

BETTER BY DESIGN

TREASURERS SHOULD TAKE NOTE OF ADVANCE OPERATIONAL PLANNING FOR UK EURO CHANGEOVER. **SHEELAGH KILLEN** INTRODUCES AN IMPORTANT NEW GUIDE, AN EXTRACT OF WHICH IS REPRODUCED HERE BY KIND PERMISSION OF THE **BBA** AND **APACS**.

Treasurers of companies with significant sterling activities will already have developed a solid understanding of the potential business and financial implications of any future UK entry into the European Economic and Monetary Union (EMU). Yet many, conscious that no firm decision on euro entry has been made or even scheduled, will not yet have prioritised detailed operational analysis of changeover processes. It could be costly however to overlook the fact that, while the government still pursues a 'prepare and decide' strategy to euro adoption, the timetable for conversion following a national referendum is likely to be challenging and that advance planning may significantly reduce operational risks connected with euro transition. Treasurers should therefore ensure that they have an awareness of the procedural groundwork for potential UK entry into EMU which is already being laid by government and the financial services industry. This will provide a valuable starting point for companies' strategies for managing changeover risks.

A key example of UK changeover preparatory work being undertaken is the recent Outline Euro Blueprint produced jointly by the British Bankers Association (BBA) and Association for Payment Clearing Services (APACS). The document sets out the steps which would be necessary in the managed process designed to take the UK from an entry decision to the adoption of the euro in the wholesale markets, retail changeover and, finally, introduction of euro notes and coins.

The Blueprint is published in loose-leaf form so that it may form a working document to be updated over time to take account of government announcements, input from the wider commercial community and subsequent refinements to preparation plans. It is an essential resource for the treasurer looking at the operational aspects of potential UK transition to the euro in that it covers the expected timing and sequence of the conversion of a variety of banking and other financial services to the new currency. To provide a 'taster' of some of the extensive guidance provided by the Outline Blueprint, an excerpt is reproduced below by kind permission of the BBA. Additional specialist checklists are available within the Blueprint for retailers, utilities and local authorities.

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The *UK Banking industry Outline Euro Blueprint* reflects current thinking on key issues arising from a changeover in the UK¹. It is based on the extensive experience of the banking industry in major change programmes and draws heavily on the practical experience of those within continental Europe and the UK, in all sectors, who have been actively involved in the first wave changeover.

It is intended to help those planning for UK entry to the euro. It maps out how the banking industry would deliver its part of the entry process and documents conclusions reached about specific aspects of that delivery. For those in the retail banking industry it provides guidance on each of the key areas to be addressed during a changeover. For those who use retail banking services including corporate, SME and personal customers it provides details of how and when specific euro facilities would be made available.

In order to reconcile the banking industry's need for adequate preparation time with the government's target for completing a changeover, the banks have based their planning on a phased approach that can be set against the illustrative timetable set out by the government.

The Outline Euro Blueprint illustrates how a changeover could be completed within the government's target timetable (see *Figure 1*).

CONCLUSIONS FROM BANKING INDUSTRY PLANNING WORK

The Blueprint sets out the current industry plan to meet the challenge of completing the process within the illustrative timeframe set out in the Outline National Changeover Plan. The main conclusions from the detailed planning work completed to date are:

A minimum of 2 years would be needed between a government decision and provision of full retail euro facilities at the start of Retail Transition. NB Locking of the exchange rate (UK Entry) could be achieved earlier if a phased approach to transition were to be adopted.

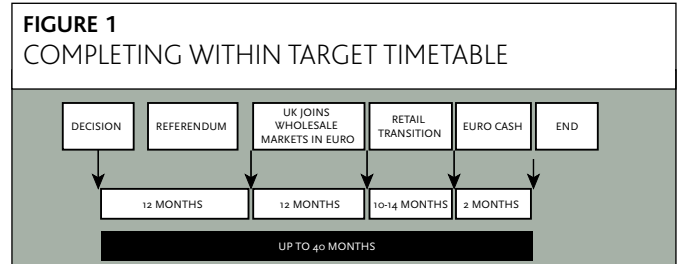


TABLE 1
PROVISION OF BANKING SERVICES TO BUSINESSES UNDER A PHASED TRANSITION

SERVICE	PRE-ENTRY	ENTRY (T) TO START OF RETAIL TRANSITION (RT)	START OF RETAIL TRANSITION (RT) TO E-DAY
Bank Accounts	Primary accounts denominated in sterling.	Primary accounts would remain denominated in sterling.	Individual banks would have different strategies for the conversion of accounts and would advise their customers of specific arrangements in due course. In general, following advice to the customer, mass conversion of accounts would be undertaken automatically towards the end of this phase. This could be as part of a rolling programme.
Cheques drawn in euro	Cheques in euro drawn on UK banks would be processed through the euro cheque clearing but could only be paid in at the business' own bank, as currently. Cheques in euro drawn on non-UK banks would be handled on a negotiation/ collection basis as currently.	Acceptance of euro denominated cheques drawn on UK banks would not be expected to become prevalent, as the cheque guarantee scheme would cover sterling denominated cheques only and businesses would not have converted to euro. Cheques in euro drawn on UK banks would be processed through the euro cheque clearing but could only be paid in at the business' own bank. Cheques in euro drawn on non-UK banks would be handled on a collection/ negotiation basis as currently.	Use of cheques in euro drawn on UK banks would be expected to grow slowly as banks issued euro chequebooks. The cheque guarantee scheme would cover cheques in sterling and euro. Euro credit clearing would be operational and the requirement to pay in cheques in euro drawn on UK banks only at the business' own bank would no longer apply. Cheques in euro drawn on non-UK banks would be handled on a collection/ negotiation basis as currently.
Lodgements to Account	Any euro cheques accepted would have to be separated from the sterling clearing and handled on a manual basis by their bank.	Any euro cheques accepted would have to be separated from the sterling clearing and handled on a manual basis by their bank.	Businesses would be required to sort cheques into sterling and euro streams before paying them in.
Electronic Euro Payments Received	Any euro payments received could be credited to company's sterling account. Conversion would be at the prevailing rate	Any euro payments received could be credited to company's sterling account. Conversion would be at the fixed conversion rate.	Any euro payments received could be credited to company's sterling or euro account. Conversion would be at the fixed conversion rate.
Electronic Sterling Payments Received	No change from current system.	No change from current system	Any sterling payments received could be credited to company's sterling or euro account. Conversion would be at the fixed conversion rate.
Direct Debits (NB Direct debit facilities are not available on all types of accounts.)	Direct debits in sterling only as currently.	Direct debits in sterling only as currently.	Direct debits could be switched to euro at a time chosen by the company, subject to notification to their customers.
Guarantee of Cheques issued by Individuals	Cheque guarantee cards valid with sterling denominated cheques only as currently.	Issue of cheque guarantee cards with dual limits would begin. Cheque guarantee cards would be valid with sterling denominated cheques only.	Cheque guarantee cards would be valid with both sterling and euro cheques to a specified monetary amount irrespective of denomination of limit shown on card.
Treatment of Euro Cash	Euro notes would be treated like any other foreign currency banknotes and be converted at the prevailing exchange rate. Euro coins would not be accepted as currently.	Euro notes would be converted at the fixed conversion rate and a handling charge might be levied. Euro coins would not be accepted as currently.	Euro notes would be converted at the fixed conversion rate and a handling charge might be levied. Euro coins would not be accepted as currently.
Merchant Acquiring	As currently, merchant acquiring would generally be in sterling.	As currently, merchant acquiring would generally be in sterling	Individual banks would have different strategies for the conversion of bank owned point of sale terminals and would advise their customers of specific arrangements in due course.
Payments to Suppliers	A business could pay suppliers, if contractually allowed, in euro if it had a euro account or, if its bank offered the specific service, from a sterling account.	A business could pay suppliers in euro if it had a euro account or, if its bank offered the specific service, from a sterling account.	A business could pay suppliers in sterling or euro from either a sterling or a euro account.
Payroll	Employees would be paid in sterling.	Employees would be paid in sterling.	Employee payroll could be switched to euro at a time of the company's choice.
Dividend Payments	Dividend payments in sterling only.	Dividend payments in sterling only would be strongly preferred.	Dividend payments could be made in sterling or euro.

A further period of 10-14 months would be needed from the commencement of Retail Transition to the introduction of euro notes and coins in the UK.

The key elements of the industry illustrative timetable are:

- **Timetable.** The banking industry timetable is viewed as the minimum necessary to undertake the changes required for each key stage.
- **Prepare and decide.** The banking industry will continue to work with the public and private sector to progress the necessary level of planning. However, no significant investment is being made by the banking industry in advance of a government decision. The decision by government to proceed with UK entry, subject to a referendum, would be a key trigger point for the banking industry, both wholesale and retail institutions, to start final preparations. This early start would be essential to meet the challenging time scales of a UK entry date and the locking of the exchange rate. It is recognised that there would be a potential loss of investment should a positive referendum result not be achieved.
- **Decision to Joining.** The period between a decision to proceed and a referendum would be used to mobilise the resources necessary to proceed with detailed changeover developments. In the event of a positive result in the referendum, the banking industry would then proceed to implement the necessary developments within the payments industry infrastructure as well as those within individual banks.
- **Readiness for Transition.** The banking industry would need to be ready for the beginning of a transition period to meet the requirements of the Outline National Changeover Plan. These requirements include the provision for the conversion of payments from sterling to euro and vice versa and provision of euro facilities for those sectors that would be impacted directly from UK entry, eg wholesale markets and large corporate customers. This is unlike most other sectors of the economy which would only need to be ready by the time euro notes and coin are introduced as legal tender.
- **Phased Approach to a Transition.** It should be noted that adoption of a phased approach to a transition does not offer a way of reducing the government's illustrative timetable. The banking industry considers that such a major programme would require a minimum of three years to complete.
- **Euro Conversion Board.** The maintenance of consumer and market confidence in the changeover process would be an essential factor for all sectors. The phased approach to a changeover would only work if the government took an active lead in managing the changeover process. It is envisaged that this leadership role would be provided through a national Euro Conversion Board.

SERVICES AVAILABLE FROM BANKS DURING A UK CHANGEOVER

Banks would enable all customers, whether they maintain personal or business accounts, to transact business through their existing account in euro as well as in sterling throughout a transition period. In particular, facilities would be available at banks to enable all customers to receive and make euro payments without the need to open a separate euro account.

WHOLESALE MARKETS IN EURO. The Blueprint details a range of banking services which would be available to support settlement of wholesale transactions after UK entry.

Services would be available to enable the wholesale markets to operate in euro immediately following the fixing of the sterling conversion rate with the euro at UK entry. The services available would cover the following:

- CHAPS would be able to handle a high volume of euro transactions from entry;
- euro accounts would be available in sufficient volumes to accommodate the limited number of businesses with a need for these facilities early in a changeover;
- the industry payments infrastructure would be able to handle a limited number of transactions denominated in euro e.g. interest payments on government stocks (Gilts) destined for sterling accounts, including personal and SME accounts; and
- euro payment system capacity would be sufficient for market operations and limited business and personal use. Nevertheless, many wholesale market operators (eg fund managers) have extensive retail customer bases which would continue to require transactions to be denominated in sterling during this phase.

There are interdependencies between wholesale and retail markets and these are detailed in the Blueprint.

RETAIL TRANSITION. Experience from the first wave changeover indicates that the take up of euro products/services and associated transactions would be low at the beginning of a changeover. Demand would be expected to pick up steadily although few business or personal customers would be expected to switch to euro until late in the transition before e-day.

In addition to the services that would be available during the Wholesale Markets in Euro phase the Blueprint details a number of other services that would be provided from the start of Retail Transition:

- provision of enhanced euro payment facilities to accommodate the expected increased level of euro transaction volumes and the provision of new euro payment services eg direct debits;
- customer current account statements would progressively carry dual currency information during retail transition. The timing of introduction, detail, format and presentation of account information would vary from one institution to another;
- euro-denominated cheque books would become available for use on sterling accounts;
- customers would be able to use existing sterling payment cards ie credit cards, debit cards and cheque guarantee cards, to support euro payments and vice versa. Payment cards would progressively be replaced to incorporate new euro values for cheque guarantee purposes.

All banking products and services in sterling would have been converted to euro by the end of a transition period. Individual banks would have different strategies for the conversion of accounts and would advise their customers of specific arrangements. In general, following advice to the customer, mass conversion of accounts would be undertaken automatically towards the end of a transition period. This could be as part of a rolling conversion programme.

Standards of good practice for charges would be adopted, in line with European Commission Recommendations, in respect of the conversion of payments, conversion of accounts, exchange of notes and coin from sterling into euro during the cash changeover period, and provision of services denominated in euro.

END OF TRANSITION. By this date:

- all remaining customer sterling accounts would be redenominated into euro;
- from e-day the base currency for all UK domestic transactions would be the euro. All non-cash payments from that date would have to be in euro. Cheques drawn in sterling before e-day could be paid in up to 6 months after e-day, depending on the cheque date;
- for a period of time after e-day account information provided on statements or via telephone or internet banking services would show the sterling equivalent of closing balances and in some cases payments; and
- all 'memorable' amounts eg account limits, fee tariffs and service charges and prices would be converted to euro.

NOTES & COIN CHANGEOVER. From e-day:

- euro notes and coin would be introduced in the UK as legal tender;
- from e-day, or shortly thereafter, 100% of ATMs would dispense euro;
- sterling notes and coin would continue to be accepted during the dual circulation period in settlement for goods and services;
- banks would only provide change in euro; and
- at the end of the dual circulation period non-cash sterling items would be handled on an exceptions basis only.

Based on the experience of the first wave countries it is clear that only a short (two month) dual circulation period would be necessary.

COMMUNICATION. Effective communication would be vital to maintain consumer confidence throughout a changeover process.

Clear and concise information, co-ordinated with government and both public sector and private sector bodies, would ensure that consumers receive the right information at the right time.

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Comments on the Blueprint. *The BBA and APACS will continue to work with all sectors in discussing common issues that relate to potential UK entry to the single currency. Consequently they would welcome any comments or observations that readers have, which can be sent to the addresses below.*

British Bankers' Association, Pinners Hal, 105-108 Old Broad Street, London EC2N 1EX

Association for Payment Clearing Services, Mercury House, Triton Court, 14 Finsbury Square, London EC2A 1LQ

Information is also available on the BBA's website at www.bba.org.uk and that of APACS at www.apacs.org.uk

NOTE'

The Outline Euro Blueprint reflects the information known at the time of publication. If a decision to hold a referendum is made, a review of all plans will be undertaken and any adjustments incorporated prior to moving into final detailed planning. The banking industry's ability to accommodate any major government legislative initiatives requiring changes to bank systems during the entry period would be severely constrained.