

**MASTERPLAN FOR INTRODUCTION OF
THE EURO**
First Update

January 2006

The first update of the Euro Introduction Plan retains the plan's contents structure. Based on discussions to date on preparations for adoption of the euro, the contents also now include changes in the content of prior positions, as well as some new content. The Contents also now includes a new chapter: Sectoral Preparations.

The updates have been made in chapters of the Plan to reflect the changes made to date. The updates form a constituent part of the basic Plan from January 2005.

The dates in the material are conditional on the European Commission and the ECB assessing that the Republic of Slovenia fulfils the euro adoption criteria, in the 2006 Convergence Report.

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1. General

1.1. Alternative scenarios for euro introduction

The first countries to introduce the euro all did so according to the same scenario, known as the Madrid scenario, which included a transitional period. Madrid was the place in which the European Council adopted the decision to select the scenario. The transitional period was called for then as the euro was first introduced as scriptural money and only later as coins and banknotes. The dates of the transitional period depended on the time needed to print euro banknotes and mint euro coins and for the logistical preparations for the cash changeover. It ran from 1 January 1999 to 31 December 2001. Member states that adopt the euro after this point will be able to choose from a number of scenarios.

In the future member states can still introduce the euro according to the Madrid scenario, i.e. with a **transitional period**, though it will not be date specific. The length of the transitional period may be different for different member states, but it should be no longer than three years. In this scenario two currencies are used in domestic payment transactions – the existing national currency and the euro.

Member states can also choose the **immediate introduction** scenario. The term normally used for this scenario is the “**Big Bang**”. According to this scenario the transitional period would only last a “theoretical second”. The adoption of the euro as national currency and the introduction of euro banknotes and coins would therefore take place simultaneously.

Finally member states can opt for the **Big Bang scenario in combination with a “phasing out period”**. This scenario entails the immediate introduction of the euro with the possibility of using the national currency in certain legal instruments (accounts, accounting books) for a limited period of no more than one year. In this scenario the euro alone is currency of domestic payment transactions following its introduction.

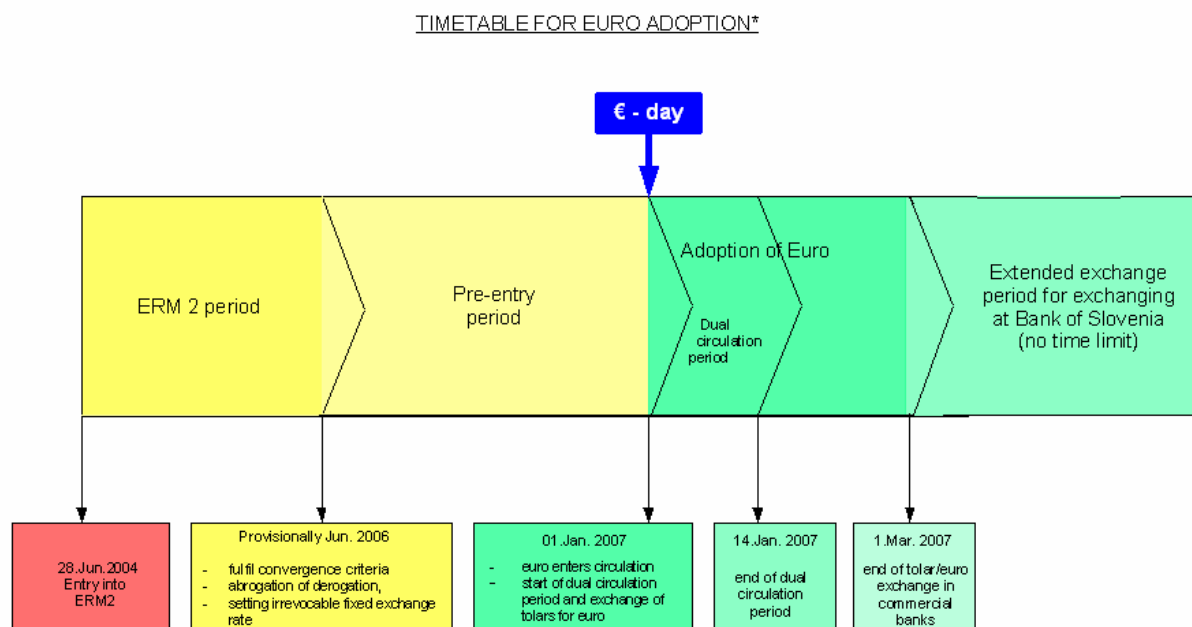
Member states adopting the euro select one of these three scenarios for their changeover to the euro.

The Slovenian Government and the Bank of Slovenia decided when adopting the basic Euro Changeover Masterplan (January 2005) that the Big Bang scenario was the most suitable for Slovenia. This decision will require formal approval on the abrogation of the derogation and will be added to the Annex to the amended Regulation 974/98/EC and published in the Official Journal of the European Union.

1.2. Introduction of the euro in Slovenia

The Euro Masterplan envisaged a dual circulation period from 1 January 2007 to 7 January 2007. Based on discussions intended to coordinate action on the national level, in which representatives from a range of institutions expressed their desire for a longer dual circulation period, it will in fact be extended for a week. This will last from 1 January 2007 until 14 January 2007. Tolar banknotes and coins will still be legal tender during this period. If payment is made for services or goods with tolar banknotes and coins during this period, the change will be given in euro.

The Euro Masterplan is provisional and depends on the Convergence Report being published in October 2006. Information now available from the EU suggests the report may be issued as soon as summer 2006. This is incorporated into the new timetable.



* all dates are provisional

1.3. Public Relations

In May 2005 the Bank of Slovenia and the Slovenian Government approved a joint communication strategy for the period 2005-2007 to support the introduction of the euro (available at: <http://www.uvi.gov.si/slo/urad/programi-porocila/strategija-evro.pdf>, <http://www.bsi.si/html/publikacije/evropa/Strategija%20evro.pdf>).

The strategy includes joint communication actions for all institutions involved in informing the public alongside the Bank of Slovenia and the Government (Bank Association of Slovenia, Chamber of Commerce and Industry and the Chamber of Crafts, Slovenian Consumers' Association). The communication strategy sets out detailed communication objectives, key target groups, joint activities for these institutions and all partners and participants in the campaign.

The strategy also formed the basis for the strategic agreement the European Commission and the Government signed on 8 November 2005 in Brussels and defines forms of reciprocal cooperation.

2. Legal Framework

2.1. Legal adaptation required by introduction of the euro

2.1.1. Legal adaptation at the EU level

In addition to the Treaty establishing the EC, the legal basis for introduction of the euro comprises three EU regulations¹:

- Council Regulation (EC) 974/98 on the Introduction of the Euro
- Council Regulation (EC) 2866/98 on the Conversion Rates between the euro and the Currencies of the Member States adopting the Euro
- Council Regulation (EC) 1103/97 on Certain Provisions relating to the Introduction of the Euro.

These EU regulations are binding in their entirety and directly applicable in all Member States.

Council Regulation (EC) 1103/97 on Certain Provisions relating to the Introduction of the Euro will not be amended because of the introduction of the euro in new member states.

Council Regulation (EC) 2866/98 on the Conversion Rates between the Euro and the Currencies of the Member States adopting the Euro governs the conversion rates between the euro and the currency of the member state introducing the euro. This regulation will be amended to include the irrevocably fixed exchange SIT/€ rate, when the European Council abrogates Slovenia's derogation.

Council Regulation (EC) 974/98 on the Introduction of the Euro was recently amended to include possible scenarios for future adoption of the euro.

2.1.2. Legal adaptation at the national level

The introduction of the euro requires amendments to a number of regulations. The Minister of Finance issued a list of regulations including amendments to valid regulations and new regulations.

The list of amended existing regulations includes:

- 1) Bank of Slovenia Act (amendments in line with legal convergence requirements from the 2004 Convergence Report)
- 2) Payment Transactions Act (amendments relate to the euro as the currency for domestic payment transactions)
- 3) Salary Tax Act (amendments relate to maintaining categories subject to taxation on conversion to euro)
- 4) Misdemeanours Act (amendments relate to the bases for determining fines in euro)
- 5) Collateralisation Act (amendments relate to determining financial assets which the ESCB requires for insuring loans issued by banks)
- 6) Companies Act² (amendments relate to the possibility of using no-par value shares (in Slovenian: *kosovne delnice*) in the process of adapting shares to transactions in euro).

The list of new regulations include:

- 7) Introduction of the Euro Act (defines the content of procedures to introduce the euro within national powers)
- 8) Dual Display of Prices in Tolars and Euros³ (ensuring transparent conversion of tolar prices into euro).

¹ The content of the regulations and the current state of fulfilment can be found at the following internet address: <http://www.europa.eu.int/eurlex/lex/Notice.do?val=227776:cs&lang=sl&list=227777:cs,227776:cs.&pos=2&page=1&nbl=4&pgs=10&hwords=&checktext=checkbox&visu=-text>

² The draft version of the act was published in *Poročevalec Državnega zbora*, no 85/2005.

The legal adaptations that are a condition for abrogation of the derogation by EU institutions relate to full conformity with the rules for operating central banks in line with Eurosystem rules and measures to protect the euro against counterfeiting. Amendments to the Bank of Slovenia Act taking into account remarks from the 2004 Convergence Report have now been prepared. In April 2005, Slovenia also ratified the Geneva Convention on the Prevention of Counterfeiting Currency from 1921.⁴

The changeover to the euro and withdrawal of the tolar from circulation will be governed by the Introduction of the Euro Act. This act will also specify the dual circulation period and the period for exchanging tolar banknotes and tolar coins into euro. It will contain provisions that relate to the changeover of the reference interest rate, the setting of the middle exchange rate of the Bank of Slovenia, the conversion of public debt and determine authorisations for more detailed rules on rounding calculated amounts. This act will also cancel the Currency Unit of the Republic of Slovenia Act and the Use of the Currency Unit of the Republic of Slovenia Act. A draft of the Introduction of the Euro Act has already been prepared.

Other acts and regulations that contain tolar values in penalty provisions, or for which tolar values represent the boundary between competent bodies or different categories will not be amended because of the introduction of the euro. The basic principle set out in Council Regulation (EC) 974/98 on the Introduction of the Euro will apply to these regulations, whereby values in legal instruments given in the national currency shall be deemed to be in euro taking into account the fixed exchange rate. The new values in euro will only be given in these regulations when they are amended, and not on introduction of the euro. It will not therefore be necessary to amend tax and customs regulations due to introduction of the euro. The appropriate adaptations will be made on the basis of the Introduction of the Euro Act or on the basis of implementing regulations issued on the basis of this Act.

³ Official Gazette of the Republic of Slovenia, no 101/05

⁴ The act ratifying legal succession was published in the Official Gazette of the Republic of Slovenia, no 36/05, suppl. International Treaties, no 5.

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

3.1. Purchase and sale exchange rates in the pre-entry period

The Euro Masterplan envisaged displaying the tolar to euro exchange rate separately from the charges for the exchange, during the pre-entry period (the period when the irrevocable exchange rate is known, but the euro has not yet been introduced). This recommendation was based on the desire to use the irrevocable exchange rate as soon as it was set.

This recommendation was found to be unworkable in the discussion on its implementation. Bank charges for exchanging foreign currencies are included in the purchase sale exchange rates, which are supported by computer applications. Changing this practice for the euro pre-entry period would require making changes to the computer applications that would have a very short lifespan, which would represent an unreasonable increase in preparation costs in banks, so the recommendation was dropped.

When determining the exchange rate before actual adoption, the **euro will still** be a foreign currency and as such still the subject of purchase and sale, not of exchange. This means that banks will still sell euro to individual and commercial customers or purchase them from them in **tolars**, which necessitates purchase and sale exchange rates, which are a matter for individual bank policy.

The Bank of Slovenia will continue to calculate and publish a middle rate for foreign currencies during the period from the setting of the irrevocable SIT/EUR exchange rate until the adoption of the euro as legal tender.

3.2. Act on Dual Display of Prices in Tolars and Euro

The Act on Dual Display of Prices in Tolars and Euro governs the obligation to provide dual informative prices and dual labelling of the prices of goods and services that companies offer customers during the period of introducing the euro as legal tender in Slovenia. The purpose of the informative dual display and dual labelling of prices is to enable a smooth changeover of currency, gradual adaptation and preparation of customers to evaluate the prices of goods and services in euro, and for the comparison of prices to prevent increased inflation due to the introduction of the euro.

In the period until the irrevocable exchange rate is set the central parity fixed on Slovenia's accession to ERM II (EUR 1 = SIT 239.640) will be used to calculate prices, and following that the exchange rate determined by the European Council in accordance with Article 123(5) of the Treaty establishing the European Communities (Official Gazette of the Republic of Slovenia - International Treaties, no 7/04). We expect the central parity to be set as the irrevocable exchange rate.

The Dual Display of Prices in Tolars and Euro Act limits the obligation to provide dual pricing in the period before the introduction of the euro to displaying prices and issuing of receipts for goods and services that companies offer to customers. Customers are defined as natural persons that acquire and use goods and services for purposes other than their professional or gainful activities.

The act requires companies to provide dual display of prices for goods and services in all potential forms. **The act also defines exceptions to the general rules in these areas: (i) petrol filling stations; (ii) catalogues; (iii) sections selling meat, fish, delicatessen products and bread; (iv) vending machines for goods and services; (v) the sale of books and other published products; (vi) gaming (gambling); (vii) small enterprises; (viii) companies providing goods or services pursuant to the act governing crafts (trades); (ix) companies offering goods and services in a legal transaction in which the price or value is given in euro; (x) farmers selling goods directly to customers (end users).**

The legal obligation to provide dual display of prices when offering banking services relates to two conditions:

- that it involves the sale of banking services to a customer;
- that the customer is issued with an invoice for the banking services sold (the definition of invoice is given in the VAT Act).

Banks must therefore provide a dual display of the bank tariff and those invoices it issues to customers specifically on the sale of services. Payment transaction documents, records on transactions and balances on personal bank accounts and other documents that only provide information on bank charges do not come into this category of invoice issued to a customer.

The original position in the Euro Masterplan obliging banks to provide dual display in these documents changed with the content of the adopted act. Banks decide as part of their business policy whether to provide dual pricing in other documents, in addition to the bank tariff and on invoices as required by the Act on Dual Display of Prices in Tolars and Euro.

The Slovenian Market Inspectorate is responsible for supervising how the act is implemented. The Act was published in the Official Gazette of the Republic of Slovenia, no 101 of 11 November 2005 and entered into force 15 days later on 26 November 2005.

3.3. Rules for rounding

In the Euro Masterplan the Government charged the Ministry of Finance and the Ministry of the Economy to prepare rules on rounding for the conversion of tolar to euro. As Council Regulation 1103/97/EC (Arts. 4 and 5) defines rules on the rounding of national values in conversion to euro and vice versa, the Ministry of the Economy prepared some starting points for rounding amounts not covered by the regulation. These relate to prices requiring a greater level of accuracy or that have a much lower value than the basic euro unit.

The currency unit in the eurozone is the euro, which is divided into smaller units, i.e. 100 cents. The lowest unit of value after adoption of the euro as the national currency will become 1 cent, which is also the smallest sub-unit that may be used in transactions. For this reason the legislature must ensure that amounts to be paid or accounted must be rounded to the nearest cent.

Attention must be paid in rounding amounts to ensure that the conversion or exchange rate is stated as one euro to a set value in the national currency and that it contains six figures (e.g. EUR 1 = SIT 239.640), which cannot be reduced or rounded to fewer decimal places. The conversion of amounts in tolar into euro can only take place with an exchange rate set out in this manner. The inverted exchange rate, specifying one unit of the national currency in euro (e.g. SIT 1 = EUR 0.00417) will not be used.

The rules for rounding specify that monetary amounts to be paid or accounted in euro or tolar must be rounded to the nearest cent or stotin (100 stotin to the tolar). If rounding an amount provides a result exactly in the middle, the amount is rounded up.

Specific problems in rounding euro amounts and amounts in the national currency may occur with prices with a low value or prices that require a greater level of accuracy.

Prices that require greater accuracy include prices for petroleum derivatives, gas, electricity, mobile and fixed telephony, public utilities and similar. Some examples are given below.

Examples of price rounding in Greece, Spain and Portugal

Greece: EUR 1 = GRD 340.750

Service	Unit of measurement	Price rounding	Interim amounts
Mobile telephony	pulse	Four decimal places	Four decimal places
Fixed telephony	pulse	n/a	Two decimal places
Public utilities – water	m ³	Four decimal places	Two decimal places
Electricity	kWh	Four decimal places	Two decimal places
Petroleum derivatives – heating oil (bill)	litre	Five decimal places	Two decimal places

Spain: EUR 1 = ESP 166.386

Service	Unit of measurement	Price rounding	Interim amounts
Mobile telephony	pulse	Four decimal places	Four decimal places
Fixed telephony	pulse	Four decimal places	Four decimal places
Public utilities		n/a	n/a
Electricity	kWh	Six decimal places	Two decimal places
Petroleum derivatives – heating oil (bill)	litre	n/a	n/a

Portugal: EUR 1 = ESP 240.482

Service	Unit of measurement	Price rounding	Interim amounts
Mobile telephony	pulse	Two decimal places	Two decimal places
Fixed telephony	pulse	Three decimal places	Two decimal places
Public utilities – water	m ³	Four decimal places	Two decimal places
Electricity	kWh	Four decimal places	Two decimal places
Petroleum derivatives – heating oil (bill)	litre	Six decimal places	Two decimal places

Given the experiences of the countries that first adopted the euro and on the basis of calculations taking into account different numbers of decimal places when rounding, the following rules are recommended for rounding sensitive prices in Slovenia:

- In converting prices from toalars to euro when a high level of accuracy is required or for low value prices that are sensitive to the slightest change in rounding, and where the amounts represent a significant element in company revenues and customer costs, prices shall be rounded to at least four decimal points.

Monetary amounts determined from these prices that are to be paid or accounted are then rounded to the nearest cent or stotin.

In no case may a monetary amount for payment, liquidation or accounting as a final account be changed as the result of rounding carried out in interim operations. Interim operations mean operations where the immediate objective of the operation is not payment or accounting of the final relevant monetary amount.

Pricing must take account of the valid legal principle that the introduction of a new currency must not affect the continuity of contracts and other legal instruments, which means that prices in the new currency must not differ from the price in the national currency. The continuity of contracts must also be taken into account in rounding, which means that the use of more decimal places than prescribed is permitted where required.

Proposals for some goods and services:

Service	Unit of measurement	Price rounding	Interim amounts
Mobile telephony	pulse	Four decimal places	Two decimal places
Fixed telephony	pulse	Four decimal places	Two decimal places
Public utilities – water	m ³	Four decimal places	Two decimal places
Electricity	kWh	Four decimal places	Two decimal places
Petroleum derivatives – heating oil (bill)	litre	Three decimal places	Two decimal places

3.4. Pensions in December 2006

The Euro Masterplan envisaged that the Ministry of Finance, the Bank of Slovenia, Pension and Disability Insurance Institute and the Bank Association of Slovenia should study the possibility of paying pensions in December 2006 in euro, before the introduction of the euro.

At a joint meeting these four institutions found that paying pensions in euro before its introduction could lead to some practical consequences that will be difficult to manage. It was therefore decided that the best solution to ensure the use of cash in the days before the introduction of the euro is somewhat spread out was to make payment in tolar some days before it would normally be paid.

At the meeting of representatives of Ministry of Finance, the Bank of Slovenia, the Bank Association of Slovenia, and the Pension and Disability Insurance Institute, it was agreed that pensions would be paid in tolar on 22 December 2006 instead of 29 December.

The Ministry of Finance agreed to the early payment of pensions in December 2006.

3.5. National side of euro coins

2 EURO – France Prešeren



1 EURO – Primož Trubar



50 cents – Triglav



20 cents – Lipizzaner horses



10 cents – Plečnik's parliament design



5 cents – Grohar's "The Sower"



2 cents – Prince's Stone



1 cent - Stork



3.6. Frontloading

The frontloading of euro coins to banks will start 1 September 2006, and the frontloading of euro banknotes is set for 11 December 2006. Banks will start supplying euro coins to businesses from 1 December 2006, and euro banknotes from 11 December 2006. Businesses and salespersons will also receive pre-prepared packets of coins during the frontloading with a suitable structure of denominations for initial cash transactions.

Table 1: Supply of euro banknotes and coins

	EURO COINS			EURO BANKNOTES		
	Supply of euro coins	Frontloading of euro coins	Early frontloading of euro coins	Supply of euro banknotes	Frontloading of euro banknotes	Early frontloading of euro banknotes
Quantity	238 million coins	155 million coins		94.5 million notes	42.3 million notes	
Weight	1 170 tonnes	751 tonnes		73 tonnes	32.4 tonnes	
Start	16.08.06	01.09.06	01.12.06	14.11.06	11.12.06	11.12.06

During the frontloading period, the Bank of Slovenia will supply commercial banks, larger branches of commercial banks and large users of cash (large retailers by special agreement).

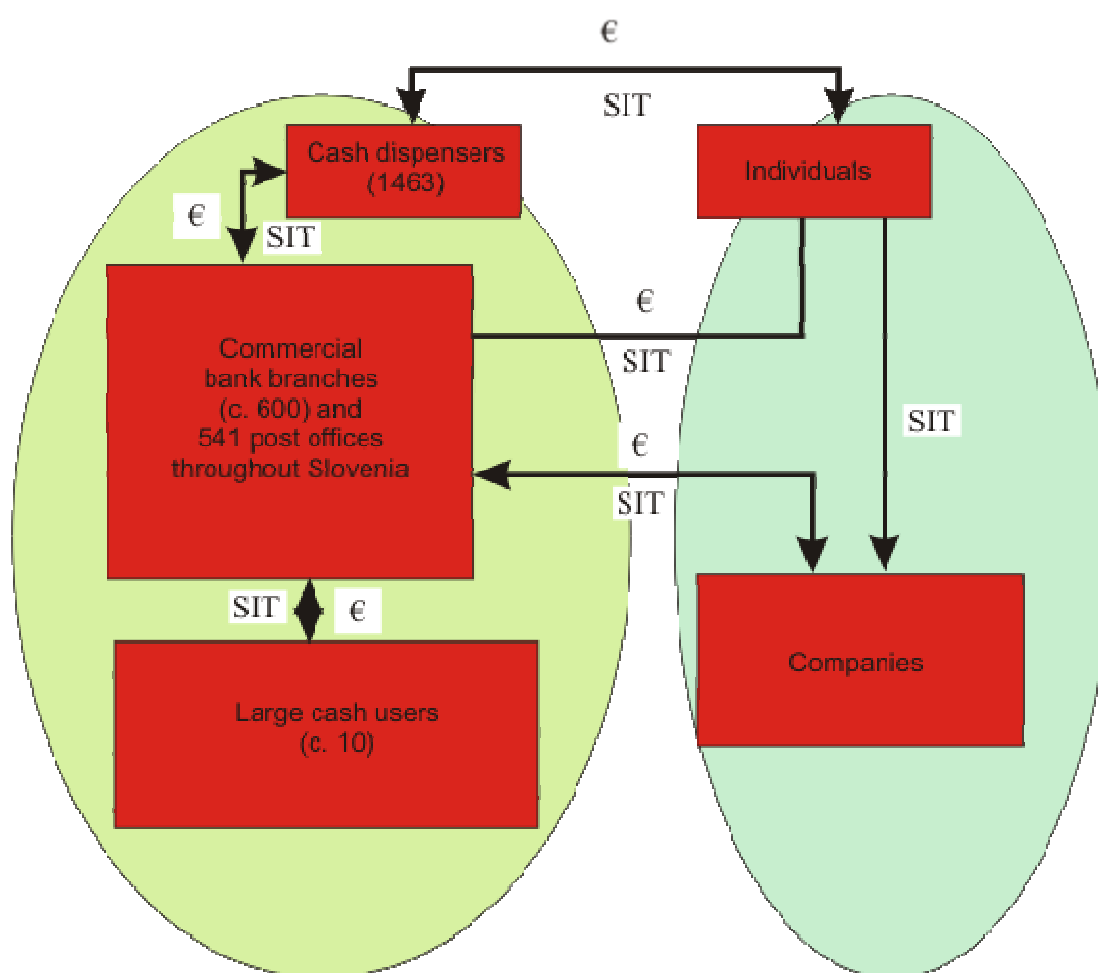
During the frontloading, banks will also receive starter kits for individuals (150 000 starter kits with 44 coins worth EUR 12.52), which people will be able to purchase before adoption of the euro. The sale of starter kits will begin on 15 December 2006. In addition to starter kits of euro coins, the Bank of Slovenia is also planned sets of euro coins with the national side. A total of 30 000 sets of euro coins are planned – mainly for numismatists.

From 1 January 2007 onwards the population will be able to obtain euro banknotes and coins in the following ways:

- In commercial banks where it will be possible to exchange tolar banknotes and coins for euro banknotes and coins free of charge until 1 March 2007;
- From cash dispensers that will only provide €10 and €20 denominated banknotes after 1 January 2007;
- At the Bank of Slovenia, which will exchange tolar banknotes free-of-charge after 1 March 2007, without a time limit, and tolar coins until 31 December 2016.

When payment is made in tolar to retail traders during the dual circulation period, change will be given in euro.

Figure: Euro changeover scenario for companies and individuals



3.7. Counterfeit detection training

In accordance with the recommendations of the European Central Bank and the European Commission on protecting the euro against counterfeiting (Council Regulation (EC) No 1338/2001), the National Counterfeit Centre at the Bank of Slovenia will start to train cashiers and others that handle euro banknotes and coins.

In 2005 the National Counterfeit Centre prepared a training programme, teaching material and test material. Two thousand copies of the material provided to lecture participants in CD-ROM format, were issued by the Bank of Slovenia. It includes texts presenting the history of counterfeiting, the obligations of users when a counterfeit is detected, Slovenia's international obligations in the field of detecting and preventing counterfeiting and a description and the powers of an individual organisation or body in combating counterfeiting. The material gives a detailed presentation of genuine and counterfeit euro banknotes and coins and Slovenian tolar.

In 2005 a total of 46 lectures were organised, which were attended by 798 participants. After the lectures, the participants sat a test.

In 2006 the National Counterfeit Centre will continue training on recognising counterfeit euro banknotes and coins. Training will be mainly for traders and tradespeople. The National Counterfeit Centre will also participate in a publicity campaign on detecting and authenticating genuine euro banknotes and coins.

4. Sectoral preparations

4.1. Banks

4.1.1. Payment transactions

The changeover to payment in euro will affect both cash and non-cash payment methods.

Withdrawing euro banknotes and coins and their use in payments

When on 3 January 2007 banks open their branches to their customers, they will pay out cash from and accept deposits into customer accounts in euro (payments into account will be accepted in tolar until 14 January 2007) and exchange tolar for euro. Before this date, people will be able to withdraw euro banknotes from their accounts from cash dispensers over the New Year holidays on 1 and 2 January 2007. In the second half of 2006, the banks, together with Bankart (the company that supports the operation of a network of approximately 1450 cash dispensers in Slovenia), will therefore upgrade software and cash dispenser drawers so that it will be possible to withdraw tolar banknotes exclusively until 31 December 2006 and €10 or €20 denominated euro banknotes from 1 January 2007. The current framework plan for the changeover to euro banknotes and coins envisages that cash dispensers will stop functioning at 21.00 on 31 December 2006 until a few minutes past midnight on 1 January 2007 and that 60 to 70% of all cash dispensers will be ready to dispense euro a few minutes after midnight. The list of cash dispensers with a timetable for when they will be ready to dispense euro banknotes will be made public in advance.

From 1 January 2007 until 14 January 2007 it will still be possible to pay in tolar, but it will not be permitted to pay out tolar. Tolar banknotes and coins will be accepted by banks, which will then perform the transaction in euro as all non-cash transactions will be exclusively in euro from 1 January 2007. At their customers' request, banks will also exchange tolar banknotes and cash for euro, but only until 28 February 2007, after which date it will only be possible to exchange tolar for euro at the Bank of Slovenia.

Changes to payment instruments

Preparations are underway in relation to non-cash payment in euro, especially in relation to adapting some forms of payment instrument, the conversion of the balance in customers' accounts and adapting technological support for processing non-cash transactions in euro.

After 1 January 2007 a range of new payment instruments will be in use: payment order (BN 02), remittance slip and money order. The forms will differ from the present ones in colour (visual change) and will be in line with international standards for such payment instruments.

Banks will ensure that new forms for payment orders in euro will be available on time. The issuers of remittance slips for payment for services in euro will be responsible for issuing new forms (e.g. companies issued bills and remittance slips for services), so that customers can pay using new forms after 1 January 2007.

Changing account balances for bank customers

The balance on tolar transaction accounts will be converted to euro on 1 January 2007 and from that day payments from the accounts will only be in euro.

Details regarding different payment methods

Card payments (bank or credit) will take place in euro only from 1 January 2007. POS terminals in shops and in the service sector will be upgraded during the preparation period to ensure that transaction up to midnight on 31 December will take place in tolar and in euro after midnight following a short break in operation. The payer's account will be debited in the currency in which the transaction took place.

At bank counters customers will be able to pay with tolar banknotes and coins from 3 January to 14 January 2007 or in euro, while from 15 January 2007 payment will be exclusively in euro. Non-cash payments debiting an account will take place in euro only from 3 January 2007 onwards. Of course tolar banknotes and coins may be exchanged for euro before paying until 1 March 2007. The **payment orders** with which customers debit their accounts will have a new layout and colour from 1 January 2007, and the payment total or account debit will be given in euro.

The remittance slip that will be in use after 1 January 2007 for payment in euro will also differ in colour from the previous tolar remittance slip, as well in the layout of details, while the standard machine readable strip will remain the same. When making payments with remittance slips at a bank counter between 1 January and 14 January 2007, customers will be able to pay slips issued in euro with tolar or euro banknotes and cash, but from 15 January only euro will be accepted.

After 1 January 2007, it will not be possible to process slips issued in tolar using machine-readable data strips. Bank tellers will have to input data on the euro amount from slips manually, as all non-cash transactions will be exclusively in euro from 1 January 2007. After a large number of meetings to reach agreement, representatives of three interest groups (companies issuing remittance slips for payment of services, consumers paying for services, and banks performing the transaction to credit the companies issuing the remittance slips), the consensus⁵ achieved permits the following series of actions:

- o It is recommended that remittance slip issuers give the payment amount on slips issued in tolar in euro as well, printed above the tolar amount. Banks will accept such remittance slips for payment and after machine reading the tolar amounts will manually input the euro amount as a correction. Large remittance slip issuers want payments for services to arrive in their accounts on an ongoing basis to enable automatic closure of receivables with received payments; a precondition for this is for the payment amount of the receivable to match the issuer's remittance slip records.
- o If an old tolar remittance slip does not have a printed amount in euro, the payer may write the euro amount from the bill on the "old" tolar remittance slip and submit it with a signature to the bank for payment. The fourth paragraph of Article 10 of the Act on Dual Display of Prices in Tolar and Euro states that: *"if a company carries out transactions for payment of goods or services via remittance slips, the final amount must be given in both currencies on the bill (invoice) only, while the amount on the remittance slip need only be in the main currency."* This provision requires remittance slips to state the euro counter value on bills, in addition to the tolar value. This informs payers of the amount they are paying in euro.
- o If the "old" tolar slip does not have the amount in euro, the conversion of the amount will take place at the bank counter, and the payer will sign to confirm the converted amount is correct. Pursuant to the Payment Transactions Act a payment order must include the monetary amount of payment and the currency, in order for the payment transaction executor to be obliged to accept it.

After 1 January 2007, banks will only make payments to customers based on **remittance slips** in euro. Money orders for payment of euro after 1 January 2007 will be issued on a new form in euro.

Payment via electronic banking will take place in tolar until a time on 29 December 2006 announced by the bank. From then on payment will be in euro only, such that transactions that take place on 30 December and 31 December will be accounted in the bank with the date 1 January 2006. The banks will announce the date from when payment by electronic banking will take place in euro in advance.

Transactions in banks during the changeover to the euro

The last working day for banks (bank counters, electronic banking, telephone banking) in tolar will be Friday 29 December 2006 (banks will announce the closing time). Banks will process all payments

⁵ Council Regulation (EC) no 974/98 on the Introduction of the Euro with amendments, Act on Dual Display of Prices in Tolar and Euro (Nov. 2005), Payment Transactions Act (ZPlaP), Draft Act on the Introduction of the Euro.

received in tolar on that day. From 30 December 2006 to 2 January 2007 banks will not carry out transactions for customers, but will prepare their entire system to ensure that they will be ready to accept cash and non-cash euro payments on the first working day in euro, 3 January 2007. Deposits and payments in tolar will still be accepted until 14 January 2007. From that day payment in tolar will no longer be possible, but it will be possible to exchange tolar for euro until 1 March 2007 (this will only be possible at the Bank of Slovenia after that date).

4.2. Capital market

4.2.1. Shares

Companies with share capital will have to amend their nominal capital, and public limited companies (d.d.) and limited companies (d.o.o.) will have also have to amend the nominal value of shares or the basic contribution to the new denomination, which will also require redenomination. In accordance with an internationally practiced approach, Slovenia will introduce no-par value shares, which do not require a special redenomination process.

Introducing changes to companies with share capital that the euro will demand will be determined by the umbrella act for the economic sphere – the Companies Act (Slovenian abbreviation: ZGD-1), which is now passing through parliament. The ZGD-1 first introduces the new concept of no-par value shares (in Slovenian: *kosovne delnice*), which are an internationally attested concept and a very welcome system of organising shares in relation to denomination. No-par value shares do not relate to an amount or quota, which avoids the change in the share capital contradicting (in the amount or quota) existing share documents or necessitating a change in the number of shares. Companies therefore have a rather elegant solution to adapting to the introduction of the new currency unit without costs or significant changes in capital. If shares no longer refer to a nominal value, their amendment and harmonisation will no longer be necessary. On the changeover to the euro most public limited companies in comparable countries took this path, as no-par value shares also make it easier to carry out transactions with share capital without the issue of new shares.

The ZGD-1 also introduces nominal indications for share instruments that indicate a supranational obligation (minimum share capital of a public limited company) or standard (the concept of a €1 share or minimum participation value) in the euro denomination. There are also euro denominations for thresholds, amounts, fines, etc. throughout the entire text of the act, but in a manner that consistently uses the tolar as the currency of the Republic of Slovenia until the day the euro is adopted. This will make it easier to apply rounded figures in both denominations.

Based on a comparative law approach considering experiences in other EMU member states, a public limited company can carry out the changeover to the euro in two ways: by converting nominal share value and share capital amounts into euro, or by introducing no-par value shares. In accordance with the ZGD-1, will select their euro changeover method at a general meeting. If a company chooses to maintain the nominal share concept they will use the conversion methods, but to address the consequences of rounding of amounts, companies can introduce appropriate increases or decreases to share capital so that the nominal value of a share is rounded up or down to the nearest round euro, or a reorganisation of shares. The ZGD-1 therefore defines the (correct) method of converting nominal shares and share capital (bottom up method), which is information in character, and places special emphasis on maintaining all the reciprocal relations between the rights and ratios connected to shares that a rounding process could threaten. First the nominal value of all shares in a public limited company are converted using the official exchange rate and then rounded in the correct manner to two decimal places, with the total of these converted values representing the new share capital in euro. All differences that result from rounding are correctly carried or covered and identified within the capital reserves under a specific internal subdivision and balance item. A public limited company must define an appropriate rounding (nominal share value to the appropriate whole euro) for denominations within a general meeting decision making process.

As the changeover to the euro in Slovenia will take place according to the Big Bang scenario, companies will not have the transitional period that previous EMU members had (3 years). The ZGD-1 is therefore oriented towards ensuring that companies can implement measures for the changeover to the euro within their general meetings in the 2006 business year. The proposer of the act allows the existing nominal value of shares and share capital in tolar to remain valid until the appropriate changes are made for companies established or that have submitted a proposal for establishment before the day the euro is adopted. Companies that want to maintain the nominal concept of shares will be able to

pass the relevant general meeting resolutions from the moment the irrevocable exchange rate is set, which will harmonise the nominal tolar denomination of shares and the share capital with euro, as defined by the act. However, these general meeting resolutions may only be entered on the day the euro is introduced (deferred resolutions) and with the relevant provisions in the articles of association. Companies that want to introduce no-par value shares will be able to do so before the irrevocable exchange rate is known. The actual introduction of no-par value shares does not affect nominal proportions or provisions. At the same time the general meeting will be able to authorise the management board or supervisory board to implement the conversion of the share capital according to the irrevocable exchange rate on the day of the introduction of the euro, and with the conversion from tolar to euro values carry out a minor “editorial action” in the provisions of the articles of association defining the company’s share capital. After the day the euro is introduced, companies that have not yet carried out the changeover to the euro will face a block on the register, meaning they can only amend an entry on share capital in the Register of Companies, unless they make the appropriate changeover to the euro at the same time.

The Act also sets out a range of procedural measures that will make it easier for companies to hold general meetings or to pass general meeting resolutions relating to the introduction of the euro (introducing lower quorum for voting, no requirement to prepare a notarised copy of the articles of association or special announcements, extended deadline for implementing regular annual general meetings in the 2006 business year, etc.). This further emphasises the importance of companies introducing all the necessary measures for the changeover to the euro as soon as possible. As the changeover to the euro will require the replacement of all physical securities, on carrying out a changeover either by issuing no-par value shares or shares with a nominal value in euro, it is recommended that all shares be changed into book-entry form (dematerialised) which will lead to greater transparency, cost effectiveness and simplicity of regulating securities in the future, in a manner already practiced by other EU member states.

The provisions of the ZGD-1 on public limited companies also define the euro changeover regime for limited companies (Slovenian abbreviation: d.o.o.) by analogy, but in a uniform and binding manner. The method for converting basic contributions and nominal capital is based on the top down method, as follows: the limited company (d.o.o.) will first convert its share capital from tolar to euro. This value will then be divided by one hundred and then rounded in the relevant manner to two decimal places. This amount will then be multiplied by the individual partners’ shares (their participating interest expressed as a percentage) to determine partners’ basic contribution in euro. The sum of the amounts for all partners will give the value of the nominal capital in euro. Other provisions for limited companies will follow those for public limited companies by analogy.

The final time limit for harmonising a company’s capital structure in euro is two years from the day the euro is adopted. Alongside blocking the register, companies and responsible persons that do not make the changes within the time limit, which includes two or three regular annual general meetings, will be penalised each subsequent year for failing to comply.

4.2.2. Debt instruments

The main recommended method of redenominating debt instruments is the bottom up method, applied to each instrument separately. This method entails converting individuals bonds into euro, using the irrevocably fixed exchange rate with rounding to the nearest euro cent.

The total value of a security in euro is the product of the individual bond value in euro and the number of bonds issued. Any difference between the issue in euro determined in this manner and the direct conversion of the entire value of the issue in euro due to rounding on one bond will be amended at the issuer level.

As many different types of debt instruments exist with differing technical characteristics, the redenomination approach for individual markets is described below. The Statistical Office of the

Republic of Slovenia will continue to publish information on TOM clauses (TOM is the Slovenian abbreviation for the base interest rate, which is used as the monthly indexation rate). The description depends on the debt instruments issued by the state.

Fixed rate bonds

These are securities issued in tolar denominations, with interest at a fixed interest rate. The nominal value of bonds is paid in a lump sum on the date the bond matures. On 30 November 2005 there were 10 tolar denominated bonds with fixed interest rate (RS44, RS51, RS52, RS54, RS55, RS56, RS57, RS58, RS59 and RS60) in the portfolio, while on the day of conversion to the euro there should be nine with a fixed interest rate.

On the changeover day, according to the redenomination principle described in the introduction, the value of individual bonds in euro will be calculated, and will be taken as the new nominal value of the bond from 1 January 2007.

In accordance with the prospectus for these bonds, the interest will be calculated from the nominal value of the bond. Interest for a period shorter than the interest period will also be calculated from the nominal bond value, in accordance with the formula stated in the prospectus.

In this light, all interest on such bonds maturing after 1 January 2007 will be calculated from the nominal value in euro.

Indexed bonds

These are bonds issued in order to rehabilitate banks and savings banks or to exchange bonds of that type for new Republic of Slovenia bonds. On 30 November 2005 there were four such bonds (RS10, RS46, RS47 and RS15U), none of which matured before 1 January 2007.

For these instruments the nominal bond value is indexed on an ongoing basis according to the valid annual or monthly base interest rate. The equivalent interest rate method is used for the valorisation. The interest rate for these instruments is fixed.

The principal of the bond is paid in a lump sum payment in the indexed value on the day the bond matures, except for the RS10 bond, for which the principal is paid in annual instalments. The individual instalments for the RS10 bond are divided according to the indexed principal on the day the bond principal matures.

Interest from the RS10 and RS15U bonds is calculated from the principal using the equivalent method, which is revalued according to the equivalent valid base interest rate. Interest from the RS46 and RS47 bonds is calculated from the revalued principal using the linear method.

The prospectuses for these bonds contain provisions when the TOM rate (base interest rate) cannot be determined. This means that if it is not possible to determine the TOM rate for an individual period due to a lack of data, change in regulations or for any other reason, seven working days before an interest payment matures, the TOM rate for that period shall be deemed the same as in the prior period in which the TOM can be determined.

In the case of indexed securities, the value of individual bonds in tolar on the changeover day is determined and will be the value of the individual bond at the end of the day on 31 December 2006. According to the redenomination principle described in the introduction, the conversion of the indexed tolar value of individual bonds into euro, while for the RS46 and RS47 bonds the nominal tolar value will also be converted into euro. The new values present the base for calculating interest and the principals that mature for payment after 31 December 2006, in line with their prospectuses.

Variable rate bonds

In accordance with the 2001 and 2002 Financing Programmes for the National Budget of the Republic of Slovenia, due to the gradual changeover to nominalism, bonds were issued with a variable interest rate comprising the valid (annual) base interest rate plus a fixed margin.

In 2001 and 2002 three and five year tolar denominated bonds were issued with a variable interest rate, which the prospectuses defined as a variable interest rate equal to the amount of the annually valid base interest rate (TOM) plus a fixed number of percentage points (TOM + x %). This variable interest rate therefore is not a case of indexation to the TOM rate, but has the function of a variable interest rate (EURIBOR + margin).

On 30 November 2005 nine bonds with variable interest rates (TOM + x %) remained. Most of these bonds will be paid out before the introduction of the euro, but on 1 January 2007 there will still be three variable interest rate bonds (RS21, RS31 and RS39).

On the changeover day, according to the redenomination principle described in the introduction, the value of individual bonds in euro will be calculated, and will be taken as the new non-matured value of the principal from 1 January 2007, which forms the base for calculating payments that mature after 31 December 2006, in accordance with the prospectuses for these bonds.

Irrespective of the above, in the case of amortisation bonds, such as RS21 and RS39, all the individual tolar values of unpaid principles from the amortisation schedule that mature for payment after 31 December 2006 must be converted according to the irrevocable exchange rate in accordance with the rounding rules. The total tolar value of the still unpaid principal must also be converted into euro in the same manner. Any difference between the amount in euro of the calculated values of the unpaid principals from the amortisation schedule and the total value of the unpaid principal in euro will be added to the first payment of the principal after 31 December 2006.

Euro denominated bonds

These are securities issued in euro denominations, with interest at a fixed interest rate. The interest is calculated from the nominal bond value on the due date for interest payment, using the linear method, such that the interest rate is multiplied by the nominal bond value and rounded to two decimal places. The nominal value of bonds is paid in a lump sum on the date the bond matures.

The principal and the interest is paid on each payment maturity date in the equivalent tolar value, converted according to the Bank of Slovenia's middle rate for the euro on the day of payment. The prospectus states that in the case the euro becomes the legal tender in Slovenia, the bond will be paid in euro. This provision means no additional changes or any exchange into euro is required.

On 30 November 2005 there were 11 euro denominated bonds with a fixed interest rate (RS18, RS23, RS26, RS29, RS32, RS33, RS38, RS48, RS49, RS50 and RS53) that would remain in the portfolio after 1 January 2007.

Discounted bonds

These are tolar denominated securities, issued with a discount. This means that the interest is not paid separately but is expressed as the difference between the nominal value, i.e. the value the state pays on maturity, and the discounted value (i.e. the value on issue).

As these are securities for which the final value is known on issue, all individual unpaid liabilities that will mature for payment after 31 December 2006 can be converted according to the irrevocable exchange rate, in accordance with the rounding rules.

4.3. Public sector

4.3.1. Tax calculations and tax returns

A special implementing regulation will be issued relating to taxes in response to the changeover to euro, on the basis of the umbrella act on the introduction of the new currency. This piece of legislation will determine the currency in which taxpayers must submit tax calculations and returns in the period after the introduction of the euro for tax periods before its introduction.

In accordance with the preliminary plan, *data in tax returns and calculations* relating to tax periods before introduction of the euro that taxpayers submit after the euro's introduction, will be given in tolar, with the final amount of tax to be paid in euro, with the tax liability converted into euro using the irrevocable exchange rate.

Calculations of tax deductions and social security contributions that taxpayers submit to the tax authority in relation to income tax after the introduction of the euro will be submitted in euro and the tax liability paid in euro, even if the payment relates to the period before the introduction of the euro.

A tax authority that issues a *decision on tax assessment or a decision on a tax rebate* after the introduction of the euro for a tax period prior to its introduction, will issue the decision in tolar and euro, with the liability converted into euro according to the irrevocable exchange rate.

Taxpayers must *pay* all tax liabilities after the introduction of the euro in euro, except during the dual circulation period, when it will be possible to pay in euro or tolar.

A special regulation will have to *define the exchange rate or rates for converting tolar values into euro for the needs of determining tax liabilities* (in the case of capital gains, etc.)