switch their operations to euro immediately on its launch.

In December 1999, a paper produced by the European Commission on the level of euro use in the first wave¹ reported that:

- 1.9% of company payments are being made in euros;
- VAT returns in euro range between 1.1% (Spain) to 6.6% (Luxembourg);
- 0.8% of consumer payments are being made in euro; and
- 0.4% of bank accounts have been converted to euro.

Explicit use of the euro by UK companies to date represents a very small proportion of the total (KPMG estimates about 1% for all UK transactions and a negligible amount for those carried out between UK firms).

Wholesale financial markets, by and large, switched from legacy currencies to euro as soon as the latter was introduced (see Chapter 10).

The use of euro for trading tends to be concentrated in larger companies and those in the financial services industry. Even though CHAPS euro is currently processing some 14,000 euro payments daily, representing an average total value of €140 billion, a sizeable proportion relate to financial market operations.

Smaller firms are currently making little use of the euro. HM Treasury's most recent survey of SMEs showed that some 3% overall - around 50,000 businesses - are presently using the euro. This figure is 6% amongst those with an existing trading link with other EU states.

There is currently very little demand for euro services from the public sector.

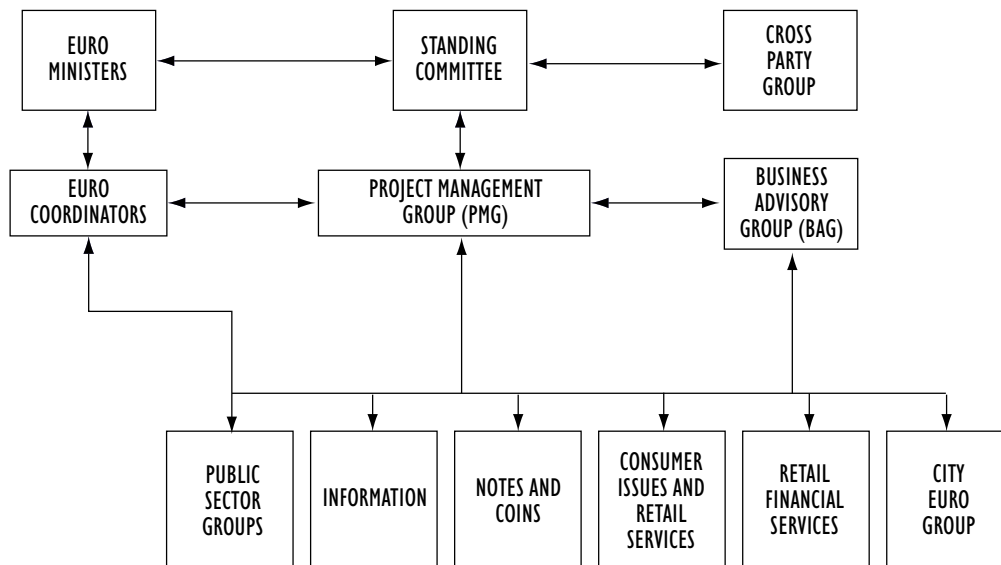
1. *Quarterly Review of the Use of the Euro, No. 1* ECFIN/719/99-EN: 10 December 1999

Within the UK just under 9,000 euro-denominated cheques, worth some €80 million, are processed on average per month, almost entirely for businesses.

Further information

A number of organisations in both the private and public sectors monitor euro use in their areas and EPU will continue to offer signposting and a periodic commentary on the overall picture.

Annex 2. Organisation chart and membership of Working Groups



Private and voluntary sector organisations involved in Working Groups

Age Concern England

Association for Payment Clearing Services

Association of British Insurers

Association of Corporate Treasurers

Association of Investment Trust Companies

Association of Unit Trust Investment Funds

Automatic Vending Association of Britain

Bank of England

British Bankers' Association

British Chambers of Commerce

British Retail Consortium

British Shops and Stores Association

Building Societies Association

Citizens Advice Bureau

City Law Society

Confederation of British Industry

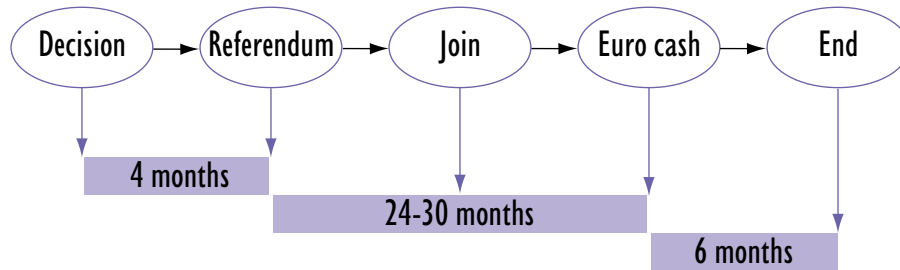
Confederation of Indian Organisations

Consumers' Association

Consumers in Europe Group
CRESTCO
Finance and Leasing Association
Financial Services Authority
Food and Drink Federation
Fund Managers Association
Futures and Options Association
Gilt Edged Market Makers Association
International Primary Markets Association
International Swaps and Derivatives Association
International Underwriters Association
LIFFE
Lloyd's
Local Authority Coordinating Body on Food and Trading Standards
Local Government Association
London Clearing Houses
London Investment Banking Association
London Stock Exchange
Mail Order Traders Association
Mencap
National Association of Pension Funds
National Consumers' Council
National Federation of Retail Newsagents
Post Office
Qualifications and Curriculum Authority
Royal Mint
Royal National Institute for Deaf People
Royal National Institute for the Blind
Securicor
Securitas
Trades Union Congress
Utilities' Forum

PHASES OF A CHANGEOVER

These four pages are a supplement to Chapter 4 'A changeover in the UK'
The illustrative timetable shown below remains as set out in the first Outline
National Changeover Plan.



An illustration of what might happen during the phases of a changeover should Government, Parliament and the people, in a referendum, decide to join a successful single currency.

	4 months	24-30 months	6 months	
Before a Government decision to join	From a Government decision to a referendum	From a referendum to joining	From joining to an introduction of euro cash	From an introduction of euro cash to a withdrawal of sterling
<p>Many service industries, including banks, utilities and retailers are already offering euro facilities.</p> <p>Taxes and duties due to the revenue departments can be paid in euros.</p> <p>Company accounts can be prepared and filed in euros.</p> <p>Customs declarations can be supported by euro invoices.</p> <p>The Government pays some EU grants in euros.</p> <p>Some UK companies are pricing and invoicing in euros.</p> <p>The Government, working in partnership with business, the wider public sector and the voluntary sector, will continue the necessary planning to give</p>	<p>Legislation would need to be taken through Parliament to enable the referendum to be held and to set the question and the date of the poll.</p> <p>A referendum would be conducted in accordance with the provisions of Part VII of the Political Parties, Elections and Referendums Bill (which in January 2000 received a second reading in the House of Commons).</p> <p>Many service industries, including banks, utilities and retailers, would offer euro facilities.</p> <p>Taxes and duties due to the revenue departments could be paid in euros.</p> <p>Company accounts could be prepared and filed in euros.</p> <p>Invoices in euros could be</p>	<p>Euro notes and coins issued by the first wave would not be legal tender.</p> <p>Businesses and individuals would not be obliged to make or accept payments in euros.</p> <p>Legislation would be needed to make the statutes of the Bank of England compatible with the EC Treaty.</p> <p>Legislation would be needed to enable conversion of sterling amounts to euros.</p> <p>Structures for managing the changeover would need to be finalised.</p> <p>Nationally coordinated public information campaign would be likely to start.</p>	<p>The exchange rate between sterling and the euro would be locked.</p> <p>If the UK is subject to transitional arrangements equivalent to those applying to the first wave, any euro cash from the first wave would not be legal tender in the UK.</p> <p>There would be no obligation for businesses or individuals to use the euro.</p> <p>Wholesale markets would switch almost entirely to euros on the first day of entry. All share prices would be quoted in euros.</p> <p>Government debt would be converted immediately into euros.</p> <p>The revenue departments could phase in euro tax services - some from the</p>	<p>Euro notes and coins would be legal tender.</p> <p>Sterling notes and coins would be gradually removed from circulation and replaced by euro cash.</p> <p>Sterling notes and coins could continue to be used until the end of this period.</p> <p>Automatic telling machines and vending machines would need to be converted to euro over this period.</p> <p>Some retailers could be giving change in euros. Retailers would also be pricing in euros.</p> <p>Public information could be provided on how to exchange sterling for euros.</p> <p>All payments made by the Government, including</p>

<p>the UK a genuine option to take a decision early in the next Parliament to join.</p>	<p>taken in support of customs declarations.</p> <p>The Government would continue to pay some EU grants in euros.</p>	<p>Information might be provided to the public on the expected changeover timetable and the timing of key changes.</p> <p>Nearer to the date of joining, information could be provided on the effect of locking currencies on business and travel.</p> <p>Production of euro notes and coins would start.</p> <p>Taxes and duties payable to the revenue departments could be paid in euros.</p>	<p>start of the transition period to meet demand from business.</p> <p>One option for the provision of euro services by retail banks would be to phase them in over this period.</p> <p>A Consumers Code of Practice could be introduced at the start of this period.</p> <p>Dual pricing likely to be gradually introduced, with activity concentrated in the four months leading up to the introduction of euro cash.</p> <p>Euro equivalent amounts might appear on some bills and salary slips.</p> <p>Towards the end of this period, public information could be provided on recognising euro cash and on the distribution of euro cash.</p>	<p>grants, benefits, salaries, pensions and payments to suppliers, would be in euros.</p> <p>Public sector bodies would offer services in euros from the start of this period.</p> <p>By the end of this period all sectors of the economy would have switched to euros.</p>
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The timetable for the Changeover in the first wave.

The diagram below shows the timetable adopted by the eleven participating Member States.

