THE PREPARATION OF THE CHANGEOVER TO THE SINGLE EUROPEAN CURRENCY

(INTERIM REPORT)

SUBMITTED TO THE
EUROPEAN COMMISSION

20 JANUARY 1995

Compiled by the Expert
Group on the changeover
to the single currency

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INTRODUCING THE SINGLE CURRENCY IN THE EUROPEAN MONETARY UNION

(Ensuring a smooth changeover and broad acceptance by the general public)

1. Summary

❒ Main messages

* The process of Economic and Monetary Union (EMU) is underway. As a result of this ongoing process, there is a clear-cut need for the private sector to be adequately prepared for its ramifications. It is therefore of vital importance for awareness to be raised amongst consumers using effective information campaigns.

* The possibility of a 'big bang', one-off or instantaneous introduction of all the elements that will go to make up a single European currency is most unlikely, on the first day of stage III of EMU, even if this date will be 1 January 1999 (1 January 1997 being the first possible date to start EMU).

* The new single currency should be as strong, while entering EMU, as the strongest national currency, in order to maximise popular support.

* There is no need for a continuation of the present basket ECU.

* Public authorities and the private sector should start an on-going dialogue on the main technical aspects of notes and coins of the new single currency and the timing of the physical introduction of these new monetary units. The point at which the European Central Bank will start using this new unit for monetary policy purposes should be made public as soon as possible.

* There is a clear need to make the process of changeover so robust that it effectively becomes an optimum technical solution. Furthermore, the time between the start of monetary policy operations in ECU and the physical introduction of ECU notes and coins should be as short as possible. This could lead to reductions in costs (by avoiding dual accounting or transitional systems) and should reduce the danger of public confusion and the associated negative effects on credibility and acceptability of the single currency.

❒ A single currency based on the strict implementation of the Maastricht Treaty

The Group's formal mandate excludes expressing an opinion on how to deal with the convergence criteria of the Maastricht Treaty, but it cannot ignore the outcome of this process. Firm action to ensure compliance to the Maastricht criteria will increase credibility and hence commitment by the private sector to implementing the process of change. This will be an indispensable requirement to stimulate the necessary investments by the private sector.

❒ The timetable for introducing the single currency

* There is no possibility of an instantaneous new ECU introduction comprising all aspects of the single currency on the first day of stage III of EMU, even if this is 1 January 1999. There are certain limitations if lead times are squeezed or compressed (such as changing accounting systems, the production and distribution of notes and coins etc.).

* The Group favours the rapid introduction of the currency in the smallest number of steps, i.e. the best approximation of a big bang after the necessary initial delay.
  The Group is not in favour of a gradual introduction of the single currency, but recommends a sequence of a phased introduction punctuated by a number of individual highlights the conclusion of which would be the physical introduction of the new notes and coins. This process would minimise the high cost of financial institutions and companies being forced to run dual accounting and transitional systems and would reduce the potential for confusion among the general public.

* Clear and timely decisions from relevant authorities will be indispensable for fixing and maintaining the preparations of the private sector in the required time perspective.

The point is that if technical preparations start simultaneously throughout the European Union, the risk of divergence from the overall initiative between member states will be minimised. Increased cohesion will follow as a result.

❒ **The sooner authorities submit relevant information, the sooner the private sector will act**

An early, on-going dialogue between public authorities and the private sector on the relevant technical issues will lead to timely preparation by the private sector.
There is an express need for the private sector to be briefed as early as possible on the main technical features of the notes and coins of the new single currency, the timing of the introduction and the point at which the European Central Bank will start using the new unit for monetary policy purposes.

❒ **The ECU as a single currency in its own right**

* From the start of stage III, the ECU will become a new currency in its own right.
Until the start of stage III the existing ECU will remain a private market instrument.
At the start of stage III, the ECU will become a separate currency in its own right managed by the independent European Central Bank. The external value of the ECU will not be modified at the start of stage III.
However, the differences between today's ECU and the new currency, particularly in respect of its institutional framework and anti-inflationary credentials, should be brought fully to the consciousness of the public at large.

* As stated, there will be no need to continue with the present basket ECU even though it is foreseen that not all member states will join stage III at the same time.

* Financial institutions should be ready to start accounting in ECU as soon as the European Central Bank starts monetary policy operations in ECU. This would be favourable for both the Bank and the private sector. The European Central Bank would also avoid friction as it engages the monetary transmission mechanism, while for financial institutions it would reduce unnecessary costs.

If ECU notes and coins are not physically available at this time, financial institutions should continue doing business with clients in national currencies. This would, however, be a less than acceptable solution. There is a real danger that the general public will become confused, with all the associated negative effects on credibility and acceptability. Therefore this intermediate period, if it cannot be avoided, should be as short as possible and no longer than 6 months.

There is a clear need, however, to make the changeover so robust that it is effectively the optimal technical solution. Delaying the execution of monetary policy in ECU until this new currency is physically available, would be part of such a solution.

* The legal tender status of the new unit deserves some scrutiny, but this is more of a secondary issue. There is no doubt, however, that the single currency must be given this status, at the latest, when it is physically introduced.

❒ **Further work**

Promoting awareness, minimising uncertainty and potential fears and broadening support amongst the general public will be the main activities of the Expert Group.
This will be done through face-to-face meetings with key sectors of business society and by the wide distribution of this interim report. These meetings will also give the Group feedback on whether its specific recommendations are appropriate and on how the quality of the changeover can be improved.

Furthermore the Group will clarify the important technical points concerning the preparation of financial, industrial and commercial companies.
Special attention will be given to the timely preparations of cash handling in the new single currency and the role of electronic purses (new technology systems which can be 'charged' with electronic money, avoiding the need for people to carry large amounts of cash) to facilitate a smooth changeover.

2. Introduction

The single European currency cannot be created overnight. Considerable economic policy efforts are necessary in the coming years in order to attain the entry conditions of the Maastricht Treaty. The creation of the single currency would run into great difficulties if technical preparation were to begin a mere six months before, or at the time when the European Council is required to take the historic decision calling on member states to participate in stage III. Therefore, the many technical changes required must be in time.
Some of these changes involve a lead-time of years and should therefore be set in motion immediately.

The task of the Expert Group is to promote the necessary technical preparations in the relevant areas of the private sector for the changeover to the single currency. This mandate was given to the Group by the European Commission in May 1994. From the point of view of the private sector, the Group's plan is to table a series of relevant questions, giving a basic first orientation and starting an exchange of views with all those involved in the field.
Management of a long preparatory process with unknown changeover dates is, however, problematical in its own right. The solution is to develop working assumptions and the construction of scenarios to overcome such problems. This process is described in this interim report, which is also intended to prepare the ground for meetings. Furthermore, the Group must stress at this junction that it has no wish to remain alone in the preparatory field. Others must come forward and take up the challenge.

Discussions amongst Group members have identified three challenges:
* The changeover to the single currency is a challenge of historic dimensions surpassing everything so far done in monetary integration. Preparation through appropriate economic policies and through timely changes must meet this challenge.
* Timely and responsible action by official and private policymakers will be essential.
* A challenge will be set for citizens since the creation of the single currency can only succeed if there is broad popular support. The currency of the union cannot take off as an abstract means of payment. It must become very soon the expression of stability-oriented economic policies.

The Group has conducted its work within the legal framework of the Maastricht Treaty. The main goal of the Group is to ensure a smooth changeover to the single currency at the lowest possible social and economic costs and to get broad support and acceptance among the public at large. In formulating its recommendations the Group has tried to balance its view carefully between the attainability of the fundamental objectives of EMU (such as economic and monetary stability) and whether these recommendations are acceptable and technically feasible.
In November 1994 the Chairman of the Group reported orally to the European Commission.

This written interim report is based on five meetings of the Group. Therefore, not all the issues that are mentioned in this report have been investigated in full depth, nor have all the issues been brought to the fore.

What are the main messages?

* Economic and Monetary Union is underway; everyone involved with the process of economic change must be prepared. For some who will be responsible for lengthier change processes, the initial steps must be taken immediately. Others must make basic preparations. It is clear that a lack of foresight leads to bad management; if the economic and political conditions are met, the single currency will become a reality and those who are not ready will lose out in the competitive stakes.

* The changeover date will remain unknown for quite some time, since the numerous technical considerations will have little or no effect on politicians, and will not speed up or significantly advance the decision-making process. The Group has developed its ideas assuming that the changeover might happen on 1 January 1999. This is one of the dates foreseen by the Treaty and under present conditions the date which makes the changeover less difficult. That does not exclude an earlier date, for example on 1 January 1997. Technical considerations would not prevent this although the transition would be made more difficult since some of the measures would have to be rushed.
  The Group will indicate in its final report where and what special difficulties may arise.

  Whether introduction happens in 1999 or 1997, it will be impossible to effect the changeover overnight, with the full replacement of national currencies by the ECU on the first day of stage III. Although exchange rates will be irrevocably fixed on the first day, national currencies will keep their functions for a while before the single currency can be introduced physically.

* Public authorities, in particular the European Central Bank, will determine the length of the intermediate period between the start of full monetary union and the physical introduction of the single currency. Politics will be a decisive factor in this domain.
  Therefore, technical preparations will have to take second place.

  From the point of view of commercial enterprises, there is operational merit in keeping this intermediate period short. The Group has taken the hypothetical view that this should be no longer than six months after the start of the third stage.

* Banks and financial intermediaries should change their accounting into the single currency as soon as the European Central Bank starts conducting monetary policy in the new unit. In their relations with customers, transactions should continue to be denominated in national currencies in order to avoid public confusion. There is a clear need to make the changeover so robust, that it comes close to an optimal technical solution.

  Making the time as short as possible (through timely preparations) between the execution of monetary policy in ECU and the physical availability of this new unit, would be such an solution. This would tend to reduce costs (no dual accounting or transitional systems) and avoid the real danger of confusion and negative effects on credibility and acceptability by the public at large.

* For reasons of public acceptance the single currency must be as strong as the strongest national currency as it enters into full monetary union. This is the key message of the Maastricht Treaty and also the basis for a good preparation of the changeover. As indicated in the interim report, the Group is conscious that the single currency cannot be created without popular understanding, which should lead to acceptance and support. It is for this reason that meetings, as stated, will be held. Therefore, the Group is not at this stage able to give its final conclusions, and a comprehensive summing-up will only be possible when the preoccupation and wishes of Europe's citizens are known.

* There is no need for a continuation of the current basket ECU, nor is there a need to construct a new currency basket.

3. Economic and political convergence, the main preconditions for a strong single currency

The pursuit of stability oriented convergence policies and sticking to the letter of the Maastricht Treaty, and in particular to its convergence criteria, are the best preparations for the introduction of the single currency, which should be at least as strong as the strongest national currency. The success of this fundamental process will also give technical preparations considerable momentum. It is this framework which will give the private sector and the markets a rationale about which to assess the different steps needed to move towards the single currency and allow it to contribute to the process by making preparations. Although the Group does not consider itself to be the right forum to express an opinion on how to handle the criteria, it cannot ignore them, as they are highly relevant for the start and momentum of the whole process towards the single currency. If economic policies are set according to the convergence criteria, this will provide economic agents with a sound basis on which to draw conclusions and on which to build expectations.

Deviations from the spirit and letter of the Treaty and questioning the convergence criteria, however, would have strong negative impacts. Markets would be deprived from having a reliable yardstick on which to assess progress towards stage III. For the public the future single currency would appear to be less strong than some of the present currencies and its introduction would become more difficult. In that field, like in others, uncertainty could be detrimental to the process.

4. A variable time dimension

The introduction of the single currency is a process with uncertain changeover dates. The implementation of the time schedule provided by the Treaty depends entirely on the degree to which governments, central banks and community institutions succeed in advancing economic and monetary integration. The Group has taken 1 January 1999 as the principal date about which it has based its assumptions on the start of stage III. This does not exclude an earlier date at the start of 1997 as foreseen by the Treaty. The logistics of the operation need sufficient time and some of the actions must be prepared early in the run-up to stage III. There are limits in compressing lead times in several fields. Clear and timely decisions from relevant authorities will be indispensable in putting and keeping the preparations of the private sector on track. Under the above working hypothesis, the Group reached the following preliminary findings:

* There is no possibility of a comprehensive 'big bang'-style introduction comprising all aspects of the introduction of the single currency, on the first day of stage III even if this is to be 1 January 1999.

* Nevertheless, the risk of public confusion and the need to minimise dual currency systems make for points which weigh negatively for a very gradual introduction of the single currency. The intermediate solution is therefore a sequence of a small number of discrete sequential stages. The process of setting deadlines may be helpful to accelerate the preparations. However, the time horizons must not be too great, for this will give rise to the danger of time blockages and delays.

* The Group sees advantages in a wide geographical coverage of technical preparations. If technical preparations start simultaneously, divergence between member states may be minimised. The final report will draw up a list of measures which should be taken early in the interest of cohesion of those member states which might be joining stage III at a later point in time.

* An important factor of the changeover is dual pricing. This is unavoidable in the transition period when citizens have to adjust to the new nominal value system.
  Nevertheless its extent and deviation should be limited as much as possible.

5. The sooner official bodies start submitting relevant information, the sooner the private sector can start preparation

The strongest impetus for the technical preparations leading to full Economic and Monetary Union comes from the Treaty itself. Businesses would therefore be prudent to start preparing for the single currency. At the time of presenting this interim report it is particularly desirable to underline an early and continuing exchange of information between authorities and the private sector. Both must proceed hand in hand. The members of the Group understand that formal decisions concerning stage III are feasible only when the Council has examined the reports of the Commission and the European Monetary Institute. That will probably not be earlier than six months before the envisaged start of stage III, and even then, some decisions can only be taken after the beginning of stage III. This should however not prevent authorities from giving advanced information on their intentions in the legal and technical field as soon as possible. The private sector needs this to start the necessary preparations. Early decisions are indispensable on the main features of ECU notes and coins. The current thinking and latest opinion in this field means decisions should be expected very soon.
The Group recommends the establishment of national working parties of leading figures from government, central banks, banks, non-banks and consumers, in order to prepare implementation.

It would also be extremely helpful to know when, after the start of stage III, ECU notes and coins will enter circulation. Of similar importance is the indication from the European Monetary Institute at what time the European Central Bank will begin to conduct the single monetary policy in ECU. An ideal solution would be for the physical introduction of ECU notes and coins to be on the same date. In the opinion of the Group the introduction of ECU notes and coins should not take place later than six months after the beginning of the single monetary policy in ECU (see paragraph 6).

All-in-all the technical preparations by the private sector cannot be dissociated from those of governments and community institutions. In many fields, official indications are needed to give full momentum to planning processes. If this is the case the Group is acutely conscious that there is a particular responsibility placed on the shoulders of the private sector to advance as far and as fast as possible, once the necessary technical decisions have been taken by public authorities. The Group will itself encourage wider initiative by the aforementioned meetings.

6. The ECU as a currency in its own right

* Right from the start of stage III the ECU will be a currency in its own right managed by the independent European Central Bank. Its character will therefore be very different from the present ECU which is a private market instrument constructed as a basket. However, according to the Treaty initial continuity between the ECU basket and the new single currency will be given because the external value of the two will be the same at the moment of the changeover. Good preparation will be important to ensure that the public at large fully understands the change from a private market instrument to a currency. Moreover, effective preparation will also serve to avoid market disruptions particularly in the period immediately before the start of stage III.

* There is no need for today's ECU to continue to exist, nor is there a need to construct a new basket. This will hold true despite the fact that not all member countries will join stage III from the first. The Group takes the view that the function of the present private ECU basket will be taken over by the single currency of the Monetary Union.

* The Group has pondered as to when banks should change their accounting systems from national currencies to the new single currency. This will be one of the key issues to which the Group will have to return in its final report. Discussions have been marked by two questions: first, the timing of the start of the European Central Bank monetary policy in ECU; secondly, the timing of the introduction of ECU notes and coins after the beginning of stage III.

  Of crucial importance for the changeover of accounting systems is that banks and other financial intermediaries must know well in advance the starting date of stage III and the decision of the European Central Bank whether it will start conducting monetary policy operations immediately in ECU. According to the letter of the Treaty there is no obligation for the European Central Bank to use ECU right from the beginning of stage III. In the spirit of the Treaty this might be a preferable assumption.
  In addition the acceptability and credibility of the new currency demands for a relatively quick changeover by the European Central Bank. Banks and financial intermediaries understand however that there are contrary arguments. For the European Central Bank it is vitally important that banking and international payment systems are fully ready to facilitate monetary policy. If such systems are ill-prepared, friction will occur in the transmission mechanism of monetary policy, and delays would be the inevitable outcome. Thus, the shared interest in this domain is clear. The Group would welcome to learn the intentions from the European Monetary Institute soon.

  If the European Central Bank begins to use the ECU for monetary policy operations before the introduction of ECU notes and coins, there will be an interim period during which banks will face the problem of working mainly in ECU at one level (financial markets) while individual customers still want the bulk of transactions to be in national currencies. The challenge therefore is to find the point within the banking system at which the conversion between ECU and national currencies should be made, thus minimising costs and avoiding dual accounting. The Group's working assumption is that this conversion would be best achieved at the external frontier between the banks and customers who wanted to remain with national currencies.

  In practice this would mean that at the beginning of stage III, banks would convert all internal systems to working entirely in ECUs. This would mean that 90% of transactions would be in ECUs. Some sophisticated customers (large companies and so forth) might find it cost-effective to go over to ECUs at the same time. But individual customers would continue, as before, to write cheques, make deposits etc. in national currencies. As soon as these transactions entered the banking systems they would be automatically transformed into ECUs (using the fixed conversion rates) and then processed through the banks internal systems in ECUs. Statement information supplied to customers would show the national currency value of transactions, and some (perhaps more limited) ECU equivalents to aid familiarisation.

  The second stage of the process would be when national currency notes and coins were replaced by ECU notes and coins, at which point bank customers would go over entirely to using ECUs.
  It is important to note that the longer this intermediate period lasts, the higher additional administrative costs associated with this transition would go. Moreover, credibility and acceptability problems could arise with the public at large.
  These could be avoided by reducing the period between the start of monetary policy in ECUs and the physical introduction of ECU notes and coins to a minimum. The most preferable option would be a changeover in both domains on the same day.
  This situation could be reached when the decisions on ECU notes and coins and the production of especially coins, are taken well in advance.

The alternative may be for cost aspects to determine the attitude of those who have to change large scale systems. The Expert Group therefore feels it appropriate to sound a note of caution. There is a clear danger that the costs will be wrongly presented and misunderstood. For that reason, there is a clear need to make the changeover so robust that it is effectively an optimum technical solution. Costs will be part of the economic change and the benefits which will derive from it, so that they will become justifiable.
Deviation from such an optimum course shall, however, completely change the cost dimension.

Apart from technical difficulties and costs, there are also the issues of acceptability and credibility of the ECU by the public at large (see annex on Two-stage introduction of the ECU).

* The logic of the Maastricht Treaty supports the conversion into the single currency of outstanding contracts denominated in the currencies of the countries which enter stage III and those denominated in the basket ECU. Care should be taken to avoid a calling of contracts.

  As a working hypothesis the Group has considered that the changeover affects only the denomination and not the substance of a contract. If this assumption is also shared by public authorities, it would be helpful for them to make this known to markets in order to give expectations a firm basis. Another way of acting against the calling of contacts is the introduction of a specific clause. The Commission has already incorporated a 'monetary union clause' in bonds and loans issued by the Communities. It has also issued a recommendation to contracting parties concerning the legal treatment of the ECU and contracts denominated in ECU in view of the introduction of the single European currency.

  The Group is considering the prepartion of an ECU-clause for new Eurobond emissions. A regulation on this matter at national law-level seems, however, inevitable.

* Rounding (the process of rounding up prices to the smallest denomination of ECU coins) as a consequence of the changeover to the single currency may at first sight appear as a problem. It was however argued that they are already a widespread fact of life easily tackled by markets under present conditions. The changeover may slightly accentuate rounding-orientated problems but it would not create new problems. Any conversion into money of an obligation expressed in interest rates or tax rates requires rounding done by simple calculation or by machines.

* Technical preparation should extend to all member countries of the Union. To the extent that not all countries join stage III at the same time, exchange rate co-operation must be ensured. Some form of Exchange Rate Mechanism relationship could serve this purpose.

* The timing of the introduction of notes and coins of the new single currency will be of symbolic significance for the technical preparation of Monetary Union. Notes and coins will bring high-profile visibility to the Monetary Union. Despite the growing extension of book money and modern payment techniques the political weight of notes and coins remains heavy. They will signal that Monetary Union has been constructed and is unlikely to be reversed. The physical availability and the general introduction of notes and coins will be the coronation of the changeover. A whole series of technical changes will then have to be finished for accounting, pricing, vending machines etc. Technical preparations of Mints could start relatively early if the size, weight and quality of the metal is pre-selected. These could be processed in advance of the final decisions leaving the specifications of the nominal value open.

* The Group has asked itself whether comprehensive measures to establish legal tender status are necessary. The conclusion reached was that legal tender status deserves attention but that this is more second-order issue (see annex on Legal tender). There is no doubt, however, that the single currency ECU must be given the status of legal tender at the latest at the time of its physical introduction. By contrast, national currencies do not require this status in all countries of the Monetary Union. It would be a fallacy to expect from the status of legal tender that the ECU will be perceived as a currency of higher quality.

7. Outline of the specific points which require further examination

* The Group's examination of the outstanding issues will be influenced by three considerations:

  First, technical preparation of the changeover must reach the European business sector as soon as possible. Ultimately, success will be measured by how detailed domestic preparation has been. Therefore, the Group appeals to all Europeans to become involved and not just groups and organisations. All those who receive and spend money must prepare for the day when national currencies will change to the single currency of the Monetary Union. Those who act at the higher part of the economic and social pyramid have a particular responsibility to encourage the process of technical preparations: banks, financial institutions, enterprises, administrations, professional representatives etc. The Group represents in a nutshell some of these sectors and intends to increase its activities and radiation through hearings.

  The second overriding consideration - this time addressed to markets - runs through all the Group's deliberations. When Monetary Union materialises there are enormous economic opportunities deriving from the single currency. A change of historic dimension may be accompanied by some loss of business. But much more is to be gained and those who invest in time for the future will grasp these opportunities.

  Third, and it cannot be repeated too often, technical preparations for Monetary Union are essential and can no longer be avoided. Following ratification of the Maastricht Treaty it is part and parcel of the 'economic constitution' of the European Community.
  Non-preparation will soon become a very costly and imprudent policy.

* In general one should as soon as possible invest in steps and systems oriented to the single currency concept. Besides which, some investment is necessary for technical reasons. It is therefore not appropriate to wait with other preparations until new systems exist (for example Union-wide clearing and payment systems).

* The preparation of the re-denomination of loans and deposits into ECUs, is a process which can be done well in advance.

* The preparation of communication and training can already build on past experience.
  The Group is considering whether there is a need for a communication policy at European level, and if so, how it should complement activity in member states, taking account of specific national circumstances.

* The cost aspects and the need to make the changeover so technically robust that it comes close to an optimal technical solution will be further examined in the hearings of the Group.

  The Group points out that occasionally the description of 'costs' is inaccurate; in fact, these are investments which pay for the future. Those who do not participate in time in the changeover of technology might save on short term costs. However, they may soon be confronted with the consequences of under-investment compared with their competitors.

* A further examination of the problem for banks and financial markets related to the changeover to the ECU will take place.

* The introduction of chip cards as a means of payment deserves stimulation.

* There are numerous points to be clarified as regards to the technical preparations by industrial and commercial companies. This interim report has only touched on some, such as clarification of the impact on accounting and book-keeping systems, updating software and implications for treasury management.

* Special attention should be given to a timely preparation of cash handling, in particular cash registers for ECU coins and notes by retailers and by commercial companies making vending machines and electronic payments systems.

* Promoting the awareness among the public at large will be a main preoccupation of the Group in the coming months.

  The technical preparation of the changeover requires early feedback from those directly concerned and full

communication. With this in mind meetings will be organised with consumers, retailers, small and medium sized enterprises, vending machine operators, communication experts etc.
The principal aims of the meetings are:

* to reduce uncertainty and potential fears through good effective information;
* to widen the circle of preparation beyond officialdom and to reassure politicians that interest groups will properly participate;
* to learn the specific needs of those involved and to enter into a dialogue with them;
* to explore the instruments which should be chosen for increasing the awareness of the public at large;
* to test and deepen the findings of this interim report;
* to facilitate co-ordination of the private sector's practical measures for the changeover to the single currency.

Further information and a copy of the Group's questionnaire are available at the address of the Chairman of the Expert Group on the changeover to the single currency (CEES MAAS, Strawinskylaan 2631, 1077 ZZ Amsterdam). The final report will incorporate the findings of the hearings.

For the Expert Group
Cees Maas, Chairman
20 January 1995

TWO-STAGE INTRODUCTION OF THE ECU

This note is intended to present the practical and operational implications of an option for the introduction of the ECU as the single currency. It takes as its starting point the assumption that the European System of Central Banks will begin to use the ECU for monetary policy operations before notes and coins in ECU are physically in circulation. In the interim period, commercial banks and perhaps certain other financial institutions would need to deal with the central bank in ECU while maintaining systems for individual customers capable of processing transactions denominated in national currencies. This note describes how, under this assumption, the transition to the single currency might be organised so as to minimise the costs involved.

A. First Step: the changeover for the monetary and banking sectors.

(i) banks and financial institutions

At the time when the ESCB begins to operate its monetary policy in ECU, the banking sector would change over at once and totally to operating in ECU. The principle is as follows: everything which enters the banks is immediately transformed into ECU and managed in ECU (accounts, management of accounts, inter bank transactions), but relations and communication with clients will continue in national currencies. In practice:

* the day before the changeover, banks and financial institutions would redenominate the accounts of all their clients (assets and liabilities), in ECU at the fixed conversion rate established on the first day of the third stage. The next working day, the market would reopen and operate henceforth in ECU. If the transition were to take place over a (long) weekend, there would be more time for this process;

* from that day, all operations passing through national payment systems and all banking instruments would be denominated in ECU, national currencies would be excluded;

* except for notes and coins, which would continue to exist in national currencies and be the only legal tender. Cheques could continue to be written in national currencies by final operators or in ECU by those operators which have chosen to change to the ECU, however, even these will be handled and transmitted by the banks in terms of ECU (see below).

So, for a limited period, banks would have systems capable of working as follows:

* *deposits (or withdrawals):*
  A client deposits in a bank cash or a cheque denominated in national currency. The bank (its machine) will immediately transform the sum deposited into ECU.

  Where a client deposits a cheque in national currency the same procedure would be followed and the teller would print the value in ECU on the cheque, so as to facilitate its automatic treatment. (This would not, of course, prevent banks from processing ECU cheques as well.)

  The statement information would be denominated in national currency (see also below).

* *withdrawal of cash from an ATM:*
  The client receives notes denominated in national currency. The ECU value of this amount is immediately calculated and debited from the balance outstanding on the account.

* *transfers:*
  A client wishes to transfer a certain amount in national currency. The bank teller converts the amount into ECU and effects the transfer in ECU. The same account management procedures and information for the client are undertaken as above.

* *statements:*
  Clients would continue to receive statements with full information in national currencies. To help them become familiar with the use and value of the ECU, the equivalent ECU values might also be shown for all or some of the information (e.g. daily balances).

This approach has been developed in the light of discussions with a number of banks and against the background of a number of analyses carried out by groups involving bank representatives (AMUE, EBA etc.).

For operational reasons, it would probably be necessary for all banks of the participting Member States to adopt this system together and this would require legislation. Otherwise there could be difficulties with payment systems and other inter-bank links. Even if it were possible to devise arrangements which were optional at the level of individual banks, it might be difficult for commercial reasons for a bank to remain with national currency if a significant proportion of other banks in its domestic market had gone over to using the ECU.

(ii) Companies and administrations

The situation for individual companies and administrations would be rather different. According to their commercial and operational circumstances it would be open to them to choose between:

* adopting the ECU at the same time as the banks for all internal purposes. In this case they would maintain relations in ECU with the banks and other companies and administrations which had also adopted the ECU. However, direct contacts with individuals (including customers, staff salary statements) and other bodies which had remained using national currencies would continue to be denominated in national currencies.

* continuing to operate in national currency until the full introduction of the ECU for the general public (see below).

B. Second step: changeover for the public and those sectors which have chosen to operate in national currency during the first step

There are two arguments in favour of fixing the date for the introduction of ECU for the general public well in advance:

* a certain time will be needed after decisions have been taken on exactly which member states will participate in stage 3 of EMU for the vitally important task of raising awareness and preparing public opinion for the implications of the introduction of the single currency;

* equally, time is needed for the preparation and physical introduction of ECU notes and coins and the related changes to machines which handle cash. Until there is certainty over which member states will participate in the monetary union, companies and probably even Governments in borderline countries will be reluctant to invest heavily in the necessary preparations.

The process of informing citizens implies that participating Member States and conversion rates are known in advance. The move to the single currency implies a definite change of habit for each citizen. To minimise the negative consequences of the changeover, it would be appropriate to avoid anything that could lead to confusion. Confusion could arise if people were obliged to use different currencies for different purposes. For example:

* if one currency was used as a unit of account and one as a means of payment (prices quoted in ECU and payment in national currency, or vice versa);

* if the unit of account used by individuals (salaries and social benefits would continue to be paid in national currency) was not the same as the unit of payment for goods and services (which would be the ECU, whether or not in parallel with the national currency).

To avoid this confusion, the changeover would require the totality of ECU notes and coins necessary for the orderly function of an ECU system to be made available to the public on a given day. On the same day, all revenues (salaries, social benefits) would be expressed in terms of and paid in ECU, and prices would be quoted in ECU. Banks would disapply the systems that had been introduced in the first stage for converting between national currencies and the ECU in their relations with individual customers and start working directly in ECU.

For the changeover itself, there are probably two possible approaches:

* notes and coins in national currency would, on one day, be demonetised (although exchangeable during a certain period of time, to be defined, against the ECU);

* notes and coins in national currency would retain their legal status in parallel with the ECU during the time necessary to adapt vending machines and to withdraw these notes and coins from circulation.

This analysis has been based on the hypothesis that notes and coins denominated in ECU will only be available some time later than the start of the monetary policy operations in ECU by the ESCB. However, in the interests of providing the most technically robust solution possible, the optimal approach to the introduction of the single currency might be achieved if the two steps outlined above could be brought as close together as possible. This would imply that ECU notes and coins should be introduced as soon as possible after the start of monetary policy operations in ECU - if not on the same day, within a very short period.

LEGAL TENDER

1. At the start of stage 3 of EMU, irrevocably fixed conversion rates will be set for participating national currencies against the ECU. At the same time the ECU will emerge as a currency in its own right (Article 109l(4) of the Treaty). However it does not follow automatically from this that ECU bank notes and coins will necessarily be in circulation from day one. Article 109l(4) also provides for the Council to adopt measures for the "rapid introduction of the ECU as the single currency". The Treaty therefore allows for the possibility of a period at the start of stage 3 while national currencies continue to exist. Depending on the scenario adopted for the introduction of the single currency, it may be necessary to decide how far national currencies and the ECU will be interchangeable. So for example:

* should people be able to use ECU's at a practical level (i.e. will ECU bank notes and coins exist, will there be effective payment systems for inter-bank transfers in ECU)?

* should it be possible to use the national currency of another member state which is participating in stage 3? What will be the legal position affecting such transactions?

The present status of Legal Tender

2. The concept of legal tender provides a logical starting point for these questions because it underpins the general public perception of what constitutes money. For example there is a presumption that all prices should be quoted in the same currency that is used for the definition of legal tender and that adequate payment systems should be available to allow transactions to be settled easily.

3. However it is important to recognise that legal tender is a fairly narrow concept with very little practical relevance. It is defined in national legislation and, although there are slight national variations, it generally means the form of payment which a creditor is legally obliged to accept in settlement of a debt (unless the parties have specifically agreed some other form of payment). What constitutes legal tender - for example, whether it covers notes and coins or other means of payment - varies more widely between member states although in all member states it covers bank notes and coins (subject to certain limits). In practice, of course, the majority of transactions are executed in other means of payment and legal action to enforce payment in legal tender is extremely rare.

4. It is also important to recognise the distinction between legal tender and a currency. Legal tender refers to concrete payment instruments. In contrast a currency is a numeraire of a country's monetary system.

Legal tender and the ECU

5. Article 105a(1)) of the Treaty provides that:

"The ECB shall have the exclusive right to authorise the issue of banknotes within the Community. The ECB and the national central banks may issue such notes. The banknotes issued by the national central banks and the ECB shall be the only such notes to have the status of legal tender in the Community".

As a general rule, ECU notes and coins (whether issued directly by the ECB or by national central banks) should be legal tender throughout the single currency area, whereas notes and coins denominated in national currencies should be legal tender only in the country of issue. For practical reasons, a situation where payment instruments in all national currencies and the ECU were legal tender in all participating member states would be difficult to manage.

6. It may be useful to examine specific assumptions for the introduction of the ECU as the single currency, each with implications for the legal tender status of payment instruments:

* the position before ECU notes physically exist. Under Article 109l, the ECU would be a currency in its own right. However notes and coins denominated in national currencies would continue in circulation;

* in the case of phased introduction of the ECU as the single currency, the situation of ECU notes (issued either by the ECB or some or all national central banks) circulating alongside notes in national currencies;

* the final situation once ECU notes (issued by national central banks and possibly the ECB) have fully replaced national currencies.

7. In the first case, it will clearly not be necessary to amend national definitions of legal tender to include ECU notes before they physically exist. The only question therefore is whether all national notes should be legal tender in all participating countries. As noted above, this would lead to public confusion.

8. The second case of parallel circulation of ECU notes and notes in national currencies is most difficult. If it was decided that all ECU notes issued by the ECB and national central banks were automatically legal tender in all countries, this might require changes to national definitions of legal tender.

9. The final case would be fairly straightforward - ECU notes issued by the ECB and national central banks would replace notes in national currencies for the purposes of legal tender (as for all other purposes). The only conceivable question at that stage might be the position of ECU notes issued by national central banks in other member states if there were national variations - for example would "Irish" ECU notes be legal tender in France? The logical answer would be that all ECU notes issued by the ESCB should be legal tender everywhere.

10. Similar questions arise with coins although the Treaty is silent on their position in relation to legal tender. Under Article 105a(2), all coins will be issued by member states (subject to ECB approval of overall volumes) with harmonisation of characteristics necessary to ensure smooth circulation (denominations and technical specifications). Since most member states' definitions of legal tender include coins although many impose limits on the volume which can be used for a given transaction, national legislation in most member states would presumably need to be revised.

11. The text of Article 105a also leaves open the possibility of other payment instruments falling within the definition of legal tender. Developments in the financial services industry and in particular technological progress mean that payments in notes and coins are used for an increasingly small proportion of transactions. In most countries, measures to combat money laundering even introduce certain upper limits on transactions which may be settled in cash. The result is a trend towards broader definitions of legal payment means encompassing certain bank transfers (and in the Netherlands the inclusion of bank deposits within the definition of legal tender). As with coins (see above), there may be a need for changes to national provisions of this type arising from the introduction of the ECU.

EUROPEAN COMMISSION

APPENDIX I

HENNING CHRISTOPHERSEN
VICE PRESIDENT

Brussels, 11 May 1994

- 517 -

Dear Mr. Maas,

The Commission adopted the attached Memorandum on 5th April, and decided to appoint a special group of experts to evaluate the practical problems linked to the introduction of the single currency, principally:

- practical consequences for industrial and commercial enterprises;
- implications for general government and the public sector;
- changes within the banking and financial sector;
- implications for individuals and consumers.

President Delors, Mr. Vanni d'Archirafi and I are very pleased that you have agreed to chair this Group. The Memorandum contains, on pages 10 and 11, a list of the issues relevant for the Group. I would like to underline the main points of the mandate:

- Firstly, the work of the Group should be to take note of existing studies, to ensure that the points of view of different economic sectors involved are taken into account and to formulate orientations and recommendations where appropriate for the authorities and the private sector.

- Secondly, the work of the Group need not to be exhaustive but should focus on what it sees as the most important issues; the emphasis should be on the private sector, taking full account of all sectors of industry and consumer interests;

- Thirdly, the Group's work will have to be fully consistent with the provisions of the Maastricht Treaty (especially the Articles related to the passage to stage 3 and to the introduction of the single currency); in particular, it will have to respect fully the role of the European Monetary Institute, and the mandate which has just been given to the Mint Directors.

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From our contacts, I appreciate for the Group to produce a report of first findings before the end of the year 1994, and to have a preliminary (oral) report from you by 31st October at the latest.

The Commission services are ready to offer you every assistance including participation in the secretariat of the Group.

In our preparatory discussion, you presented in a kind of auto-memorandum some points which would guide your chairmanship. I understand them as one element of steering the work of the group to good success.

Yours sincerely,

Memorandum on the Group changeover to the Single Currency

Mandate

1. The Work of the Group has to become a success. The mandate should be clear enough to guarantee such a success. The Chairman has to give its final approval to the mandate.

2. The mandate should mainly focus on those transitional items that are relevant to the (private) financial and banking sector.

3. The mandate should not be a shopping list but a well chosen selection of topics that are relevant to be studied on short notice and where policy recommendations should be given to the Commission. First things first.

4. The mandate, the composition and the outcome of the study have to make it possible to introduce a Single Currency of limited composition, i.e. a Single Currency of a limited group of member states.

Composition

5. Members should be of great personal and therefore political weight. In principle there should be no "fonctionnaires" being members of the Group.

6. The secretariat of the Group should be composed of two people. One of course of the Commission. One appointed on his personal capacity and for practical reasons close to the Chairman.

7. There should be no vice-chairman. Necessary arrangements can be made on an ad hoc basis within the Group.

8. Someone from the EMI should be invited as observer (not as a member) of the Group. Also the Secretary of the Monetary Committee should be invited as observer.

9. There is no need for membership (or observer status) for the Economic and Social Committee.

10. The members will be selected in full consultation with and in agreement with the Chairman.

Relation with other institutions

11. The intention not to overlap with the work of the Council, the EMI and the Monetary Committee should be made explicit to them.

12. Even stronger. It should be made clear to the abovementioned institutions that the work of the Group will be done in good coordination and good cooperation with them.

13. The Group will not fall under the Commitology. That does not include that the Chairman can accept f.e. invitations of the European Parliament, the Council, the EMI or the Monetary Committee to give an (oral) status report directly to them.

Information

14. Before results of the study are transmitted to the Commission there will be no information to the public without consent of the Chairman.

On the basis of these points I am confident that the Group can successfully contribute to the objectives of the Commission.

Cees Maas
14 april 1994

LIST OF MEMBERS AND OBSERVERS OF THE EXPERT GROUP ON THE CHANGEOVER TO THE SINGLE CURRENCY

President

Drs. ing. Cees MAAS	Member Executive Board ING Group Amsterdam

Full Members:

Mr. John ASTRUP BERTELSEN	Président FENA - Fédération Européenne du Négoce de l'Ameublement Aalborg
Mrs. Anna BARTOLINI	Pésidente Comitato Difesa Consumatori Milan
Mr. Graham BISHOP	Advisor European Financial Affairs Salomon Brothers Interantional Limited London
Mr. le Doyen Antonio BORGES	Rector INSEAD Fontainebleau
Vicomte Etienne DAVIGNON	Président Société Générale de Belgique Brussels
Dr. Peter GLOYSTEIN	Member Board of Managing Directors Commerzbank A.G Dusseldorf
Prof. Dr. Hugo J. HAHN	Alte Universität Würzburg
Mr. Tom HARDIMAN	Chairman IBM Ireland Dublin
Mr. Philippe LAGAYETTE	Directeur Général Caisse des dépots et consignations Paris
Mr. Manuel OTERO LUNA	President CEPYME - Confederación Española de la Pequeña Y Mediana Empresa Madrid

Mrs. Cathérine MAUSSION	Journalist Paris
Prof. David G. MAYES	Chief Manager Economic Department Reserve Bank of New Zealand Wellington

Observers:

Mr. Jean-Michel DINAND	European Monetary Institute Frankfurt
Mr. Guenther GROSCHE	General Secretary Monetary Committee Brussels
Dr. Nicola IELPO	Mint Director Rome

Co-Secretary

Mr. Frederik A. VON DEWALL	Chief Economist ING Group Amsterdam
Mr. Christophe BOURDILLON	Chargé de mission European Commission Brussels

Commission

Mr. Giovanni RAVASIO	Director General European Commission Brussels

TREATY ON EUROPEAN UNION ARTICLES RELATING TO THE ECU

PROVISIONS AMENDING THE TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY WITH A VIEW TO ESTABLISHING THE EUROPEAN COMMUNITY

Article 3 A
2. Concurrently with the foregoing, and as provided in this Treaty and in accordance with the timetable and the procedures set out therein, these activities shall include the irrevocable fixing of exchange rates leading to the introduction of a single currency, the ECU, (...).

Article 105 A
2. The Member States may issue coins subject to approval by the ECB of the volume of the issue. The Council may, acting in accordance with the procedure referred to in Article 189c and after consulting the ECB, adopt measures to harmonize the denominations and technical specifications of all coins intended for circulation to the extent necessary to permit their smooth circulation within the Community.

Article 109
1. By way of derogation from Article 228, the Council may, acting unanimously on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, after consulting the European Parliament, in accordance with the procedure in paragraph 3 for determining the arrangements, conclude formal agreements on an exchange rate system for the ECU in relation to non-Community currencies. (...). The President of the Council shall inform the European Parliament of the adoption, adjustment or abandonment of the ECU central rates.

Article 109 F
1. At the start of the second stage, a European Monetary Institute (hereinafter referred to as "EMI") shall be established and take up its duties; (...).

2. The EMI shall: (...)
- facilitate the use of the ECU and oversee its development, including the smooth functioning of the ECU clearing system.

3.For the preparation of the third stage, the EMI shall: (...)
-supervise the technical preparation of ECU bank notes.

Article 109G
The currency composition of the ECU basket shall not be changed. From the start of the third stage, the value of the ECU shall be irrevocably fixed in accordance with Article 109l(4).

Article 109 J
1. The Commission and the EMI shall report to the Council on the progress made in the fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union.(...).
(...). The reports of the Commission and the EMI shall also take account of the development of the ECU, the results of the integration of markets (...).

Article 109 L
1. Immediately after the decision on the date for the beginning of the third stage has been taken in accordance with Article 109j(3), or, as the case may be, immediately after 1 July 1998:- the Council shall adopt the provisions referred to in Article 106(6): (...).

4. At the starting date of the third stage, the Council shall, acting with the unanimity of the Member States without derogation, on a proposal from the Commission and after consulting the ECB, adopt the conversion rates at which their currencies shall be irrevocably fixed and at which irrevocably fixed rate the ECU shall be substituted for these currencies, and the ECU will become a currency in its own right. This measure shall by itself not modify the external value of the ECU. The Council shall, acting according to the same procedure, also take the other measures necessary for the rapid introduction of the ECU as the single currency of those Member States.

5. If it is decided, according to the procedure set out in Article 109k(2), to abrogate a derogation, the Council shall, acting with the unanimity of the Member States without a derogation and the Member State concerned, on a proposal from the Commission and after consulting the ECB, adopt the rate at which the ECU shall be substituted for the currency of the Member State concerned, and take the other measures necessary for the introduction of the ECU as the single currency in the Member State concerned.

Article 109 M

1. Until the beginning of the third stage, each Member State shall treat its exchange rate policy as a matter of common interest. In doing so, Member States shall take account of the experience acquired in cooperation within the framework of the European Monetary System (EMS) and in developing the ECU, and shall respect existing powers in this field.

PROTOCOL ON THE STATUTE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS AND OF THE EUROPEAN CENTRAL BANK

Article 28 - Capital of the ECB

28.1 The capital of the ECB, which shall become operational upon its establishment, shall be ECU 5 000 million. (...).

Article 30 - Transfer of foreign reserve assets to the ECB

30.1 Without prejudice to Article 28, the ECB shall be provided by the national central banks with foreign reserve assets, other than Member States' currencies, ECUs, IMF reserve positions and SDRs, up to an amount equivalent to ECU 50 000 million. (...).

PROTOCOL ON THE STATUTE OF THE EUROPEAN MONETARY INSTITUTE

Article 2 - Objectives

The EMI shall contribute to the realization of the conditions necessary for the transition to the third stage of Economic and Monetary Union, in particular by: (...)
- overseeing the development of the ECU.

Article 4 - Primary tasks

4.1 In accordance with Article 109f(2) of this Treaty, the EMI shall: (...)
- facilitate the use of the ECU and oversee its development, including the smooth functioning of the ECU clearing system..

4.2. (...) In accordance with Article 109f(3) of this Treaty, the EMI shall in particular:
- supervise the technical preparation of ECU bank notes.

Article 12 - Currency denomination

The operations of the EMI shall be expressed in ECUs.

AT-A-GLANCE SUMMARY

THE PREPARATION OF THE CHANGEOVER TO THE SINGLE EUROPEAN CURRENCY (INTERIM REPORT MAAS GROUP)

Introduction

In May 1994, the European Commission gave a mandate to this Expert Group to study and promote the technical preparations throughout the private sector for the changeover from national to the single currency. This changeover represents a challenge of historical proportions surpassing everything so far done in monetary integration. This new currency unit will become the European Union's unique expression of economic progress, of price stability, and its successful integration and management will rank amongst the Union's greatest achievements.

The Expert Group is fully aware that a change of this magnitude must have full support of citizens and businesses in participating states. As they will experience not inconsiderable change in their daily activities and bear an inevitable expense, they must therefore be convinced that the changeover will be successful because it has been well planned - balancing ease of change with minimal costs.
The Group has conducted its work within the legal framework, as well as the spirit, of the Maastricht Treaty. This Treaty lays down binding legal requirements for the path to the single currency.

The Chairman of the Expert Group, mr. Cees Maas, of the executive board of Dutch banking and insurance company ING Group, delivered an oral report to the European Commission in November 1994. This written interim report, based on five meetings, is also addressed to the Commission, but, in practice, the audience is much wider this time: consumers, banks, companies etc.

In the months to come, the Group will seek the reactions and opinions from all relevant sectors of society on the first thoughts, concepts and assumptions it has delivered in this report. Face to face meetings with a host of relevant bodies and parties will play an important role in the next stage of the work of the Group and will lead to the writing of a second report before mid-year.

The main messages

- The process of Economic and Monetary Union (EMU) is underway. As a result of this ongoing process, there is a clear-cut need for the private sector to be adequately prepared for its ramifications. It is therefore of vital importance for awareness to be raised amongst consumers using effective information campaigns.

- The possibility of a 'big bang', one-off or instantaneous introduction of all the elements that will go to make up a single European currency is most unlikely, on the first day of stage III of EMU, even if this date will be 1 January 1999 (1 January 1997 being the first possible date for the start of EMU).

- The new single currency should be as strong, while entering EMU, as the strongest national currency. This will maximise popular support.

- There is no need for a continuation of the present basket ECU.

- Public authorities and the private sector should start a on-going dialogue on the main technical aspects of notes and coins of the new single currency, the timing of the physical introduction of the new monetary unit. Moreover, they should discuss the point at which the European Central Bank will start using this new unit for monetary policy purposes. The Expert Group would welcome a public statement on these issues as soon as possible.

- There is a clear need to make the process of changeover so robust that it effectively becomes an optimum technical solution. Furthermore, the time between the start of monetary policy operations in ECU and the physical introduction of ECU notes and coins should be as short as possible. This could lead to reductions in costs (by avoiding dual accounting or transitional systems) and should reduce the danger of public confusion and the associated negative effects on credibility and acceptability of the single currency.