



MASTERPLAN FOR THE EURO CHANGEOVER



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Glossary

Derogation = a temporary exemption for a Member State agreed in the Treaty establishing the EC with respect to the application of some articles of the chapters on economic and monetary policy in the Treaty.

DIR-COM = (directors of communication on the Euro) a group of public relations representatives in finance ministries and central banks led by the European Commission.

Convergence criteria = the criteria determined in Article 121 (1) of the Treaty establishing the EC (and supplemented in the Protocol on Convergence Criteria, cited in Article 121). They refer to a country's success in achieving price stability, balanced public finances, currency exchange rates and long-term interest rates. The reports produced under Article 121 (1) by the European Commission and the ECB examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of these criteria.

Convergence report = the regular two-yearly report on the progress in the fulfilment of obligations by Member States with a derogation relating to economic and monetary union. The European Commission and ECB prepare their convergence reports independently. The European Commission and the ECB convergence reports examine the fulfilment of individual convergence criteria by individual Member States. The European Commission initiates the procedure to remove the derogation on the basis of the report, if the convergence criteria have been met.

Coordinating Committee for Technical Preparations to Introduce the Euro = the national committee that coordinates technical preparations for the introduction of the euro in the Republic of Slovenia led by the Bank of Slovenia and the Ministry of Finance.

Umbrella law = law regulating the individual sub-periods of euro adoption: pre-entry period, introduction, and dual circulation period.

Madrid scenario = schedule for introducing the euro determined by the European Council comprised of the heads of state or government in Madrid on 15 and 16 December 1995.

Irrevocably fixed exchange rate = the unalterable and irrevocably fixed exchange rate between the national currency of the Member State and the euro determined on the abrogation of the derogation for that Member State.

Dual circulation period = the period after the adoption of the euro during which cash payment may be made in two currencies (euro banknotes and coins and the banknotes and coins of the national currency).

Cash changeover period = the period of exchanging national currency banknotes and coins for euro banknotes and coins after adoption of the euro.

PAN II = the second Pan-European administrative network, modelled on the first, as a means of monitoring the technical preparations for the introduction of the euro and exchange of experience led by the European Commission.

Treaty establishing the EC = the Treaty establishing the European Community. The treaty was signed on 25 March 1957 in Rome, and entered into force on 1 January 1958. It established the European Economic Community (EEC), now the European Community (EC), and is often called the Treaty of Rome. The Treaty on European Union (often called the Maastricht Treaty) was signed on 7 February 1992 and entered into force on 1 November 1993. The Treaty on European Union amended the Treaty establishing the European Community and established the European Union. The Amsterdam Treaty, which was signed on 2 October 1997 in Amsterdam and entered in force on 1 May 1999, and the most recent treaty, the Treaty of Nice - signed 26 February 2001, entered into force 1 February 2003 - amended both the Treaty establishing the EC and the Treaty on European Union.

Pre-entry period = the period between the decision to abrogate the derogation and the introduction of the euro.

Transitional period = the period between the introduction of the euro as the unit of account and scriptural money and the introduction of euro banknotes and coins into circulation.

PRINCE = public information programme at the European Commission level covering four areas: enlargement; the future of the EU; freedom, justice and security; euro.

TARGET = the real-time gross settlement system for the euro, provided by the Eurosystem for the settlement of central bank operations, high value interbank transfers and other payments. It functions in real time and is a mnemonic formed from the following: Trans European Automated Real Time Gross Settlement Express Transfer System.

Big Bang = simultaneous introduction of book money and cash with a short dual circulation phase.

1. General

1.1. First introduction of the euro – the Madrid scenario

The first countries to introduce the euro, did so according to the so-called Madrid scenario. This set out a number of steps that lasted for several years. The European Council of 3 March 1998 decided which countries met the convergence criteria. The European Council of 31 December 1998 set the irrevocable exchange rates between the national currencies and the euro. On 1 January 1999 the euro was introduced as the unit of account and scriptural money, starting the transitional period which lasted until 31 December 2001. The euro banknotes and coins were only introduced on 1 January 2002, with the start of the dual circulation period. According to the EU regulations the dual circulation period could last up to six months, but all the Member States introducing the euro shortened this phase.

The introduction of the euro according to the Madrid scenario was characterised by a long, three-year transitional period with a fixed exchange rate between the national currencies and the euro, during which the euro was already formally the monetary unit of 12 Member States and existed as the scriptural money. The 12 Member States carried out all the practical adjustments required during the transitional period. As there were not yet any euro banknotes and coins they were printed during the transitional period, while banknotes and coins denominated in the national currency were used in everyday life.

Definition of the transitional period

Council Regulation (EC) 974/98 on the Introduction of the Euro defined the period from 1 January 1999 to 31 December 2001 as the transitional period. This absolute fixing of the transition phase meant the prior definition no longer applies, nor is it of use, given that banknotes and coins in euro already exists.

1.2. Phases of introduction

The European Commission and the ECB convergence reports assess the extent to which each Member State meets the requirements set in the Treaty establishing the European Community (TEC) for adoption of the euro. Article 122(2) of the TEC states that the Council, comprising heads of government and state, decides at the European Commission's proposal, which Member States meet the requirements and then removes their derogation. The Council then defines the day when the Member State will join the eurozone, and sets the irrevocable value of its currency in euro. The day the euro is introduced, it replaces the existing national currency. Monetary policy responsibility is transferred to the ECB. This happened on

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¹ Article 122(2) states: ".... After consulting the European Parliament and after discussion in the Council, meeting in the composition of Heads of State or of Government, the Council shall, acting by a qualified majority on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions on the basis of the criteria set out in Article 121(1), and abrogate the derogations of the Member States concerned or of Government Article 123(4) states: "... the Council shall, acting with the unanimity of the Member States without a derogation, on a proposal from the Commission and after consulting the ECB, adopt the conversion rates at which their currencies shall be irrevocably fixed"

The Constitutional Treaty for the EU, signed on 29 October 2004, sets out a slightly amended procedure for abrogating a derogation and setting a fixed and irrevocable conversion rate. The Council (in the composition of head of government or of state) decides on the joint proposal of the Commission and the Council of Ministers (ECOFIN) from eurozone Member States. Members of the eurozone decide on the proposal by qualified majority. This provision is planned to enter into force on 1 November 2006.

1 January 1999 for the first 11 Member States to accept the euro, and on 1 January 2001 for Greece.

1.3. Alternative scenarios

The Commission considers the "Big Bang" scenario to be the main alternative for introducing the euro, replacing the Madrid scenario. The introduction of banknotes and coins takes place simultaneously with the adoption of the euro under the "Big Bang" scenario. The introduction or the euro or joining the eurozone will be taking place at a time when euro banknotes and coins already exist. Until the day the euro is introduced, the Member States retain national jurisdiction for monetary policy, and the euro remains a foreign currency. The period between the decision on the abrogation of the derogation and the introduction of the euro cannot be fixed in the same manner as in the Madrid scenario. It is more appropriate to refer to a pre-entry period rather than a transitional period, for the period between the abrogation of the derogation and the actual introduction of the euro.

1.4. Introduction of the euro in Slovenia

Slovenia will take into account the experience of countries that have successfully adopted the euro during its introduction. There will be two major changes:

- **The pre-entry period will be short:** the pre-entry period between the abrogation of the derogation (provisionally autumn 2006) and the introduction of the euro (provisionally 1 January 2007) will only last a few months.
- **Euro banknotes and coins already exist,** though they are not Slovenian currency. They are accessible to the Slovenian public, who use them in transactions abroad.

The pre-entry period starts with the abrogation of the derogation, and publication of the fixed exchange rate at which tolars will be changed for euros, and lasts until the introduction of the euro. During this short pre-entry period, the tolar will be still domestic currency in Slovenia. Monetary policy will still be set by the Bank of Slovenia. The Bank of Slovenia expects the decision to adopt the euro to enter into force on 1 January 2007.

Alongside the short pre-entry period, the Bank of Slovenia also anticipates the cash changeover phase to be short. The Bank of Slovenia expects other EU institutions to be flexible with regard to alternative or new euro introduction scenarios.

The reasons for the Bank of Slovenia's expectations:

- Slovenia is a small monetary area
- Slovenia has experience in successfully exchanging its currency (in October 1991 from dinars to vouchers, in 1992 from vouchers to tolars)

 Slovenia will have completed two years within the ERM II in June 2006. The EU institutions are expected to compile the convergence report, the basis for a European Council decision that an Member State can introduce the euro, in late summer/early autumn of 2006.

For several reasons (start of business and fiscal year) the most suitable date for introducing the euro is 1 January. The dual circulation period for the tolar and euro starts the day the euro becomes the Slovenian currency, though payments in tolar banknotes and coins will still be

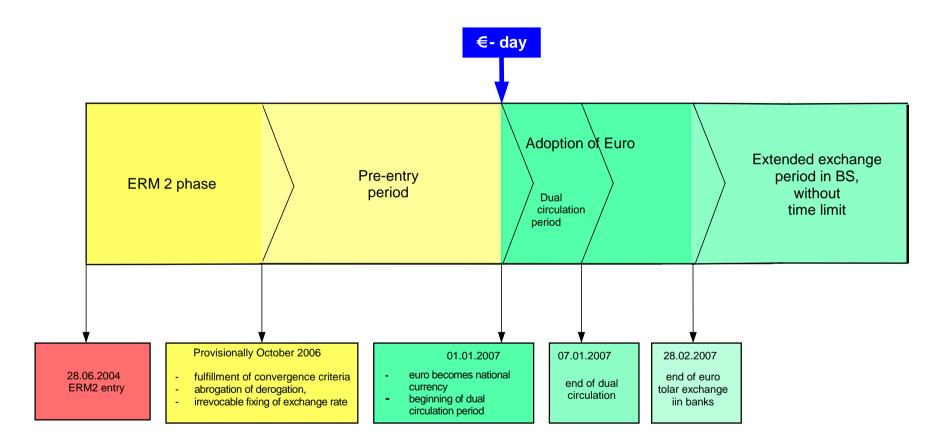
possible. The short dual circulation period ends when the tolar is no longer legal tender. The Bank of Slovenia anticipates that this period will last until 7 January. Monetary policy will be transferred to the ECB at the very start of this phase. During this time, the Bank of Slovenia will start to supply banks with euro banknotes and coins, so they can exchange tolars for euros.

From 8 January to 28 February it will be possible to exchange tolars at banks, and there will be no time limit on exchanging tolars at the Bank of Slovenia.

Slovenia will have to make technical preparations for minting euro coins during the pre-entry period. The Bank of Slovenia is assuming that it will not be possible for it to issue coins before the abrogation of the derogation. EU law permits a country to introduce the euro even if it does not have (an adequate number of) euro national coins. The Bank of Slovenia assesses that the time required to produce coins will be three to six months. If Slovenia does not have coins available due to a late abrogation of the derogation, the Government of the Republic of Slovenia may decide:

- to introduce the euro without national coins
- or
- to postpone the introduction of the euro until national coins are minted

ANTICIPATED SCHEDULE FOR ADOPTING THE EURO*



^{*} all dates are provisional

1.5. Organisation of the transition and coordination of actions

1.5.1. Organisation and coordination levels

Introducing the euro is a complex, large-scale logistics project for individual country. The setting of project objectives, the organisation, implementation and supervision of the changeover programme requires a number of different actors to take on a variety of roles, from organising (setting objectives, monitoring strategic decision-making, setting rules, coordinating actions), to implementing (running the project, making business, technical and information-related adaptations), and supervising (consumer protection, highlighting shortcomings in the implementation). Another vital aspect is the fact that the euro is an EU-wide project. Introducing the euro in the initial eleven countries, followed shortly after by a twelfth, involved a unique set of preparations. Since 2002, the euro has already been in existence, and countries introducing the euro now, can look to current eurozone members to learn from their experiences.

1.5.2. Organisation and coordination at the EU level

The euro introduction project involves a large number of decision-making and implementers. At the EU level, the Commission has an important role in regulating and supervising the practical and technical preparations to introduction the euro. The Commission has recently re-activated the PAN II working group (Public Administration Network II), which includes representatives from the ECB and Member States with a derogation. PAN II is a forum for the exchanging experience and best practice from the original introduction process to the countries going through the process now. PAN II is also a forum for informal checks by the Commission on how individual Member States are progressing in their practical preparations to adopt the euro. The Commission pays special attention to the following three issues: the timely preparation of the national-level legal framework for adopting the euro, the level of preparation in the banking sector (especially account migration) and consumer protection (dual display of prices). Representatives of the Bank of Slovenia and the Ministry of Finance (MF) collaborate in the work of PAN II.

The DIR-COM group (Directors of Communication on the Euro) was created to coordinate public relations activities, and includes PR representatives from the finance ministries and central banks of the Member States. The Commission also has the PRINCE programme, covering four public information priorities: enlargement, the future of the EU, freedom, justice and security, and the euro.

1.5.3. Current organisation and coordination in Slovenia

So far, the Coordinating Committee for Technical Preparations to Introduce the Euro has been in charge of preparations in Slovenia. The Coordinating Committee was created when Slovenia joined ERM II on the proposal of the Bank of Slovenia and the MF, and is led by a Vice Governor of the Bank of Slovenia and a State Secretary at the MF.

The MF and Bank of Slovenia invited some other ministries, financial system supervisors, associations of financial service providers and business representatives to participate in the Coordinating Committee. The MF and Bank of Slovenia were joined on the Coordinating Committee by the Ministry of the Economy, the Statistical Office of the Republic of Slovenia, Securities Market Agency, the Insurance Supervision Agency, the Central Securities Clearing Corporation, the Ljubljana Stock Exchange, the Slovenian Chamber of

Commerce and Industry, the Bank Association of Slovenia and the Slovenian Insurance Association. The Chamber of Crafts, Slovene Consumers' Association and Slovenian Institute of Auditors should join the Committee in the future.

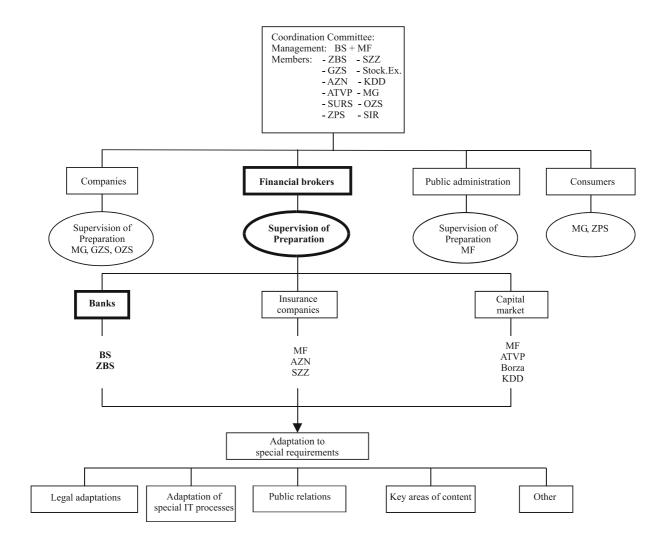
The Coordinating Committee members prepared action plans and report on their implementation, especially in relation to the following:

- Legal jurisdiction
- Adapting business processes and technological support
- Organisational measures
- Statistical monitoring of changeover preparations
- Public relations by individual institutions.

The Coordinating Committee has also been the main body for exchanging opinions on the positions set out by Slovenian representatives before EU institutions, and a forum for feedback on EU-related events that will affect the introduction of the euro.

Institutions, members of the Coordinating Committee, are responsible to organise activities to introduce the euro within their field of responsibilities. These institutions or bodies should be autonomous and cover their own costs for euro introduction actions. On 1 September 2004, the Government of the Republic of Slovenia passed some decisions on coordinating the public administration's preparations and ordered each ministry to appoint a euro-coordinator. The ministries are now carrying out legal reviews of regulations that will have to change with the introduction of the euro.

Coordination Preparation introduction of euro



Preparations which the Bank of Slovenia is responsible for are given in bold.

Abbreviations:

BS - Bank of Slovenia
MF - Ministry of Finance
MF - Ministry of the Economy
ZBS - Bank Association of Slovenia

GZS – Chamber of Commerce and Industry of Slovenia

AZN – Insurance Supervision Agency ATVP – Securities Market Agency

SURS - Statistical Office of the Republic of Slovenia

SZZ – Slovenian Insurance Association
KDD – Central Securities Clearing Corporation

IT - Information Technology
ZPS - Slovene Consumers' Association
GZS - Chamber of Crafts of Slovenia
SIR - Slovenian Institute of Auditors

1.5.4. Organisation at the Bank of Slovenia

An EU board coordinates actions to introduce the euro at the Bank of Slovenia, led by the Governor of the Bank. The actions are included in the Bank of Slovenia White Paper, and are supervised by Vice Governors and the Bank's Governing Board. The activities are organised as tasks or separate bank projects. Tasks are falling within the competences of individual departments, not requiring horizontal or external coordination. The White Paper includes the following:

- 1) Preparations for the exchange of tolars for euro (projects: exchanging banknotes and coins, inclusion in TARGET, adaptation of IT and business processes in banks, IT adaptation for business processes in the Bank of Slovenia, public relations).
- 2) Preparations for participation in the activities of the Eurosystem (tasks: adjusting instruments and collateral, adjusting reporting methods, adjusting accounting, transfer and management of foreign currency reserves, capital subscription, IT support).

The Bank of Slovenia's actions are based on preparations from the first introduction of the euro. The Bank of Slovenia supplements this programme on an ongoing basis, in relation to information from the ECB and the Commission.

1.6. Public relations

1.6.1. Objectives:

The euro is the currency of the European Union, which all Member States, except two, are obliged to adopt. The euro is based on price stability provided by the Eurosystem, i.e. the ECB and the national central banks of the euro area. It is important that the public recognises the benefits of a single currency and is informed about the rules on which the euro area's financial stability is based. Public relations are aimed at the following targets in relation to the introduction of the euro:

- General public awareness of how economic and monetary union functions, including the benefits of a single currency and the reasons for deciding to adopt the euro;
- targeted PR exercises on the euro project and the individual stages of introduction;
- practical advice on the euro's introduction to build confidence and enable a smooth and rapid adoption of the euro (transactions in cash and in bank accounts during the dual circulation phase, cash dispenser functioning, recognising forgeries, methods of exchanging tolars for euro, etc.).

1.6.2. Target publics:

The general public, at whom information about the euro and its adoption is aimed, is divided into various sections, each requiring a specific approach.

1) General public - includes households, with information for young people, minorities, people with special needs, the elderly, and rural populations. These target audiences will be provided with simple, understandable <u>practical information</u> from the Bank of Slovenia, the Government, banks, the Chamber of Commerce and Industry, craft chambers, the Central Securities Clearing Corporation, the Slovenian Insurance Association and other organisations (including instructions and advice), <u>direct communication</u> (pamphlets and other informational materials, public debates, round table discussions, freephones, TV programming) and <u>communication via the media</u> (traditional communication strategies: press conferences, press releases and advertising and promotional campaigns).

- 2) <u>Professional sector</u> banking, businesses, retailers, other services. These target audiences will be provided with information relating to the type of services they offer to customers, as well as being informed about changes to legislation, changes in accounting practice, the recognition of forgeries, etc.
- 3) <u>Media</u> the media will be targeted with established methods such as educational seminars.
- 4) <u>Civil society</u> cooperation in informing groups of people that are hard to reach via general means of communication and that require specially adapted information.

It is vital to put out consistent information, so there is a need to coordinate all those involved in the euro project and to come up with an overall slogan. The tools for communicating with the general public include: informative publications, pamphlets and other material, promotional material (e.g. posters with the coins), internet, CD-Roms, direct contact – freephones, TV programmes, seminars, conferences, public debates, exhibitions and other public events, advertising campaigns, TV and radio advertisements, newspaper advertisements and similar, press conferences, press releases and other promotional methods. It is also important to measure public opinion on the level of confidence and awareness (at least three times a year, checking the levels of confidence, awareness, and people's expectations).

An agency will have to be selected for the promotional campaign via an international public tender.

1.6.3. Action schedule:

The introduction of the euro can be broken down into various sub-periods:

- The two-year ERM II period set to end in June 2006. It is important during this phase to provide general information to the public on how European monetary union functions and the fulfilment of the convergence criteria, as well as the first tangible actions to adopt the euro (dual display of prices, selecting designs for Slovenia's euro coins national side).
- Period between completion of two-year ERM II phase and introduction of the euro. During this period, the Council will set the irrevocable conversion rate for the tolar against the euro, which will lead to the tolar's replacement. During this period, the public must be informed in detail of how the preparations accompanying the euro are proceeding in banks, shops and the public sector, with the changes in laws, regulations and recommendations that will affect the exchange procedures, and the validity of contracts.
- Introduction of the euro from 1 January 2007 to the end of the dual circulation period. Public relations during this period will be aimed at providing practical information on the exchange of tolars for euro.

2. Legal framework

2.1. Methods of adapting national legislation

2.1.a) Umbrella law or harmonisation of individual regulations

The Commission has put forward two approaches to adapting national legislation: introducing the necessary changes with one umbrella law, or amending the legal arrangements by changing the values expressed in individual laws in the national currency into euro. The first solution is less time consuming for the legislature, and offers a higher level of legal protection and reliability, the second is more user friendly, clearer to the citizen, but leaves the risk of certain areas being neglected and remaining unharmonised (e.g. if fines for misdemeanours are changed into euros, but traffic offences are forgotten, there is a high probability that courts will judge that the sanction does not apply). Austria, France and Germany systematically changed amounts into euros throughout their national legislation, while Luxembourg and Spain resolved most issues via one umbrella law.

Given the short amount of time available for preparing legislation and legislative procedures, especially in view of the limited human resources available to harmonise legislation, a umbrella law is more suitable for Slovenia's introduction of the euro, expect in specific cases involving systemic regulations (e.g. Bank of Slovenia Act).

2.1.b) Pre-entry regime – Dual circulation regime – Final regime

It would not make sense to pass individual regulations for each of these periods. This is especially the case given the plan to introduce the euro in line with a "Big Bang" scenario. The law itself makes clear which laws or parts of laws apply during which phase. The issue of the validity of various legal provisions during an individual phase will be regulated by specific clauses or transitional provisions.

2.2. Legal adaptation required by introduction of the euro

2.2.1. Adaptation at the EU level

2.2.1.1. Binding EU legal acts

Amendments will be needed at the EU level to some provisions of Council Regulation (EC) 1103/97 relating to the introduction of the euro, and to Council Regulation (EC) 974/98 on the introduction of the euro. These EU regulations no longer apply to Member States that are now going through the euro introduction process, as they were passed for the first countries to adopt the euro with deadlines that have already expired. Council Regulation (EC) 974/98 is the legal act that will constitutionally introduce the euro as Slovenia's official currency. As the content of EU regulations applies directly to Member States, they will not have to be harmonised by means of national regulations.

The regulations make the following stipulations:

Council Regulation (EC) 1103/97:

- Conversion of units of currency in which financial accounts are denominated
- The continuity of contracts
- The method of conversion
- The rules for conversion
- The basic rules regarding rounding up or down of converted amounts.

Council Regulation (EC) 974/98:

- The day on which the euro becomes the monetary unit of participating Member States
- The accounting currency of the NCB
- Coins and banknotes as the physical form (transitional provision)
- Parallel use of scriptural money (transitional provision)
- Provisions on the unit of account (transitional provision)
- Redenomination of national debt of participating Member States (transitional provision)
- Reference for the exchange of units of account to some operational procedures (securities market, clearing, settlement, payment transactions) (transitional provision)
- Banknotes and coins denominated in national currency retain their status as legal tender (transitional provision)
- The day on which the ECB and the central banks of participating Member States issue euro cash into circulation and the euro becomes legal tender (transitional provision)
- Similar provision for coins (transitional provision)
- Time limit for withdrawal from circulation of banknotes and coins denominated in national currency unit (transitional provision).

We have been informally advised that the Commission intends to start updating the transitional provisions of the two regulations in spring 2005.

2.2.1.2. European Commission recommendations

Member States may transpose Commission recommendations into national legislation, or may ensure their provision on a voluntary basis by economic operators. The Commission recommendations:

- Commission Recommendation (EC) 98/286, relating to bank charges for conversion of the euro
- Commission Recommendation (EC) 98/287 on the dual display of prices and other monetary amounts
- Commission Recommendation (EC) 98/288 on dialogue, monitoring and information to facilitate the transition to the euro
- Commission Recommendation (EC) 98/289 on measures to facilitate the preparation of economic operators for the changeover to the euro.

The Bank of Slovenia holds the opinion that the Commission recommendation on dual display of prices should be realised by means of a law in Slovenia. The Bank of Slovenia supports the early introduction of dual display of prices to assist final consumers. It supports the positions passed by the Coordinating Committee for Technical Preparation to Introduce the Euro at the national level².

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² Coordinating Committee position passed on 12 October 2004:

^{1.} The central parity agreed upon to ERM II entry (€1 = SIT 239.640) is an appropriate rate for converting prices in tolars into prices in euro for informative purposes.

^{2.} The dual display of prices for informative purposes on shelves or products or price lists accessible to the public is an appropriate method of allowing the final consumer to become familiar with evaluating goods and services in euros. The specific characteristics of different types of services should be taken into account (e.g. financial). Consumer protection organisations must be involved in discussions on the technical details for the dual display of prices in line with guidelines.

^{3.} The Ministry of the Economy, in cooperation with the Chamber of Commerce and Industry, will study and prepare the legal bases required to introduce the dual display of prices for informative purposes in line with the guidelines above.

The Bank of Slovenia considers the best method of implementing the Commission regulations on bank changes relating to money conversion is to make a suitable amendment to the law.

2.2.2. Adaptation at the national level

2.2.2.1. Legal harmonisation with the Treaty on European Union and the ECB Statute

These findings are based on the Commission and ECB Convergence Reports for 2004 and ECB documents on the legal framework for the introduction of the euro³.

2.1.1. Amendments required in the Bank of Slovenia Act:

- Objectives: the supplementary objectives in Article 4 have to be ranked (financial stability is subordinated to the objective of supporting general economic policy) and the text of Article 105(1) of the TEU;
- Independence: already harmonised nevertheless the grounds for dismissal of the members of the Governing Board (Article 39/1) should be harmonised with those in Article 14/2 of the ECB Statute, to avoid the possibility of differences in interpretation. The involvement of the government in managing foreign currency reserves (Article 27/2) requires further clarification. The ECB requires the express exclusion of Article 12/1 from the content of the Article 27/2;
- <u>Participating within the ESCB without derogation</u> ECB jurisdiction for ESCB/ECB tasks is not adequately covered in the following Articles:
 - Holding and managing foreign currency reserves (Article 58/2 in relation to Articles 27 and 12/1)
 - Right to issue banknotes and issuing permits for coins; Articles 8, 9 and 58/2)
 - Monetary function, ESCB operations instruments (Articles 15, 16, 17, 18, 19, 20 and 45; Article 58/1 is incomplete)
 - Cooperation within international financial institutions (Article 48)

Article 58 sets out the ECB Statute's primacy over the Bank of Slovenia Act from the day the euro is adopted onward. However, the second paragraph of an article on ECB jurisdiction (supply of banknotes, issuing of coins) explicitly excludes the ECB's primacy. Article 27 also excludes subordination to the ECB Statute after adoption of the euro, which is a matter of special concern to the ECB, in relation to Article 12/1 (managing foreign currency reserves). Article 27 covers the contractual regulation of the type, range, and conditions of operations on behalf of the state from Article 12. In the opinion of the ECB, Article 27, in relation to Article 12/1, allows different interpretations of the management of foreign currency reserves. This could impinge on ECB jurisdiction. The ECB therefore demands that Article 12/1 be removed from the contractual regulation of relations between the state and the Bank of Slovenia set out in Article 27. The articles referring to implementing monetary functions and cooperating with international financial

institutions do not, in the opinion of the ECB and the Commission, give sufficient recognition to the ECB's authority in managing monetary policy in the eurozone and in international cooperation.

^{4.} On the full transition to transactions in euro, the cost of maintaining dual display of prices will increase. It is therefore vital that the dual price display phase lasts as long before the introduction of the euro as possible, and finishes as soon after that date as possible.

³ Legal framework applicable to the possible introduction of the euro in new Member States LS/04/745;

- 2.1.2. Amendments required to harmonise the Prevention of Corruption Act: the personal independence of the governor and other members of BS board this act envisages supervision of the assets of officials and how they deal with any other profitable or non-for-profit activities. These obligations are not incompatible with the Statute's provisions on personal independence, but the sanctions for violations are incompatible, as they include the dismissal of officials for reasons not envisaged by the Statute. The application of these sanctions may in some cases be incompatible with Article 14.2 of the Statute.
- 2.1.3. The ratification of the Geneva International Convention for the Suppression of Counterfeiting of Currency from 1929 the procedure is managed by the Ministry of Foreign Affairs.
- 2.1.4. The harmonisation of the penal legislation with Council Framework Decision 2000/383/JHA, Council Decision 2001/887/JHA, Council Regulation (EC) 1338/2001, and Council Regulation (EC) 1339/2001 the Slovenian legislation regulating sanctions for the counterfeiting of money (euro) must be checked to ensure it is harmonised with the EU *acquis communautaire*.

The amendments must be adopted before the abrogation of the derogation anticipated in the second half of 2006.

2.2.2.2. Regulations relating to the unit of account

The following must be amended in order to introduce the euro:

- Currency Unit Act
- Use of Currency Unit Act
- Commemorative Coins Act

In principle these regulations do not need to be amended, as the updated Council Regulation (EC) 974/98 will probably state that the euro will replace the tolar as the currency in circulation in Slovenia from a specified date. The amendments to the Currency Unit Act will stipulate a date on which the tolar will cease to be in circulation – the dual euro and tolar circulation period (reducing the six month period prescribed at the EU level for the exchange of cash) and determine deadlines for the exchange of tolar cash in banks and at the Bank of Slovenia.

2.2.2.3. Regulations based on the Currency unit

It is logical to include in this group laws representing the legal framework for the Bank of Slovenia's essential operations. At present a final decision has not been taken on when the following will have to be amended:

- The Foreign Currency Transaction Act and implementing acts based on it (use of the euro for payments between residents in the period between the abrogation of the derogation and the introduction of the euro).
- Payment Transaction Act (possible amendments will be demanded by the operational requirements of TARGET, and the implementation of Article 9 of the Final Settlements Directive).

Other regulations in this group:

- the regulation on indexation
- on the conversion and rounding (if not regulated by the updated Council Regulation (EC) 1103/97).

The principle of the continuity of contracts (see Article 3 of Council Regulation (EC) 1103/97) requires indexation clauses in contracts remain valid for the duration of the contract. The continuation of these clauses means the statistical monitoring of indexation clauses must also continue. This applies to the base interest rate (TOM) in particular. It should also be mentioned that a possible abrogation of indexation is not formally linked or a condition for the conversion currency of units. It is reasonable for the recommendations to include the possibility of selecting a new method of calculating interest on the adoption of the euro by the contractual parties.

The law may specify that parties may use EURIBOR as a reference interest rate in contracts instead of other reference interest rates (e.g. SITIBOR). An interbank agreement will have to be reached within the Bank Association of Slovenia, which will be the basis for recommendations for practical conduct between parties.

An accurate list of regulations requiring amendment will come from the legal review within the public administration, but it can already be stated that the Prescribed Penalty Interest Rate Act (ZPOMZO-1) will have to be amended. As a special regulation, this act stipulates a penalty interest rate of 15.5% in relation to the Code of Obligations. The Government may issue a resolution on changes to the penalty interest rate according to this act. The Code of Obligations specifies an eight per cent rate for penalty interest rates. The comparable penalty interest rates are eight per cent (or five per cent for consumers) above the base interest rate in Germany, eight per cent above the base rate in Austria, and seven per cent above the base rate in Finland. The base interest rate is the same as the ECB's main refinancing rate in each of the cases given above. It should again be mentioned that any abrogation of the Prescribed Penalty Interest Rate Act and return to the normal state as set out in the Code of Obligations, is not formally connected or a condition for the conversion of units of currency.

2.2.2.4. Other regulations referring to the unit of currency

This group includes regulations that need to be amended due to the organisation of the public administration and not because of the introduction of the euro. The public and the business community also expect legislative action in this field.

A precise overview of the amendments required will only come with the review ongoing within the public administration, however some sections that will probably require amendments can already be determined. For example:

- Adaptation of systemic legislation in corporate law relating to companies' nominal capital and shares (amendments to the Companies Act). A method of converting capital will have to be selected (conversion of individual shares, the total is the sum of individual shares; conversion of the total sum, individual share's value is evaluated as a normal value or as the quota part out of the total)
- Adapting accounting regulations
- Adapting penal law provisions on the prevention of counterfeiting (see 2.1.4)
- Adapting regulations on the functions of the tax and customs administrations (Tax

Procedure Act – organising tax return and calculating taxes in euro for taxable periods, when the tolar is still legal tender, Customs Procedure Act)

- Statistics regulations
- Regulations on the administrative and judicial system (e.g. harmonising court and administrative stamp duties)
- Social security system
- The rounding up or down of new euro amounts to suitable rounded amounts (e.g. fees, tariffs, delineating the competences of state bodies).

3. Standards of good practice for the introduction of the euro

3.1. Introduction

This chapter analyses various recommendations made to Eurosystem Member States before the first introduction of the euro by the Commission. The recommendations are a reference tool for Member States with a derogation, providing direction in practical decision-making during preparations to adopt the euro. This is an orienting tool and helps accustoms the states to studying the specific circumstances in which the transition to the euro will take place. Specific decisions on applying the recommendations are left to the Member State adopting the euro.

The recommendations were either issued as official Commission recommendations or contained within the many recommendations issued by the Commission during the transition to the euro. The appendix summarises them according to function without a commentary. This enables a better overview of practical issues relating to the adoption of the euro. In the Commission review the recommendations are organised differently, according to the individual sectors they refer to, e.g. the banking sector, retail sector, companies, public administration, etc., and there is also a commentary with a short description of the purpose for which they were passed.

In defining its position on Commission recommendations, the Bank of Slovenia starts from the scenario it considers the most probable. This scenario is presented in the schedule in the material. The Bank of Slovenia expects to fulfil the convergence criteria and that the derogation will be abrogated in October 2006. The decision on the abrogation of the derogation is made by the European Council in the composition of heads of state or government. The Council generally meets twice a year, towards the end of the year and half-year. We assume that a positive convergence report will be prepared for the current ERM II participants in October 2006 and that a meeting of heads of state or government will be convened to abrogate the derogation and irrevocably set the fixed conversion rate. Adopting these decisions in October will enable a short, approximately two-month pre-entry period until the introduction of 1 January 2007. If the European Council passes the decision abrogating the derogation at the regular meeting at the end of December, there will be no pre-entry period before the introduction of the euro.

The preparation schedule will have to be updated in line with new information on the timing of procedures planned by EU institutions.

3.2. Good practice recommendations by function

3.2.1. Charges

a) Commission recommendations

The recommendations are based on the assumption that the euro and national currency are "two sides of the same coin". They therefore recommend the same treatment regarding costs for services in either currency, irrespective of the period (pre-entry period, dual circulation period). They also recommend performing services without charges for the following services:

- 1. Converting account on first conversion into euro
- 2. Exchange of currencies on accounts in non-cash payment of bills in national currency or euro
- 3. Exchange of banknotes and coins on the introduction of euro cash.

b) Findings for Slovenia

Recommendations on the pre-entry phase do not apply to Slovenia.

During the phase between the abrogation of derogation and the introduction of the euro, the euro will be a foreign currency. Banks will therefore be entitled during the pre-entry period to charge for services in tolars and euros, which banks and their customers should be informed of. There must be a legal regulation ensuring that the exchange is free of charge on adoption of the euro.

c) Implementing recommendations

Method of implementation: informing the public,

umbrella law

Responsible for implementation: Bank of Slovenia,

Bank Association of Slovenia, MF

Preparation deadline: 30.6.2006

3.2.2. Transparency

a) Commission recommendations

The recommendations refer to the separate display of the tolar/euro conversion rate from any currency exchange charges, on the prior informing of bank customers on standards regarding currency exchange changes and ensuring the mandatory reporting to the Commission by the bank association (on bank decisions regarding following charging standards).

The purpose of the recommendations is to ensure transparency, to ensure customers are properly informed and to supervise the implementation of recommendations.

b) Findings for Slovenia

Until Slovenia adopts the euro, provisionally on 1 January, the euro will remain a foreign currency. However it is desirable that all exchanges between tolars and euro will be made at the irrevocable fixed rate once it has been set. The tolar/euro exchange rate must therefore be displayed separately from any currency exchange charges.

c) Implementing recommendations

Method of implementation: Bank of Slovenia recommendation, and Bank Association of Slovenia interbank agreement

Responsible for implementation: Bank of Slovenia, Bank Association of Slovenia

Preparation deadline: Mid-2006

3.2.3. Dual display

a) Commission recommendations

The recommendations are based on the fact that the transition is also a conceptual process, so the public need to become familiar with the value of the euro. The recommendations on the dual display of prices refer to bank statements, dual display of prices in shops, dual display of price lists for companies, insurance companies and public utilities, and dual display on bills, dialogue with small enterprises and the rules for rounding prices to the nearest cent. The recommendations must be implemented early enough and must be gradual, especially for shops and services.

b) Findings for Slovenia

In general dual display of prices should gradually begin in mid-2005.

Bank statements:

Dual display of balance and transactions (on one or two separate statements with central parity). Voluntary from June 2005, mandatory from the start of the pre-entry period.

Dual display of prices:

Discussions on dual display of prices have already started in Slovenia and the Coordinating Committee has adopted a position.

Coordinating Committee position:

- 1. The central parity fixed on accession to ERM II (\le 1 = SIT 239.640) is an appropriate rate for converting prices in tolars into **prices in euro** for informative purposes.
- 2. The dual display of prices for informative purposes on sales shelves or products or price lists accessible to the public is an appropriate method of allowing the final consumer to become familiar with evaluating goods and services in euros. The specific characteristics of different types of services should be taken into account (e.g. financial). Consumer protection organisations must be involved in discussions on the technical details for the dual display of prices.
- 3. The Ministry of the Economy, in cooperation with the Chamber of Commerce and Industry, and the Chamber of Crafts will study and prepare the legal bases required to introduce the dual display of prices for informative purposes in line with the guidelines above.
- 4. On the full transition to transactions in euro, the cost of maintaining dual display of prices will increase. It is therefore vital that the dual price display phase lasts as long before the introduction of the euro as possible, and finishes as soon after that date as possible.

Display and changeover of public utility bills:

The same applies as for bank statements. The recommendation could be extended to include the private sector.

Dialogue with small enterprises:

Synchronising dual display of prices. The Coordinating Committee will discuss specific issues.

<u>Rounding</u>: Rounding to the nearest cent is important. The Coordinating Committee will discuss the rules.

Price lists for public: The same applies as for dual display of prices.

c) Implementing recommendations

Method and responsibility for implementation:

- a) Bank statements: Bank Association recommendation until the start of the pre-entry period, Currency Unit Act during the pre-entry period.
- b) Dual pricing in shops: special law (prepared by the MG in cooperation with the GZS).
- c) Display and changeover of public utility bills: Government recommendation until the start of the pre-entry period, Currency Unit Act during the pre-entry period.
- d) Dialogue with small enterprises: coordination within the Chamber of Commerce and Industry and the Chamber of Crafts.
- e) Rules for rounding: Government regulation (prepared by MG and MF).

f) Price lists for companies, insurance companies and utilities: special law (as under point b); prepared by the MG in cooperation with the GZS.

Preparation deadline: recommendations and regulations (except Currency Unit Act) by mid-2005; Currency Unit Act by October 2006; coordination of dialogue with small enterprises from mid-2005 onwards.

3.2.4. Using the euro

a) Commission recommendations

The recommendations are intended to encourage use of the euro with no compulsion or prohibition, so that staff in retail and tourism will be trained as quickly as possible, including: that public administration salaries are paid in euros, as are pensions; that long-term government and local community contracts are made in euros during the transitional period.

b) Findings for Slovenia

Given that the euro will be a foreign currency until its adoption, special measures to encourage its use do not make sense, as they could complicate the supply of euros. As the domestic use of the euro after the abrogation of derogation will largely be in the hands of the population at large and parties to transactions, it makes sense to remove all legal obstacles to the euro being used in payment transactions between residents, by the abrogation at the latest. It does not make sense to encourage the accounting and payment of salaries and pensions in euro. Provisions will have to be made relating the latest payment of pensions immediately before euro adoption. Some payments (salaries, pensions) could be moved by a day or two before the introduction of the euro. The Bank of Slovenia considers these payments could already be made in euro. Consultations will be required with the Pension and Disability Insurance Institute, the Postal Bank of Slovenia and the MF.

The recommendations on government and local community contracts should be implemented before the pre-enrty period for contracts that extend beyond the day legally determined for the introduction of the euro.

c) Implementing recommendations

Method of implementation: consultation with Government regarding contracts, consultations with the Pension and Disability Insurance Institute, Postal Bank of Slovenia and MF regarding pensions, adapting the Foreign Currency Transactions Act and other regulations, by the abrogation of derogation at the latest.

Responsible bodies: MF, Bank of Slovenia, Government, Pension and Disability Insurance Institute, Postal Bank of Slovenia

Preparation deadline: 1.10.2006

3.2.5. Supplying the euro

a) Commission recommendation

The Commission recommends that cash dispensers be filled before the start of the dual circulation period with adequate number of low denomination banknotes. Retailers should be supplied with an adequate supply of change. The recommendation envisages the supply of

euro cash before the introduction of the euro with payment (in terms of date) after the day the euro was introduced. The recommendation envisages the use of simple methods to evaluate cash requirements.

b) Findings for Slovenia

The recommendation on filling cash dispensers with the right low denomination notes can be carried out without problems.

The recommendation on appropriate low-denominations in shops and frontloading currency can be implemented, but requires prior consultation between banks, the Chamber of Commerce and Industry, the Chamber of Craft, and the Slovenian Institute of Auditors. It is vital that adequate coverage for the supply of euro is provided in advance.

The recommendation on ascertaining cash requirements is not specific enough to be directly of use. The Bank of Slovenia has three models for measuring cash requirements, which the Bank of Slovenia will make available to the public administration and banks by May 2005.

One open issue is that of the preparation of cash dispensers for the transition to the euro, which is not included in the recommendations. Before taking a position on the logistics of the preparation, consultations must be held with banks and the cash dispenser company, Bankart. The Bank of Slovenia will have solutions ready by mid-2005.

c) Implementing recommendations

Method of implementation: direct implementation, consultation with banks, Chamber of Commerce and Industry, Chamber of Crafts, Bankart and Slovenian Institute of Auditors.

Responsible bodies: Bank of Slovenia, MF

Preparation deadline: Mid-2005

3.2.6. Exchange of banknotes and coins

a) Commission recommendations

The recommendations refer to banks and retail, where most of the exchange of national currency for euro will take place. It is recommended during the dual circulation period that banks set a ceiling for the exchange of tolars for euro to prevent fraud, with a ceiling set for customers and non-customers, working hours, a method of supplying traders with euros and removing cash in national currency, evaluating the removal without commission, and ensuring the subsequent exchange of the national currency for euro during the dual circulation period. It is recommended that shops have sales at the end of the dual circulation period, that traders give change only in euro during the dual circulation period, that customers are able to convert prices using a calculator available in a visible place, and giving staff, especially at sales tills, practical training. The period during which it will be possible to exchange banknotes and coins denominated in the national currency for euro after the dual circulation phase must be defined; this should be possible for a fixed period in banks and other financial organisations and then at the central bank for an unlimited time.

b) Findings for Slovenia

The recommendations are directly applicable. The ceiling for exchange of cash and working hours can be left to banks and the Bank Association. The commission for removing cash

must be regulated in the umbrella law. Retail issues will be addressed by the Chamber of Commerce and Industry and the Ministry for the Economy. Exchange after the dual circulation period will be for a fixed term in banks and unlimited at the Bank of Slovenia.

c) Implementing recommendations

Method of implementation: recommendation, law (later exchange, commission)

Responsible bodies: Bank Association of Slovenia, Bank of Slovenia, Ministry of the

Economy, banks

Preparation deadline: 1.10.2006

3.2.7. Supervision

a) Commission recommendations

The recommendations refer to reporting and appointing observers and euro-coordinators for different sectors. It is desirable that consumers' organisations participate during the preparation phase and euro adoption phase.

b) Findings for Slovenia

The recommendation can be implemented directly. The observers and euro-coordinators at the relevant institutions will each prepare a coordinated action plan for their sector. The Coordinating Committee will appoint a special group to respond to any practical issues arising during the dual circulation phase that the observers and coordinators cannot clarify. These groups must be in constant communication.

c) Implementing recommendations

Method of implementation: recommendations, appointment of observers, coordination of actions

Responsible bodies: Bank of Slovenia, competent institutions

Preparation deadline: 1.10.2006.

3.2.8. Informing the public

a) Commission recommendations

The recommendations refer to banks, shops, the public administration and others that want to provide the public with information during the dual circulation period. Banks should inform their customers of the practical consequences of adopting the euro with regard to non-cash payments, cash transactions, the possibility of exchanging cash, dual display of prices and so on. Traders should supply the public with information on transaction methods in the transitional period and dual circulation period, on the dual display of prices and payment during the dual circulation period, with the possibility of help from special calculators that indicate the change due. The use of such tools applies to smaller local shops in particular. The recommendations suggest that the public administration define target groups (schools, the elderly, people with special needs, immigrants, etc.) when providing information on the euro,

and that it collaborates with local authorities in providing information, and provides information on the time scale of events relating to the transition. The public must be informed in advance about the physical form of the banknotes and coins and ways of detecting forgeries.

b) Findings for Slovenia

The recommendations suggest the preparation of action plans relating to recommendation content. The action plans must include detailed public information programmes.

c) Implementing recommendations

Method of implementation: public information action plan

Responsible bodies: Bank of Slovenia, Government, other Coordinating Committee members

Preparation deadline: First half of 2005