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The Legal Framework for the Enlargement of the Euro Area

by

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THE LEGAL FRAMEWORK FOR THE ENLARGEMENT OF THE EURO AREA

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Abstract

The three Council Regulations forming the original legal framework for the introduction and the use of the euro were adopted in 1997 and 1998. In December 2005, the Council adapted the Regulation on the introduction of the euro to provide the rules for the introduction and the use of the euro in Member States adopting the euro after 2006. Building on the provisions governing the initial establishment of the euro area, the revised rules now allow for two new changeover scenarios in addition to the transitional period scenario applicable for the first-wave euro-area Member States: Member States can also choose a "big bang" scenario (in which case the transitional period will be reduced to zero) or a "big bang" scenario combined with a "phasing-out" period. The "big bang" scenario in general allows for a more expeditious changeover to the euro now that euro banknotes and coins are widely available. Yet, this approach imposes rigorous timing requirements which might not in all cases be met by the economic actors. The "big bang" scenario combined with a "phasing-out" period thus offers a more gradual phasing out of the national currency by providing some scope during a certain period for still referring to the national currency units.

Keywords: Introduction of the euro, non-participating Member States, enlargement of the euro area, monetary law, changeover scenarios.

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Executive Summary

The original legal framework for the introduction and the use of the euro was laid down in three Council Regulations adopted in 1997 and 1998 based on decisions taken by the European Council meeting in Madrid in December 1995.

- *Regulation (EC) No 1103/97 on certain provisions relating to the introduction of the euro replaced the ECU by the euro and provides for certain general principles, such as continuity of contracts, and general aspects of the conversions rates as well as rounding rules.*
- *Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro provides for the core monetary law provisions for the euro area. It sets up the euro as the currency and substitutes it for the currency of each of the participating Member States. The Regulation moreover provides for a transitional period from 1 January 1999 to 31 December 2001 during which the euro and the national currency coexisted. Finally, it deals with the introduction of euro banknotes and coins as of 1 January 2002.*
- *Regulation (EC) No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro sets these conversion rates.*

On 21 December 2005, the Council adapted the Regulation on the introduction of the euro in order to provide the legal framework for the introduction and the use of the euro in Member States adopting the euro after 2006. This framework builds upon the earlier framework for the initial establishment of the euro area.

For future euro-area entrants, a scenario involving a transitional period will no longer be the only possibility to join the euro area. Instead of such scenario, Member States could also choose a so-called "big bang" scenario or a "big bang" scenario combined with a "phasing-out" period.

Member States choosing a "traditional" transitional period scenario will adopt the euro in a two-phased approach. The euro will be introduced as the currency at the beginning of the transitional period, while euro banknotes and coins will become legal tender in that country only after the end of the transitional period. During this period, both the euro unit and the national currency unit could be used, although the former only in scriptural form. The legal framework allows for a transitional period of variable length. It moreover sets a maximum length for the transitional period of three years but requires that the transitional period should in any case be as short as possible, i.e. significantly shorter than three years. The essential difference with the transitional period from 1999 to 2001 stems from the existence of euro banknotes and coins. Citizens and enterprises in Member States newly entering the euro area can acquire them even though they would not yet be legal tender in such Member States.

The so-called "big bang" scenario is, legally speaking, a sub-category of the transitional period scenario, where the start of the transitional period and its end coincide. Thus, the adoption of the euro as the currency of the relevant Member State and the introduction of euro banknotes and coins in that country will be on the same day. This scenario imposes stringent requirements on economic and administrative operators in the private and public sector.

As it is uncertain whether all sectors and operators will be able to comply with the rigorous timing requirements imposed by the "big bang" approach, the "big bang" scenario combined with a "phasing-out" period offers some leeway towards allowing for a more gradual phasing out of the national currency. There will be some scope for still referring to the national currency units in certain newly created legal instruments, which are to be performed in the Member State concerned, for a period of one year at most after the adoption of the euro. The length of the "phasing-out" period can be shortened by Member States. Its scope can be reduced by national law, for example by confining it to certain specific sectors.

Moreover, the Council enacted some further provisions for the introduction of the euro. It allows for an integrated approach covering all current euro-area Member States as well as all future entrants in the same legal act. Moreover, the amended Regulation provides for an obligation for banks in Member States joining the euro area to exchange banknotes and coins free of charge during the period of dual circulation.

The Community legal framework cannot cover all aspects of the introduction of the euro. In some cases, the national legislator is called upon to adopt supplementary provisions. For instance, national law can shorten the "phasing-out" period" and the dual circulation period. It can set ceilings on banks' obligation to exchange banknotes and coins. Moreover, national law can cover areas not regulated by Community law, e.g. the dual display of prices and amount. Finally, national legislation making reference to amounts denominated in the national currency unit can be adapted in a way that references to "rounded' amounts in the national currency are replaced with "rounded" euro amounts, as a mere conversion would in such case lead to "unrounded" euro amounts.

Concerning the procedure for Member States to join the euro area, the Treaty provides that the Commission and the ECB adopt at least once every two years a convergence report examining whether non-euro-area Member States fulfil the convergence criteria. On this basis, the Commission decides whether to adopt a proposal for a Council decision admitting further Member States to the euro area. If such a proposal is tabled by the Commission, the Council, after consulting the European Parliament and a discussion by the Council, meeting in the composition of the Heads of State or Government, adopts a decision by qualified majority. Moreover, the Council will also adopt the conversion rates for the countries joining the euro area and will lay down what changeover scenario applies to these countries.

Introduction

The original legal framework for the introduction and the use of the euro was laid down in three Council Regulations (Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction and the use of the euro, Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro and Council Regulation (EC) No 2866/98 of 31 December 1998 on the conversion rates between the euro and the currencies of the Member States adopting the euro) which were adopted in the years 1997 and 1998 in order to regulate the introduction of the euro in the eleven Member States forming the euro area in 1999 (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal and Finland; Greece joined the euro area on 1 January 2001). The basis for this legal framework was established by the European Council meeting in Madrid in December 1995, hence it has become known as the "Madrid scenario" for the introduction of the euro.

On 21 December 2005, the Council adopted Regulation (EC) No 2169/2005 amending Regulation (EC) No 974/98 on the introduction of the euro in order to provide the legal framework for the introduction and the use of the euro in Member States adopting the euro after 2006. No changes have been made to Council Regulation (EC) No 1103/97 on certain provisions relating to the introduction and the use of the euro and Council Regulation (EC) No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro.

The recently adopted framework for the enlargement of the euro area builds upon the earlier framework for the initial establishment of the euro area in 1999. This paper therefore covers the latter only to the extent necessary to understand the rules applicable for future entries to the euro area. Further details on the initial introduction of the euro can be found in the 46 Euro Papers which the European Commission has published in the years 1997 to 2002[1]. The following ones specifically cover the legal framework.

- No. 4: Legal framework for the use of the euro, September 1997;
- No. 10: The legal framework for the use of the euro. Questions and answers on the euro regulations, December 1997;
- No. 22: The introduction of the euro and the rounding of currency amounts, March 1998.

Section 1. describes the revised legal framework following the changes brought about by Regulation (EC) No 2169/2005. Section 2. lays out the procedure for the enlargement of the euro area.

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1 Euro Papers are available at DG ECFIN's website at the following address: http://europa.eu.int/comm/economy_finance/publications/europapers_en.htm

1. The revised legal framework

The Community law basis for the formal adoption of the measures for the introduction of the euro (ex-Article 109l(4)(3) of the Treaty[2]) was only to become available once it had been decided which Member States would initially establish the euro area. It had therefore been decided in 1997 to split up the legal framework and to base those provisions for which legal certainty was most urgently needed on ex-Article 235 of the Treaty[3]. The latter have been adopted in 1997 as the Regulation on certain provisions relating to the introduction of the euro.

The other monetary law provisions were to be adopted on the basis of ex-Article 109l(4)(3) of the Treaty as soon as these Member States were identified. They were eventually adopted in May 1998 as the Regulation on the introduction of the euro. These Regulations have been supplemented by the Regulation on the conversion rates between the euro and the currencies of the Member States adopting the euro.

The legal framework therefore consists of the following Council Regulations.

- Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro[4] as amended (in order to provide for the adoption of the euro by Greece) by Council Regulation (EC) No 2595/2000 of 27 November 2000 amending Regulation (EC) No 1103/97 on certain provisions relating to the introduction of the euro[5].
- Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro[6] as amended (in order to provide for the adoption of the euro by Greece) by Council Regulation (EC) No 2596/2000 of 27 November 2000 amending Regulation (EC) No 974/98 on the introduction of the euro[7].

  This Regulation has been amended by Council Regulation (EC) No 2169/2005 of 21 December 2005 in order to provide a legal framework for the future introduction of the euro in further Member States[8]. The Annex provides a consolidated version of Regulation (EC) No 974/98 as amended by Regulation (EC) No 2169/2005.
- Council Regulation (EC) No 2866/98 of 31 December 1998 on the conversion rates between the euro and the currencies of the Member States adopting the euro[9] as amended (in order to provide for the adoption of the euro by Greece) by Council

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2 This provision has in the meantime been renumbered by the Treaty of Amsterdam as Article 123(4)(3) EC.

3 Now Article 308 EC.

4 OJ L 162/1 of 19 June 1997.

5 OJ L 300/1 of 29 November 2000.

6 OJ L 139/1 of 11 May 1998.

7 OJ L 300/2 of 29 November 2000.

8 OJ L 346/1 of 29 December 2005.

9 OJ L 359/1 of 31 December 1998.

Regulation (EC) No 1478/2000 of 19 June 2000 amending Regulation (EC) No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro[10].

This chapter summarises the main features of these three Regulations including the changeover scenario for the twelve first-wave euro-area Member States (sections 1.1 to 1.3), since the key elements of these Regulations will remain in place for future euro-area enlargements. While all first-wave countries joined the euro area under the same "Madrid" scenario, section 1.4 explains the three different changeover scenarios among which Member States joining the euro area in future may choose. In this context, section 1.4 also sets out the amendments which have been adopted by the Council in December 2005 in order to provide for future enlargements of the euro area and explains the reasons for these amendments. Sections 1.5 and 1.6 describe further amendments to the legal framework and the role of national law, respectively.

1.1 Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro

Regulation (EC) No 1103/97 contains the "urgent" provisions, which had to be adopted at the earliest possible stage of the process leading to the establishment of the euro area and notably a considerable time in advance of the decision as to which Member States would establish the euro area. Yet it should be noted that the actual introduction of the euro as the currency of the participating Member States is not dealt with in this Regulation. Consequently, the provisions contained in this Regulation are of a general nature and are independent from individual accessions to the euro area. As indicated before, these provisions are relevant to both past and future euro-area entrants and remain unaffected by future euro-area enlargements. This Regulation in particular provides for the following.

1.1.1 Replacement of the ECU by the euro

When referring to the single currency, the EC Treaty only uses the term ECU – the acronym for the term **E**uropean **C**urrency **U**nit. With effect from 1 January 1999, Regulation (EC) No 1103/97 replaces all references in legal instruments to the ECU by references to the euro at a rate of one to one.

1.1.2 Continuity of contracts

Article 3 confirms the continuity of contracts and other legal instruments: the introduction of the euro does

- not have the effect of altering any term of a legal instrument;

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10 OJ L 167/1 of 7 July 2000.

- nor the effect of discharging or excusing performance under any legal instrument;
- nor gives it a party the right to unilaterally alter or terminate such an instrument.

As the recitals to the Regulation clarify, Article 3 has mainly declaratory purpose, since the principle of continuity of contracts is generally applicable in the Member States.

It should be noted that Article 3 refers to the "introduction of the euro", a concept that is broader than the substitution of the euro for the national currencies. The introduction of the euro also comprises the replacement of references to the ECU by references to the euro as well as other direct effects of the introduction of the euro.

The introduction of the euro does not justify invoking the principle of frustration or principles with similar effects, like "*Wegfall der Geschäftsgrundlage*", "*théorie de l'imprévision*", etc. In national law, several conditions normally have to be met to allow the invoking of such principles, which seem not to be met in the case of the introduction of the euro for virtually all existing contracts. The Regulation nevertheless provides a clear statement of the principle of continuity; it thereby enhances legal certainty and gives a clear signal to economic agents against challenging existing contracts. This statement also ensures that parties cannot invoke "*force majeure* clauses" just because of the introduction of the euro.

1.1.3 Conversion rates and rounding rules

Although the official conversion rates for the first twelve euro-area Member States have only been adopted after the entry into force of the Regulation on certain provisions relating to the introduction of the euro[11], the Regulation already provided that the conversion rates shall be adopted as one euro expressed in terms of each of the national currencies of the participating Member States. The Regulation moreover sets rules for the conversion of amounts between the euro unit and the national currency units and vice versa. These rules are of particular importance for the preparation of the changeover of software products to the euro, and ensure a high degree of accuracy when making conversions. They should also prevent inaccuracies through conversion operations.

Article 4 of the Regulation stipulates that only the conversion rates of one euro in terms of each of the participating currencies should be fixed, e.g. 1 euro equals 40,3399 Belgian francs. These rates are then adopted by the Council with six significant figures, which should not be rounded nor truncated when making conversions.

The official rates must be used for conversions either way between the euro and the national currency units, and also for conversions between national currency units. This implies that an

11 The conversion rates for the Belgian franc, the German mark, the Spanish peseta, the French franc, the Irish pound, the Italian lira, the Luxembourg franc, the Dutch guilder, the Austrian schilling, the Portuguese escudo and the Finnish mark have been laid down by Council Regulation (EC) No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro (OJ L 359, 31.12.98, p. 1). The conversion rate for the Greek Drachma has been added by Council Regulation (EC) 1478/2000 amending Regulation (EC) No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro (OJ L 167, 7.7.2000, p. 1).

amount to be converted from a national currency unit to the euro unit has to be divided by the conversion rate. For converting from the euro unit to the national currency unit, one has to multiply the euro amount by the respective conversion rate.

Inverse rates are not allowed, as the associated rounding of the rate would give rise to inaccuracies in multiple conversions, in particular when large amounts are involved.

As a consequence, bilateral rates between the different national currency units are not allowed either, and the Regulation prescribes the "triangulation" method for such conversion operations. The first step is to convert from the national currency unit into the euro unit; this intermediate result has to be calculated to at least three decimal places. In a second step, one has to convert this euro amount into the other national currency unit. The alternative of defining bilateral rates would have opened the possibility of inaccuracies through conversion operations from one national currency unit to the other. As a result of inevitable rounding inaccuracies, the rates between the euro and the national currencies would be unlikely to be fully consistent with all bilateral rates. Alternative methods of calculation can be used, provided they produce the same result as the algorithm laid down in the Regulation. Concerning rounding, Article 5 of the Regulation stipulates that monetary amounts to be paid or accounted for after a conversion into the euro unit shall be rounded up or down to the nearest cent. Monetary amounts to be paid or accounted for which are converted into a national currency unit shall be rounded up or down to the nearest sub-unit or in the absence of a sub-unit to the nearest unit, or according to national law or practice to a multiple or fraction of the sub-unit or unit of the national currency unit. If the application of the conversion rate gives a result which is exactly half-way, the sum shall be rounded up.

The wording of this provision clearly covers (1) amounts which give rise to a payment on the consumer's part, namely all monetary debts, and (2) amounts entered in accounting documents or statements. While the Regulation aims at a high degree of accuracy in conversion operations, it does not expressly address the question whether the term "monetary amounts to be paid or accounted for" also covers other intermediary monetary amounts which serve as a basis for calculating the price to be paid by the consumer, such as telecommunications or other tariffs (for petrol, heating oil, gas, water or electricity).

In its judgment of 14 September 2004 in case C-19/03[12], the European Court of Justice held that tariffs, such as per-minute telecommunication prices, do not constitute "monetary amounts to be paid or accounted for" within the meaning of the Regulation. Therefore, they do not need to be rounded in every case to the nearest cent. Conversely, practical reasons do not only justify, but also require rounding of amounts to be paid or accounted for to the nearest cent: since the smallest monetary subdivision of the euro is the cent, the price actually paid by the consumer, when he pays in cash, can be expressed only to the nearest cent. Likewise, since invoices are rounded to the nearest cent, accounting entries and statements of account corresponding to the invoices have to be presented with the same degree of accuracy.

However, the Court also held that the Regulation does not preclude the rounding to the nearest cent of amounts other than those which are to be paid or accounted for. This is, however, only possible if such rounding complies with the principle of continuity of contracts and with the

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12 Verbraucher-Zentrale Hamburg eV v O2 (Germany) GmbH & Co. OHG, [2004] ECR I-8183.

objective that the changeover to the euro should be neutral. Consequently, other amounts than those to be paid or accounted for should not necessarily be rounded to the nearest cent, particularly if this could affect the parties' contractual obligations, or have a real impact on the price actually to be paid. Unnecessary rounding could violate the principle of continuity of contracts and the Regulation's objective that the transition to the euro should be neutral[13].

1.2 Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro

Regulation (EC) No 974/98 provides for the core monetary law provisions for the euro area. It has been adopted as the second part of the legal framework for the introduction and use of the euro as soon as it had been decided which Member States were to establish the euro area on 1 January 1999.

1.2.1 Setting up the euro as the currency

Regulation (EC) No 974/98 stipulates that the euro will be the currency of the participating Member States from 1 January 1999 (Article 2) and will be substituted for the currency of each of those countries at the conversion rate (Article 3).

1.2.2 The transitional period

Part III of Regulation (EC) No 974/98 (Articles 5 to 8) contains a number of transitional provisions. This part sets the rules for the transitional period which lasted three years in the first eleven euro-area Member States (1 January 1999 to 31 December 2001) and one year in the case of Greece (1 January 2001 to 31 December 2001).

Some aspects concerning the transitional period are dealt with below in section IV. on changeover scenarios. The transitional period is explained in further detail in the above-mentioned Euro Papers[14]. As a fully-fledged transitional period is likely to be less relevant for future euro-area entrants, it might suffice at this point to refer to these explanations.

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13 For instance, the case decided by the ECJ involved a telecommunications tariff foreseeing a per-minute price of 0,05 German marks. Given the conversion rate for the German mark of 1 euro = 1,95583 German marks, this is converted (when limited to five decimal places) into 0,02556 euro. Rounding this amount to the nearest cent yields 0,03 euro. Thus, if the customer had to pay for 1.000 minutes, he would have to pay 25,56 euro if only the final amount were to be rounded, but he would have to pay 30,00 euro, if the price per minute would be rounded. This would imply an increase of more than 17 %.

14 Cf. footnote 1.

1.2.3 The final changeover

Articles 10 to 16 of Regulation (EC) No 974/98 deal with the final part of the changeover to the euro: the introduction of euro banknotes and coins in the participating Member States. In the first twelve euro-area Member States these provisions became applicable on 1 January 2002, and the European Central Bank and the national central banks of the participating Member States started to issue euro banknotes, while the participating Member States started to issue euro coins.

Euro banknotes and coins have legal tender status in all euro-area Member States. As far as euro coins are concerned, no one (except for the issuing authority and for those persons specifically designated by national law) is obliged to accept more than 50 coins in any single payment.

Banknotes and coins denominated in the national currency unit were allowed to retain their legal tender status for six months at most after the introduction of euro banknotes and coins in the relevant Member State (the so-called dual circulation period). Yet following the ECOFIN Council meeting in Turku in September 1999, Member States issued a common statement in November 1999 on the guidelines for the introduction of euro banknotes and coins. They notably agreed to limit the dual circulation period to between one and two months. Accordingly, the respective dual circulation periods came to an end in most euro-area countries on 28 February 2002, while a few countries decided to shorten this period even further and a single one (Germany) withdrew legal tender status of its national currency notes and coins on the day of introduction of euro banknotes and coins.

As long as banknotes and coins retain their legal tender status, they have to be accepted for the settlement of debt denominated in this national currency unit as well as for the settlement of a debt denominated in the euro unit. The legal tender function of these banknotes and coins is nevertheless limited to the territory of the respective Member State. Member States are also free to define rules for this dual circulation period for the use of national notes and coins, and to take any measures which may be necessary to facilitate their withdrawal.

As from 1 January 2002, the national currency units ceased to exist as sub-divisions of the euro; only the euro unit and the cent as its sub-unit subsisted. All residual references to the national currency units in legal instruments existing at that date had to be read as references to the euro unit, according to the conversion rates. A physical redenomination of these legal instruments is, legally speaking, not necessary, although it may be useful in certain cases.

1.3 Council Regulation (EC) No 2866/98 on the conversion rates between the euro and the currencies of the Member States adopting the euro

Both Regulations (EC) No 1103/97 and 974/98 are based on the premise that conversion rates will be defined between the euro on the one hand and the currencies of Member States joining the euro area on the other hand. These Regulations in addition lay down rules on how to apply these conversion rates, but do not actually define them.

Regulation (EC) No 2866/98 sets the conversion rates listed in table 1. This Regulation will need to be amended and a new conversion rate will need to be added at the time of the lifting of the derogation of the Member State concerned. These measures will then enter into force on the day of the adoption of the euro by this country. This practice was adopted for the first time, when Greece joined the euro area.

Table 1

1 euro	=	40,3399	Belgian francs
	=	1,95583	German marks
	=	340,750	Greek drachma
	=	166,386	Spanish pesetas
	=	6,55957	French francs
	=	0,787564	Irish pounds
	=	1 936,27	Italian lire
	=	40,3399	Luxembourg francs
	=	2,20371	Dutch guilders
	=	13,7603	Austrian schillings
	=	200,482	Portuguese escudos
	=	5,94573	Finnish marks

The conversion rate for the Greek Drachma was adopted in June 2000, i.e. at the same time as the decision on the lifting of Greece's derogation. It was however not possible in 1998 to set these rates at the time of the decision on the participating Member States[15]. The reason is that the euro replaced the ECU at a rate of one to one. Yet the ECU basket was not only composed of the national currencies of eight countries joining the euro area in 1999 (German mark, French franc, Italian lira, Dutch guilder, Belgian franc, Luxembourg franc, Irish pound, Spanish peseta and Portuguese escudo), but it also contained the Danish krone, the Greek drachma and the Pound Sterling[16]. In practical terms, it was impossible to determine the conversion rates with the euro until the value of the ECU basket was calculated on 31 December 1998 on the basis of the exchange rate of its component currencies. Article 123(4)(1) EC required therefore that the conversion rates shall be adopted at "the starting date of the third stage", i.e. on 1 January 1999. This needs to be interpreted in a way stipulating that on the first day of the third stage at the latest, the conversions would have to be set.

1.4 Changeover scenarios for Member States joining the euro area in future

The Madrid scenario for the introduction of the euro has been implemented by way of the three Regulations mentioned above and in particular by Regulation (EC) No 974/98. This scenario was

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15 Yet the Council, the Commission and the European Monetary Institute – the predecessor of the ECB – tried to provide as much information as possible on the future convergence rates and, on 3 May 1998, adopted a joint communiqué on the determination of the irrevocable conversion rates for the euro, OJ C 160/1 of 27 May 1998. This communiqué included a table containing all future bilateral rates between the currencies of the participating countries (based on the ERM central rates).

16 Regulation (EC) No 3320/94 of 22 December 1994 on the consolidation of the existing Community legislation on the definition of the ecu following the entry into force of the Treaty on European Union, OJ L 350/27 of 31 December 1994.

notably based on a transitional period of three years for the Member States establishing the euro area. For Member States joining the euro area in future, an approach comparable to the Madrid scenario and requiring a transitional period will however not be the only possible way to change over to the euro. Instead of a Madrid-style scenario with an outright transitional period, Regulation (EC) No 974/98 as amended will also allow Member States to choose a scenario where the transitional period will be reduced to zero (commonly referred to as “big bang” scenario). When opting for such a “big bang” scenario, the Member State concerned may also benefit from a “phasing-out” period of up to one year (commonly referred to as “big bang” scenario combined with a “phasing-out” period)[17].

In future, not all countries will join the euro area simultaneously; instead, accession will take place individually or in small groups. Yet it is up to each Member State to determine which of the three different scenarios would suit its national peculiarities best. This national decision must thus be communicated to the European institutions – notably to the European Commission – well before the actual lifting of the Member State’s derogation, since immediately thereafter the Council will adapt the legal framework. Firstly, the Council will add the country concerned to the list of participating Member States and specify the euro adoption date. Secondly, it will specify what changeover scenario applies to the country concerned. As a result, the changeover scenario applicable to that country will then be laid down in Community law[18]. Once this has been enacted, the Member State concerned will have to comply with the rules laid down for this scenario in Community law. This section describes the three scenarios and explains the reasons why such further scenarios in addition to a Madrid-style scenario were deemed necessary.

1.4.1 Madrid-style scenario

The Madrid scenario implied a two-phased approach to change over to the euro. The first phase – the so-called transitional period – started on 1 January 1999 (1 January 2001 in the case of Greece) and ended on 31 December 2001. Its most important characteristic has been that the euro was introduced as the currency at the beginning of the transitional period, while euro banknotes and coins became available only after the end of this period.

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17 The legal framework uses the terms “transitional period” and “phasing-out” period. The term “big bang scenario” does not appear. The labellings “Madrid-style” scenario, “big bang” scenario or “big bang” scenario combined with a “phasing-out” period are merely colloquial circumscriptions. Legally speaking, these three scenarios are all sub-options of the same scenario: in all cases, a transitional period applies, but this period might be reduced to zero in which case a “phasing-out” period might be added. The colloquial indications describe the effects of the ways in which the scenario is applied; i.e. whether the transitional period is applied as an outright transitional period or whether it is reduced to zero and whether a “phasing-out” period is added.

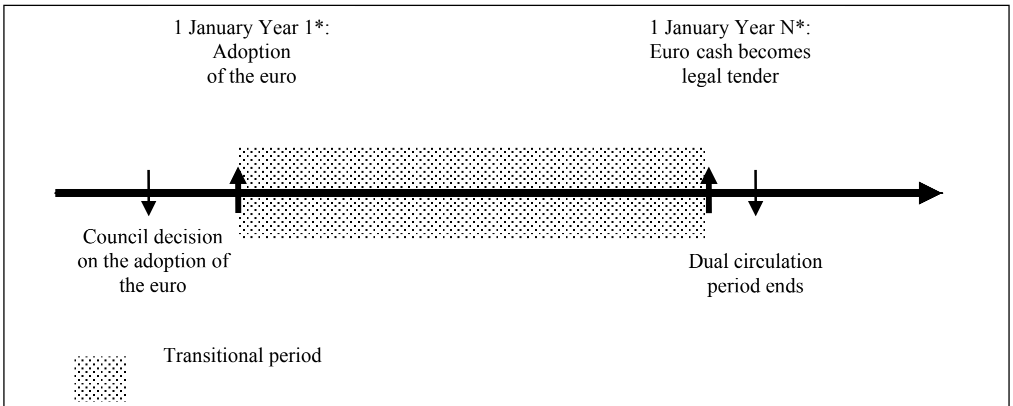
18 Regulation (EC) No 974/98 provides that the euro adoption date, the cash changeover date, and the phasing-out period, if applicable, for each participating Member State shall be set out in the annex to the Regulation. That annex contains a table specifying for each participating Member State the euro adoption date, the cash changeover date and whether or not a Member State has opted for a “phasing-out” period. If the dates listed for the euro adoption date and the cash changeover date are identical, then the so-called “big bang” scenario applies in the respective Member State. The column “Member State with a “phasing-out” period” shows whether a “phasing-out” period applies in that Member State (“Yes”) or not (“No” or “n/a”).

During this transitional period of three years, both the euro unit and the national currency unit could be used, although the former only in scriptural form (e.g. euro bank accounts and related operations such as cheques, transfers, etc.). The denomination of legal instruments existing on 1 January 1999 remained unaltered. Acts to be performed under legal instruments stipulating the use of or denominated in a national currency unit were to be performed in that national currency unit. The same applied – mutatis mutandis – for acts to be performed or denominated in the euro unit. Banks had to convert incoming payments to the denomination of the account of the creditor.

Member States joining the euro area in future might still apply such scenario; yet the transitional period will not necessarily extend over three years. In fact, the legal framework as amended sets a maximum length for the transitional period of three years but requires that the transitional period should in any case be as short as possible, i.e. significantly shorter than three years. This provision on the maximum length of the transitional period has been added in order to ensure equal treatment of Member States in the future.

As far as the substance of the provisions is concerned, the essential difference with the period from 1999 to 2001 stems from the existence of euro banknotes and coins. Citizens and enterprises in Member States newly entering the euro area can now easily acquire them despite the fact that such euro cash would not yet be legal tender in such Member States. Provided all parties agree, they could even use them for cash payments. Apart from this practical consideration, euro-area entrants with a transitional period would find themselves in a comparable situation to the initial first-wave countries. In particular, citizens and enterprises would be entitled to use either the national currency unit or the euro unit (except for cash payments) and banks would need to convert incoming payments depending on the denomination of the creditor's account. This scenario is illustrated in Graph 1.

Graph 1: Madrid-style approach



* The adoption of the euro and the introduction of euro banknotes and coins could in principle also take place on any other day than 1 January of a given year.

1.4.2 "Big bang" scenario

Legally speaking, the so-called "big bang" scenario is a special sub-category of the transitional period scenario, where the start of the transitional period and its end coincide. Consequently, the transitional period would last one logical second only, and the provisions governing the transitional period described in the previous section will take no effect in the Member State concerned. The adoption of the euro as the currency of the relevant Member State and the introduction of euro banknotes and coins in that country will be on the same day.

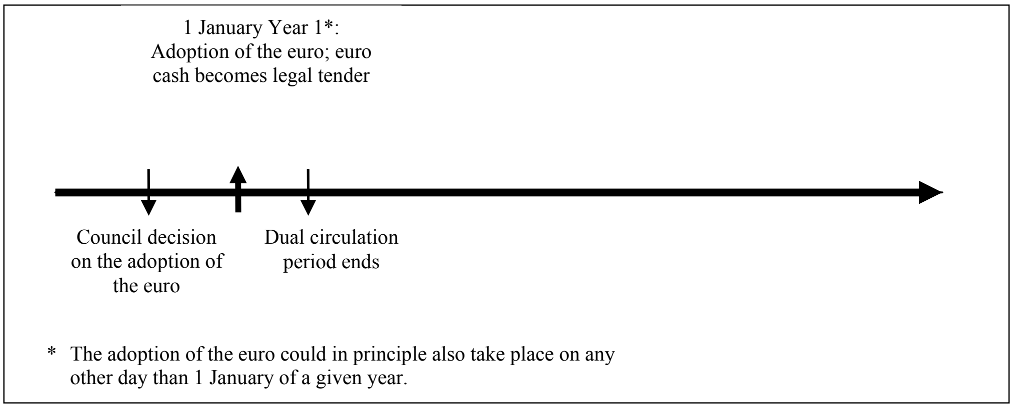
As a consequence, all financial operations as well as financial references in legal instruments are to be performed and expressed in the national currency up to the last day before the country's entry into the euro area. Once the country has joined the euro area (i.e. one logical second later), the same operations are to be carried out in euro. In practice, enterprises and administrations generally will make use of the short holiday period around the beginning of the year (the date usually, but not necessarily, chosen by Member States for adopting the euro) to implement their switch-over to the euro, provided their computer and other systems have been properly prepared in advance.

The "big bang" scenario thus imposes stringent requirements on economic and administrative operators in the private and public sector. At the same time, this ambitious scenario exerts a strong attraction on future euro area entrants. Several reasons explain this preference for the "big-bang" scenario.

Firstly, unlike in 1998, euro banknotes and coins are already in circulation in the euro-area Member States. If a country were to opt for a transitional period, during which euro banknotes and coins would not have legal tender status in the country concerned, the general public could nevertheless obtain euro banknotes and coins from participating Member States and it might thus be difficult to prevent them from using euro cash for payment purposes.

Secondly, under a "Madrid-style" scenario certain sectors (financial institutions, certain public administrations, etc.) are obliged during the transitional period to operate in both the national currency unit and the euro unit. Many would like to avoid the necessary investment in this double functionality. Since any future transitional period is likely to be shorter than the three years' maximum which the legal framework foresees, the investment is even more difficult to justify.

Graph 2: "Big bang" approach



Thirdly, many retailers fear that the delayed introduction of euro banknotes and coins, which constitutes one of the main characteristics of a "Madrid-style" scenario, might be overtaken in practice by consumers' willingness to use euro cash as soon as possible, even for retail transactions. This would result in an involuntary and protracted period of dual circulation.

Fourthly, for the general public, an artificial distinction between cash and non-cash operations could be perceived as confusing, particularly since euro cash already exists and can be easily obtained.

Finally, several of the Member States which have acceded to the European Union in May 2004 went through a currency changeover in the recent past and have learned from this previous experience.

The “big bang” scenario is illustrated in Graph 2.

1.4.3 “Big bang” scenario combined with a “phasing-out” period

After describing the “big bang” scenario combined with a “phasing-out” period in general (1.4.3.1), this section lists examples of legal instruments covered by the provision on “phasing-out” (1.4.3.2) as well as of legal instruments not covered by that provision (1.4.3.3).

1.4.3.1 The scenario in general

As laid out in the previous section, the so-called “big bang” approach is based on an instantaneous transition by all economic actors from the national currency to the euro. While this approach appears attractive for many reasons, notably because it ensures a swift introduction of the euro and minimises the length of the transition, it is however unclear whether all sectors and operators will be able to comply with the rigorous timing requirements imposed by the “big bang” approach, notably since the conversion of complex systems, IT systems in particular, requires considerable lead times. Moreover, since companies and administrations are expected to operate exclusively in euro as from the date of adoption of the euro, many of them will be competing for the same scarce resources, notably in terms of IT support and related expertise, and thereby contribute to the creation of bottlenecks. Indeed, the first-wave experience shows that a considerable number of economic actors faced problems to manage the changeover to the euro in time.

The experience of small and medium-sized enterprises (SMEs) with the euro changeover has been examined in a study in June 2004. The study covering 2,402 SMEs from the twelve euro-area countries shows that most SMEs managed the changeover very well which is notably due to the considerable lead time of 3 ½ years between the lifting of the derogation and the introduction of the euro cash. Nevertheless, not all companies completed their preparations in time and some went through considerable difficulties.

The results indicate that many companies used the transitional period for their preparations while for a few this period has not been sufficient. The lead-time for changeover-related tasks typically ranged from six months to two years. Larger enterprises as well as the public sector in general followed detailed changeover schedules although this does not form part of the study. The results allow drawing some lessons for the changeover preparations of future euro-area entrants, in particular those which do not intend to apply a transitional period thereby reducing the time span available for the preparations. Problems related to the changeover notably concern the adaptation of IT and accounting systems as well as timing questions in general[19].

Thus, in order to facilitate a smooth transition to the euro, while fully preserving the advantages associated with a "big bang" approach, the legal framework offers some leeway allowing for a more gradual phasing out of the national currency. There will be some scope for still referring to the national currency units in certain newly created legal instruments for a "phasing-out" period (one year at most) after the date of adoption of the euro. Yet it should be noted that the "phasing-out" approach is an optional feature only available for countries applying a "big bang" scenario.

Under the "phasing-out" approach, it will therefore still be possible after the "big bang" date to create legal instruments, which are however only to be performed in the Member State concerned, making reference to the national currency unit. In general, this will be possible during a period of one year from the euro adoption date. Such references to the national currency unit will be read as references to the euro unit according to the respective conversion rates and applying the rounding rules laid down in Regulation (EC) No 1103/97. Moreover, the Regulation clarifies that any act to be performed under such a legal instruments can only be performed in the euro unit. In other words, all payment operations (both cash and non-cash) will be exclusively carried out in euro, with the sole exception of national currency cash which can be used until the end of the dual circulation period.

This can be further explained by the following example for the introduction of the euro in country A where the national currency ("α") is replaced by the euro at a rate of 1 euro = 3 α. If country A decides to apply the "phasing-out" approach, economic operators can continue for one year at most to create new legal instruments still referring to α. If a company draws up an invoice stating that an amount of 150 α shall be paid, the recipient of the invoice has to convert this amount into euro at the conversion rate of 1 to 3 (i.e. 50 euro). He could then decide to pay the amount due in euro, either in the form of cash or in scriptural form. Alternatively, since the recipient of the invoice also benefits from the "phasing-out" provisions, he could decide to draw

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19 While 50.9% of the companies switched over their accounting systems on 1 January 2002, 46.1% converted them during the transitional period (4.7% on 1 January 1999, 5.7% during 1999, 9.6% during 2000 and 26.1% during 2001). 3.1% admitted that they did not manage to prepare themselves in time and introduced the euro in accounting only after 1 January 2002. In two countries, this share even exceeds 10% of SMEs. While the number of companies that did not manage to complete the preparations in time is not so important, the rate of those reporting problems is more pronounced. 21.5% report to have experienced some problems compared with 6.8% that faced considerable difficulties.

The adaptation of IT systems represents one of the major sources of changeover related risks. 8% of the respondents reported considerable problems with the adaptation of information technology. In three countries, more than one company out of eight confirmed this. 49% replaced their computer systems on the occasion of the changeover. This development was favoured by the substantial lead-time provided by the transitional period. In spite of this lead-time, 16.9% of the companies indicated that they had some problems to find sufficient IT resources during peak periods of the changeover preparations, while 4.5% had considerable difficulties.

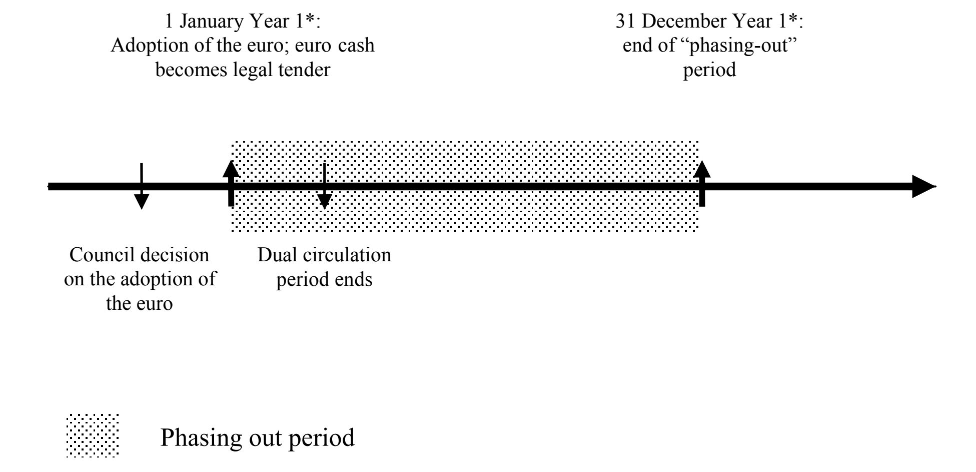
The supply of adequate information and consulting proved to be an important element of a successful changeover. SMEs considered very helpful the services offered by accountants and lawyers (62.3%), by banks (59.4%), by the software suppliers (48.8%), by chambers of commerce (41.4%), by consultants (25.5%) and by local authorities (18.5%). However, 30.5% of the companies participating in the survey pointed out that they did not make use of external information due to a lack of time.

up a bank transfer form or other legal instrument with comparable effect for the amount of 150 α. The bank would have to convert this amount into euro and carry out the payment in euro (since national currency accounts no longer exist). The recipient's bank will then credit the amount of 50 euro to the company's account.

By acknowledging the resource constraints caused by a "big bang" and allowing economic operators to spread out (to a period after the "big bang") the most time-consuming parts of the overall conversion operations, such as the switch-over of their administrative and computer systems, the changeover will in many instances be better planned, more orderly, smoother and less costly. At the same time, a legal underpinning will be provided for the continued production of legal instruments which are still based on the former national currency unit. In the corporate sector, the "phasing-out" will primarily allow for a more gradual changeover of accounting and financial reporting systems, including billing and invoicing systems, order processing systems, payroll systems, etc. In the retail sector, cash registers and weighing balances will be covered. As far as the public sector is concerned, payroll and pensions systems would be covered, as well as systems for the payment of various allowances or the collection of taxes, ticketing machines (e.g. in public transport), etc. Despite the flexibility provided by the "phasing-out" approach, all parties concerned would continue to have a strong incentive to complete the changeover as soon as possible in order to avoid the burden of having their systems still running in the former national currency while all related payment operations are exclusively carried out in euro.

The length of the "phasing-out" period can be shortened by Member States and in any event must not exceed one year. Its scope can be reduced by national law, for example by confining it to certain specific sectors or operations where problems or delays are anticipated. This scenario is illustrated in graph 3.

Graph 3: "Big bang" approach combined with a "phasing-out" period



* The adoption of the euro could in principle also take place on any other day than 1 January of a given year. National law might moreover stipulate that the "phasing-out" period last for less than one year.

1.4.3.2 Examples of legal instruments covered by the provisions on "phasing-out"

The "phasing-out" scenario allows for a limited period of time after the introduction of the euro to continue to make reference in legal instruments to the national currency. It therefore covers in principle all legal instruments. However, Community law does not – and in fact cannot – provide an exhaustive list of the legal instruments concerned, as their use and legal effects are typically laid down in national law.

The "phasing-out" provisions covers legal instruments created after the cash changeover date, and the legal framework defines "legal instruments" as "legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than banknotes and coins, and other instruments with legal effect." When making reference to legislative and statutory provisions, acts of administration, judicial decisions, contracts, and so on, the legal framework essentially refers back to national law, because it is up to national law to determine the nature of a legislative or statutory provision, of an act of administration, of a judicial decision, of a contract, and so on. In the same vein, it is up to national law to determine what instruments have legal effect. If an instrument has legal effect under national law, it automatically qualifies as a "legal instrument" under Community law.

Consequently, what qualifies as a legal instrument in one national legal order does not necessarily qualify as a legal instrument in another national legal order. For instance, in some legal orders an invoice might have legal effect, e.g. by causing the respective claim to become due. In this legal order, an invoice would qualify as an "other instrument with legal effects". Other legal orders might consider an invoice as a simple statement of a pecuniary amount which does not have any legal effects. In this legal order, an invoice would not qualify as an "other instrument with legal effects".

National law can moreover limit the scope of the "phasing-out" provision to specific legal instruments or to legal instruments in certain areas (cf. Article 9a). The definition of the limitation is entirely up to the Member State concerned.

Against this background, the following examples would be covered by the "phasing-out" provision, if the respective instruments qualify as legal instruments under the respective national law, and unless the respective national law excludes the application of the "phasing-out" provision to these instruments. In practice, it would only make sense to have recourse to the "phasing-out" provision if the references to the national currency unit appear in legal instruments which are produced by automated systems which remain to be converted. If the legal instrument is produced manually, i.e. without automated systems, referring to the legacy currency unit will in general not be warranted.

Corporate sector: legal instruments produced by automated systems, such as accounting and financial reporting systems, billing and invoicing systems, order processing systems, payroll or other payment systems, cheques, etc.

Retail sector: Systems producing legal instruments, such as cash registers, weighing balances or other machines producing receipts, etc.; vending systems, such as vending machines displaying prices or online sales systems.

Public sector: Systems producing legal instruments, such as payroll, pensions, taxation and social welfare systems, etc.; payment systems, e.g. for electronic tolls, fees or taxes.

1.4.3.3 Legal instruments not covered by the provisions on "phasing-out"

The provision on "phasing-out" essentially takes only effect for legal instruments concerning pecuniary amounts. Other legal instruments are not affected by this provision. Moreover, this provision might cover only certain parts of legal instruments – notably those parts concerning pecuniary rights. Against this background, national law can, firstly, limit the scope of the "phasing-out" provisions to specific legal instruments or to legal instruments in certain areas. Secondly, unless national law limits the scope of the "phasing-out" provisions, all instruments are generally covered by the "phasing-out" provisions.

For instance, this could apply to invoices, price catalogues, price displays, order forms, cheques, transfer forms, letters of credit, accounting or any other legal instrument. Notably a sales contract will generally qualify as a legal instrument. The price specified in this contract would be covered by the "phasing-out" provision. During the "phasing-out" period, the price may still be made out in the national currency unit (even though in practice this would only make sense if there would be specific or compelling reasons to continue to refer to the former national currency unit, e.g. in contracts produced by a not yet converted automated system as opposed to a contract drawn-up manually). The counterpart of the price – the good to be sold – is not covered by the "phasing-out" provision, as it does not represent a pecuniary right. Moreover, the example of a sales contract helps shedding light on more complicated situations. Even if a legal instrument mentions a pecuniary amount, it is not necessarily covered by the "phasing-out" provision. If, for instance, a vending machine for public transport tickets still produces tickets displaying the fare in the national currency unit, this is not necessarily covered by the "phasing-out" provision – and in fact does not need to be covered. This ticket is not a legal instrument specifying a pecuniary amount[20], even though the customer needs to pay the fare for the ticket, and even though the fare will in most cases be imprinted on the ticket itself. To the contrary, the right represented in the ticket does not entitle the customer to a pecuniary claim. Instead, the ticket entitles the customer to receive the transportation, i.e. a non-pecuniary operation, which cannot be converted into euro and can thus not be covered by the "phasing-out" provision.

1.4.4 Comparison of the individual scenarios

This section explains the differences among the three changeover scenarios. While part 1.4.4.1 will provide general examples for these differences, part 1.4.4.2 specifies the differences between the Madrid-style transitional period and the "phasing-out" period and part 1.4.4.3 the differences between the "dual circulation" and the "phasing-out" period.

20 However, a ticket qualifies as a legal instrument specifying a pecuniary amount, if it is for instance at the same time considered to be a receipt with legal value under the applicable national law.

1.4.4.1 Examples for the differences among the individual scenarios

Table 2 provides practical examples illustrating the difference between a "Madrid-style" scenario, a "big-bang" scenario and a "big-bang" scenario combined with a "phasing-out" period. It is assumed in all three cases that the Member State concerned adopts the euro on 1 January 2007. The first Member State chooses a transitional period lasting for a single year (followed by a short period of dual circulation). The second Member State opts for a big-bang approach without phasing-out. The third Member State combines the "big-bang" with a "phasing-out" period of one year. In the last two cases, the period of dual circulation starts on the euro adoption date, which coincides with the cash changeover date.

Table 2

Examples	"Madrid-style" scenario	"Big bang" scenario	"Big bang" scenario with "phasing-out" period
Payment Operations			
Having a bank account denominated in the national currency unit in the course of 2007	Y	N	N
Having a bank account denominated in euro in the course of 2007	Y	Y	Y
Having a bank account denominated in the national currency unit in the course of 2008	N	N	N
Producing a bank transfer request in the national currency unit in the course of 2007	Y	N	Y
Producing a bank transfer request in the euro unit in the course of 2007	Y	Y	Y
Producing a bank transfer request in the national currency unit in the course of 2008	N	N	N
Paying with national currency cash as legal tender in 2007	Y	N(*)	N(*)
Paying with euro cash as legal tender in 2007	N	Y	Y
Paying with national currency cash as legal tender in 2008	N(**)	N	N
Paying with euro cash as legal tender in 2008	Y	Y	Y
Legal instruments			
Producing invoices, payroll statements, etc. in the national currency unit in the course of 2007	Y	N	Y
Producing invoices, payroll statements, etc. in the national currency unit in the course of 2008	N	N	N
Producing invoices, payroll statement, etc. in the euro unit in the course of 2007	Y	Y	Y

Y = allowed (*) Except during the period of dual circulation (early 2007)
N = not allowed (**) Except during the period of dual circulation (early 2008)

1.4.4.2 Difference between the Madrid-style transitional period and the "phasing-out" period

It is important to distinguish the Madrid-style transitional period (before the introduction of euro cash) from the "phasing-out" period (after the introduction of the euro cash). Firstly, the "phasing-out" period is incompatible with the transitional period since it is potentially only applicable in countries applying a "big bang" scenario. Secondly, the content of the "phasing-out" period and the transitional period are essentially different. Under the transitional period scenario, the euro would already be introduced as the currency, but would primarily affect the currency in its scriptural form, as euro banknotes and coins will not yet be issued in the Member State concerned. As the experience of the initial introduction of the euro has shown, the national legacy currency will therefore probably continue to be used in everyday life to a significant extent, both in the form of cash but also scripturally.

Under a "phasing-out" period, to the contrary, the switchover to the euro would have much more far-reaching effects. Given that this scenario constitutes a sub-option of the "big bang" scenario, the euro would already be introduced as the currency as well as in the form of banknotes and coins which are legal tender. In principle, the euro can therefore be used for all purposes, and only very limited room would remain for the national legacy currency. It could for instance be used only for accounting or invoicing. It would, however, neither be used for cash payments (except for the period of dual circulation) nor for cashless payments. Table 3 compares the transitional period with the "phasing-out" period.

Table 3

	Transitional period	**"Phasing-out" period**
Payment operations (cash and non-cash)		
National currency cash is legal tender	Y	N (*)
Euro cash is legal tender	N	Y
Bank accounts in national currency units are allowed	Y	N
Bank accounts in euro units are allowed	Y	Y
Legal instruments		
Situation before the introduction of euro cash	(i.e. during the transitional period)	(i.e. before the "big-bang")
References to the national currency unit in new legal instruments are allowed	Y	Y
References to the euro unit in new legal instruments are allowed	Y	N
Situation after the introduction of euro cash	(i.e. after the end of the transitional period)	(i.e. after the "big-bang")
References to the national currency unit in new legal instruments are allowed	N	Y
References to the euro unit in new legal instruments are allowed	Y	Y

Y = allowed (*) Except for the period of dual circulation
N = not allowed

1.4.4.3 Difference between the "dual circulation" period and the "phasing-out" period

Both the "phasing-out" period and the "dual circulation" period aim at facilitating the changeover to the euro, but are of a very different nature. Both periods start at the same day, i.e. at the cash changeover date which is at the same time the euro adoption date in Member States applying a "big bang" scenario. Both periods coincide at least partially; the "dual circulation" period can thus be considered a part of the "phasing-out" period.

The "dual circulation" allows for a limited use of banknotes and coins denominated in the legacy currency after the introduction of euro cash. The "phasing-out" period, however, does not concern the use of banknotes and coins, but rather the use of the legacy currency unit for other purposes, and in particular for those where a complete changeover to the euro might not be possible overnight. Table 4 visualises their common and different features.

Table 4

	Dual circulation period	**"Phasing-out" period**
Applies to …	▪ the transitional period scenario; ▪ the "big bang" scenario; ▪ the "big bang" scenario combined with a "phasing-out" period.	▪ the "big bang" scenario combined with a "phasing-out" period.
Starts on …	… the cash changeover date which does not necessarily coincide with the euro adoption date.	… cash changeover date which coincides with the euro adoption date ("big bang" scenario).
Concerns euro in …	… the form of banknotes and coins.	… references in legal instruments.
Allows …	… to use both euro and national banknotes and coins.	… to continue to make reference to the national currency unit in legal instruments.
Scope	All cash payments.	Legal instruments. Member States can limit the scope to certain legal instruments or to instruments in specific areas.
Length	Maximum length six months can be shortened by national law.	Maximum length one year can be shortened by national law.

1.5 Other new provisions in Regulation (EC) No 974/98 on the introduction of the euro

First of all, the Regulation has been amended in a way to allow for an integrated approach covering all current euro-area Member States as well as all future entrants in one legal act. Consequently, by reading the amended Regulation, it is possible to find out exactly what scenario applied to the introduction of the euro in, say, Belgium, as well as the scenarios applicable in any future euro area entrant.

In addition to modifying the "Madrid-style" changeover scenario by allowing for a variable length of the transitional period (while limiting its length to three years at most) and adding two additional changeover scenarios to Regulation (EC) No 974/98, Regulation (EC) No 2169/2005 amending Regulation (EC) No 974/98 brings about other changes of substance.

Firstly, all references to specific dates – such as for instance 1 January 2002 as the date for the introduction of euro banknotes and coins – are replaced with dates defined in an abstract way. As a consequence, these dates will be allowed to differ among Member States. For example, while the date for the introduction of euro banknotes and coins for the twelve current participating Member States would remain 1 January 2002, this could mean any other future date for future entrants, for instance 1 January of any given year or any other date in the course of the coming years. The individual dates are specified for each euro-area Member State in the Annex to the Regulation.

Secondly, the Regulation henceforth provides expressly for an obligation for banks in Member States joining the euro area in the future to exchange banknotes and coins free of charge. The rules for the adoption of the euro by the first-wave euro-area Member States and Greece did not contain a legally binding provisions providing for such an obligation. A Commission Recommendation however called upon banks to grant such exchange free of charge[21]. During the dual circulation period, credit institutions will in future be obliged to exchange banknotes and coins denominated in the national currency unit of that Member State for banknotes and coins in euro, free of charge. As far as customers of a credit institution are concerned, the institution is obliged to provide this service up to a ceiling which may be set by national law. If national law does not set such a ceiling, credit institutions will be obliged to exchange such banknotes and coins for their customers without limitation. Moreover, credit institutions may require that customers give notice in advance, if the amount to be exchanged accedes a household amount. National law shall define the concept of a household amount. In the absence of such national law provisions, credit institutions may define this amount themselves. Concerning persons other than their customers, national law may set a ceiling for the credit institutions' obligation to exchange banknotes and coins free of charge. In the absence of such national law provisions, credit institutions may set such ceilings themselves. National law can moreover limit this obligation to specific types of credit institutions or extend it upon other persons.

Thirdly, the Regulation has been adapted to recognise the legal tender status of euro coins issued by certain non-EU countries. Under monetary agreements with the Community, Monaco, San Marino and the Vatican City State are entitled to use the euro as their official currency. They may issue certain quantities of euro coins which share the properties of euro circulation coins issued by euro-area Member States with respect to the face value, legal tender status and technical and design characteristics on the common side and the common design characteristics on the national side. This practice goes back to a tradition existing before the establishment of the euro area, when certain non-EU countries shared the currency of EU Member States. The French franc was the currency of Monaco and the Italian lira was the currency of San Marino and of the Vatican City State.

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21 Cf. Commission Recommendation of 11 October 2000 on measures to facilitate the preparation of economic operators for the changeover to the euro, OJ C 303/3 of 24 October 2000.

1.6 Role of euro-related national law

The Community legal framework is the basis for the introduction of the euro. Yet it cannot cover all aspects of the introduction of the euro. In some cases it is necessary for the national legislator to adopt supplementary national provisions. In other cases, national provisions might not be strictly necessary, but it might still be advisable to adopt such provisions.

In general, two cases need to be distinguished. On the one hand, the Community law framework expressly spurs the adoption of national law in specific cases. On the other hand, the need for or the advisability of the adoption of national law also stems from other motivations.

1.6.1 National law complementing the Community framework

The Regulation on the introduction of the euro expressly calls or allows for national law in various respects.

- Concerning the transitional period, national law can provide for measures for the redenomination of outstanding debt issued by that Member State’s general government or allow for the change of the unit of account of their operating procedures from a national currency unit to the euro unit by financial markets or systems for the regular exchange, clearing and settlement of payments (Article 8(4)).
- National law can shorten the “phasing-out” period” (Article 9a).
- National law can designate those persons which are obliged to accept more than 50 coins in any single payment (Article 11).
- National law shall ensure adequate sanctions against counterfeiting and falsification of euro banknotes and coins (Article 12). Yet after the adoption of Regulation (EC) No 974/98, this obligation has been specified in greater detail by a variety of Community legal acts. Notably the Council Framework Decision of 29 May 2000 on increasing protection by criminal penalties and other sanctions against counterfeiting in connection with the introduction of the euro (2000/383/JHA)[22] sets standards for national legislative measures for the fight against counterfeiting of banknotes and coins.
- National law can shorten the dual circulation period (Article 15(1)).
- For a period of up to six months from the respective cash changeover date, national law can lay down rules for the use of the banknotes and coins denominated in its national currency unit and take any measures necessary to facilitate their withdrawal (Article 15(2)).
- National law can set a ceiling corresponding to a household amount in excess of which credit institutions may require that notice be given prior to the exchange of their

22 OJ L 140/1 of 14 June 2000, as amended by Council Framework Decision of 6 December 2001, OJ L 329/3 of 14 December 2001.

customers' banknotes and coins denominated in the national currency unit of the Member State concerned. In the absence of such provisions, credit institutions may set such ceiling themselves (Article 15(3)).

- National law can set a ceiling up to which credit institutions are obliged to exchange banknotes and coins denominated in the national currency unit of the Member State concerned of persons other than their customers free of charge. In the absence of such provisions, credit institutions may set such ceiling themselves (Article 15(3)).
- National law can limit the obligation for credit institutions exchange their customers' banknotes and coins denominated in the national currency unit of that Member State for banknotes and coins in euro, free of charge, to specific types of credit institutions. National law may also extend this obligation upon other persons (Article 15(3)).
- National law or practices can regulate the rules for the respective issuers of banknotes and coins to accept, against euro at the conversion rate, the banknotes and coins previously issued by them (Article 16).

1.6.2 National law based on other motivations

The need for or the advisability of the adoption of national law arising from other motivations than the Community legal framework occurs in different areas.

- Some Member States might deem certain measures necessary, which other Member States do not consider mandatory. For instance, as was also the case during the initial introduction of the euro, the need for regulating the dual display of prices and amounts may vary among individual countries. This is an issue which can therefore be dealt with under national law, if necessary. For example, during the initial introduction of the euro, dual displays of prices and amounts were regulated by law in Greece and Austria.
- Concerning criminal law, Member States may want to examine whether banknotes and coins denominated in the national currency unit are still protected by the provisions on counterfeiting of currency even after they have lost their legal tender status or whether Member States still want to protect them.
- Finally, national legislation frequently makes reference to amounts denominated in the national currency unit. The currencies of the participating Member States are replaced with the euro. Consequently, even without any action at national level at all, monetary amounts referred to in national legal acts will be converted at the rates fixed by Community law. All relative values remain the same, i.e. "The figures change, but not the value". Therefore, in principle, there is no legal reason to adopt legislation concerning such amounts.

  However, a large number of statutory provisions contain amounts in the national currency unit which are so-called "signal amounts", i.e. "round" figures in the national currency unit. Such "signal amounts" might for instance be used in tax law provisions, in provisions on fines, on fees or on thresholds for delimitation of competences of courts, or even for fees and charges for municipal services such as admissions to swimming pools or museums, tickets for public transport, etc.

Some first-wave euro-area Member States considered that “awkward” signal amounts in euro resulting from applying the conversion rate should be avoided and therefore new “rounded” euro amounts should be introduced. However, “rounded” euro amounts cannot be achieved through conversion, but only through realignment; i.e. “smoothing” as opposed to rounding. Yet, smoothing does not involve a mere arithmetical operation, but requires a change in the substance of the relevant legal act. When determining the new “rounded” amount, it is good practice to round to the benefit of the citizen, i.e. amounts to be paid by the citizen to the state should be rounded down, while amounts to be paid by the state to the citizen should be rounded up.

2. The procedure for Member States to join the euro area

This section firstly describes the applicable procedure for Member States to join the euro area. Secondly, it describes the necessary adaptation of the legal framework. Thirdly, this section describes model ways of joining the euro area under each of the three possible changeover scenarios.

2.1 Procedural issues

The Treaty contains two different sets of rules governing the adoption of the euro by Member States. The first set of rules provides for the adoption of the euro in the context of the creation of the euro area in 1999 (Article 121 EC and Article 123(1) to (4) EC[23]). By having been applied for adopting the euro as the currency of the eleven first wave euro-area Member States, this set of rules has been exhausted and has become obsolete. Subsequent adoptions of the euro are governed by the second set of rules provided for in the Treaty (Article 122 EC and Article 123(5) EC). This section gives a brief overview of the procedure under the second set of rules, which has already been applied once, i.e. in the case of Greece.

2.1.1 Situation at the start of the procedure

By virtue of the Council decision of 3 May 1998[24], Greece and Sweden have been attributed a so-called derogation under Article 122(1) EC[25]. According to Article 4 of the Act concerning the conditions of accession, the ten newly acceded Member States – Czech Republic, Estonia,

23 Yet the third sentence of Article 123(4) EC has not become obsolete upon the creation of the euro area. This provision can still be used by the Council as legal basis for the adoption of monetary law provisions. Indeed, Regulation (EC) No 2169/2005 has been adopted on this basis (cf. footnote 8).

24 OJ L 139/30 of 11 May 1998. Denmark and the UK have a special legal status under the relevant Protocols meaning basically that the procedure to introduce the euro in these two states shall only commence on their request.

25 The Greek derogation has been abrogated by Council Decision 2000/427/EC dated 19 June 2000, OJ L 167/19 of 7 July 2000.

Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia – do also have the status of Member States with a derogation. Derogations entail that those provisions of the EC Treaty, which establish the euro area and the common monetary policy, do not apply to Member States having such a derogation. Therefore, abrogating a derogation of a Member State means in essence that this country adopts the euro as of the date on which such abrogation becomes effective.

2.1.2 Steps to adopt the euro

In order to introduce the euro in a given Member State with a derogation, the following steps laid down in the Treaty need to be taken.

The first step in this procedure are the convergence reports which the Commission and the ECB issue under Article 122(2) EC at least once every two years, or at the request of a Member State with a derogation. The reports examine the legal and economic convergence of Member States with a derogation and in particular the fulfilment of the four economic convergence criteria:

- the achievement of a high degree of price stability requiring that the inflation rate does not exceed by more than 1.5 percentage points that of the three best performing Member States in terms of price stability;
- the sustainability of the government financial position requiring that no excessive government deficit exists;
- the exchange-rate criterion requiring at least two years' participation in the Exchange Rate Mechanism II and notably the observance of its normal fluctuation margins without devaluing against the currency of any other Member State; and
- the durability of convergence requiring that the average long-term interest rate does not exceed by more than 2 percentage points that of the three best performing Member States in terms of price stability.

The Council decision abrogating a derogation under Article 122(2) EC is the second step in the adoption procedure. This decision can only be adopted upon a Commission proposal. The Council consults the European Parliament; furthermore, this issue is discussed in the Council, meeting in the composition of the Heads of State or Government. The Council – acting by a qualified majority of the weighted votes of all Council members – decides which Member States fulfil the necessary conditions and abrogates the derogation. The Council decision sets the date on which the derogation shall be abrogated. This date will be the date of the adoption of the euro, when the national currency will cease to exist and the conversion rate, which the Council determines under Article 123(5) EC, will become effective.

2.2 Further measures

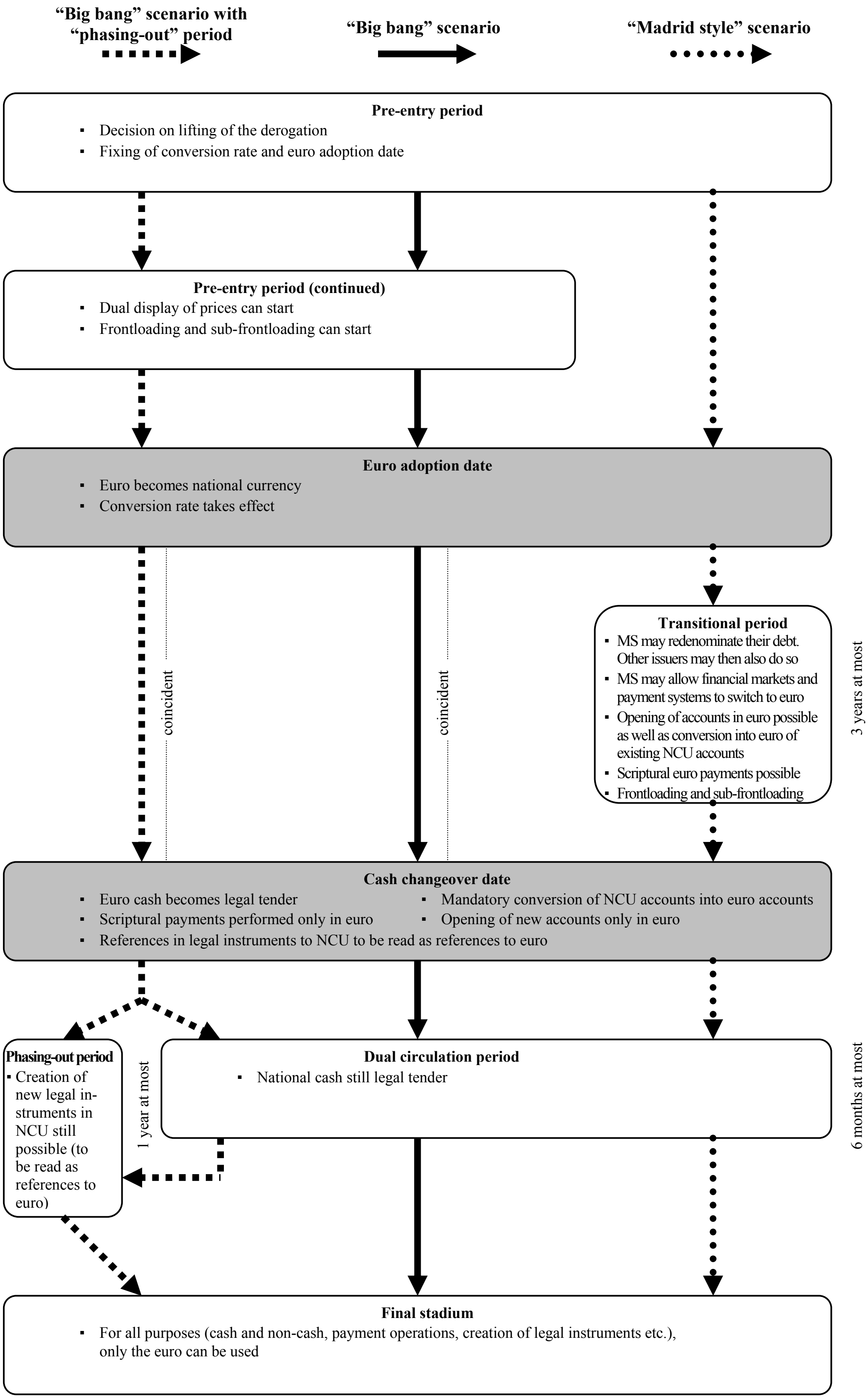
Regulation (EC) No 974/98 on the introduction of the euro as amended forms the basis for the introduction of the euro whenever a Member State will join the euro area. For each individual accession, there will be a separate Regulation modifying Regulation (EC) No 974/98. Such modifying Regulations will in substance extend the list of participating Member States by each individual Member State entering the euro area and indicate the type of changeover scenario chosen by that Member State as well as the relevant euro adoption and cash changeover dates.

Such amendments of Regulation (EC) No 974/98 will be adopted on the basis of Article 123(5) EC once it is decided to abrogate a Member State's derogation. Then, the Council will adopt the conversion for the currency concerned and take the measures necessary for the introduction of the euro as the single currency in the Member State concerned. The Council will act with the unanimity of the euro-area Member States and the Member State concerned, on a proposal from the Commission and after consulting the ECB.

2.3 Model ways to join the euro area

Graph 4 describes model ways for Member States to join the euro area under each of the three possible changeover scenarios.

Graph 4: Model ways to join the euro area[1]



1 Boxes without background stand for periods; boxes with a grey background represent dates.

Annex

**Council Regulation (EC) No 974/98 of 3 May 1998
on the introduction of the euro
as amended by**

**Council Regulation (EC) No 2596/2000 of 27 November 2000
amending Regulation (EC) No 974/98 on the introduction of the euro**

and

**Council Regulation (EC) No 2169/2005 of 21 December 2005
amending Regulation (EC) No 974/98 on the introduction of the euro**

- Unofficial consolidated text -

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109l(4), third sentence thereof,

Having regard to the proposal from the Commission[1],

Having regard to the opinion of the European Monetary Institute[2],

Having regard to the opinion of the European Parliament[3],

(1) Whereas this Regulation defines monetary law provisions of the Member States which have adopted the euro; whereas provisions on continuity of contracts, the replacement of references to the ecu in legal instruments by references to the euro and rounding have already been laid down in Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro[4]; whereas the introduction of the euro concerns day-to-day operations of the whole population in participating Member States; whereas measures other than those in this Regulation and in Regulation (EC) No 1103/97 should be examined to ensure a balanced changeover, in particular for consumers;

(2) Whereas, at the meeting of the European Council in Madrid on 15 and 16 December 1995, the decision was taken that the term 'ecu` used by the Treaty to refer to the European currency unit is a generic term; whereas the Governments of the 15 Member States have reached the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions; whereas the name given to the European currency shall be the 'euro`; whereas the euro as the currency of the participating Member States shall be divided into one hundred sub-units with the name 'cent`; whereas the definition of the name 'cent` does not prevent the use of variants of this term in common usage in the Member

1 OJ C 369, 7. 12. 1996, p. 10.

2 OJ C 205, 5. 7. 1997, p. 18.

3 OJ C 380, 16. 12. 1996, p. 50.

4 OJ L 162, 19. 6. 1997, p. 1.

States; whereas the European Council furthermore considered that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets;

(3) Whereas the Council when acting in accordance with the third sentence of Article 109l(4) of the Treaty shall take the measures necessary for the rapid introduction of the euro other than the adoption of the conversion rates;

(4) Whereas whenever under Article 109k(2) of the Treaty a Member State becomes a participating Member State, the Council shall according to Article 109l(5) of the Treaty take the other measures necessary for the rapid introduction of the euro as the single currency of this Member State;

(5) Whereas according to the first sentence of Article 109l(4) of the Treaty the Council shall at the starting date of the third stage adopt the conversion rates at which the currencies of the participating Member States shall be irrevocably fixed and at which irrevocably fixed rate the euro shall be substituted for these currencies;

(6) Whereas given the absence of exchange rate risk either between the euro unit and the national currency units or between these national currency units, legislative provisions should be interpreted accordingly;

(7) Whereas the term 'contract` used for the definition of legal instruments is meant to include all types of contracts, irrespective of the way in which they are concluded;

(8) Whereas in order to prepare a smooth changeover to the euro a transitional period is needed between the substitution of the euro for the currencies of the participating Member States and the introduction of euro banknotes and coins; whereas during this period the national currency units will be defined as sub-divisions of the euro; whereas thereby a legal equivalence is established between the euro unit and the national currency units;

(9) Whereas in accordance with Article 109g of the Treaty and with Regulation (EC) No 1103/97, the euro will replace the ECU as from 1 January 1999 as the unit of account of the institutions of the European Communities; whereas the euro should also be the unit of account of the European Central Bank (ECB) and of the central banks of the participating Member States; whereas, in line with the Madrid conclusions, monetary policy operations will be carried out in the euro unit by the European System of Central Banks (ESCB); whereas this does not prevent national central banks from keeping accounts in their national currency unit during the transitional period, in particular for their staff and for public administrations;

(10) Whereas each participating Member State may allow the full use of the euro unit in its territory during the transitional period;

(11) Whereas during the transitional period contracts, national laws and other legal instruments can be drawn up validly in the euro unit or in the national currency unit; whereas during this period, nothing in this Regulation should affect the validity of any reference to a national currency unit in any legal instrument;

(12) Whereas, unless agreed otherwise, economic agents have to respect the denomination of a legal instrument in the performance of all acts to be carried out under that instrument;

(13) Whereas the euro unit and the national currency units are units of the same currency; whereas it should be ensured that payments inside a participating Member State by crediting an account can be made either in the euro unit or the respective national currency unit; whereas the provisions on payments by crediting an account should also apply to those cross-border payments, which are denominated in the euro unit or the national currency unit of the account of the creditor; whereas it is necessary to ensure the smooth functioning of payment systems by laying down provisions dealing with the crediting of accounts by payment instruments credited through those systems; whereas the provisions on payments by crediting an account should not imply that financial intermediaries are obliged to make available either other payment facilities or products denominated in any particular unit of the euro; whereas the provisions on payments by crediting an account do not prohibit financial intermediaries from coordinating the introduction of payment facilities denominated in the euro unit which rely on a common technical infrastructure during the transitional period;

(14) Whereas in accordance with the conclusions reached by the European Council at its meeting held in Madrid, new tradeable public debt will be issued in the euro unit by the participating Member States as from 1 January 1999; whereas it is desirable to allow issuers of debt to redenominate outstanding debt in the euro unit; whereas the provisions on redenomination should be such that they can also be applied in the jurisdictions of third countries; whereas issuers should be enabled to redenominate outstanding debt if the debt is denominated in a national currency unit of a Member State which has redenominated part or all of the outstanding debt of its general government; whereas these provisions do not address the introduction of additional measures to amend the terms of outstanding debt to alter, among other things, the nominal amount of outstanding debt, these being matters subject to relevant national law; whereas it is desirable to allow Member States to take appropriate measures for changing the unit of account of the operating procedures of organised markets;

(15) Whereas further action at the Community level may also be necessary to clarify the effect of the introduction of the euro on the application of existing provisions of Community law, in particular concerning netting, set-off and techniques of similar effect;

(16) Whereas any obligation to use the euro unit can only be imposed on the basis of Community legislation; whereas in transactions with the public sector participating Member States may allow the use of the euro unit; whereas in accordance with the reference scenario decided by the European Council at its meeting held in Madrid, the Community legislation laying down the time frame for the generalisation of the use of the euro unit might leave some freedom to individual Member States;

(17) Whereas in accordance with Article 105a of the Treaty the Council may adopt measures to harmonise the denominations and technical specifications of all coins;

(18) Whereas banknotes and coins need adequate protection against counterfeiting;

(19) Whereas banknotes and coins denominated in the national currency units lose their status of legal tender at the latest six months after the end of the transitional period; whereas limitations on payments in notes and coins, established by Member States for public reasons, are not incompatible with the status of legal tender of euro banknotes and coins, provided that other lawful means for the settlement of monetary debts are available;

(20) Whereas as from the end of the transitional period references in legal instruments existing at the end of the transitional period will have to be read as references to the euro unit according to the respective conversion rates; whereas a physical redenomination of existing legal instruments is therefore not necessary to achieve this result; whereas the rounding rules defined in Regulation (EC) No 1103/97 shall also apply to the conversions to be made at the end of the transitional period or after the transitional period; whereas for reasons of clarity it may be desirable that the physical redenomination will take place as soon as appropriate;

(21) Whereas paragraph 2 of Protocol 11 on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland stipulates that, inter alia, paragraph 5 of that Protocol shall have effect if the United Kingdom notifies the Council that it does not intend to move to the third stage; whereas the United Kingdom gave notice to the Council on 30 October 1997 that it does not intend to move to the third stage; whereas paragraph 5 stipulates that, inter alia, Article 109l(4) of the Treaty shall not apply to the United Kingdom;

(22) Whereas Denmark, referring to paragraph 1 of Protocol 12 on certain provisions relating to Denmark has notified, in the context of the Edinburgh decision of 12 December 1992, that it will not participate in the third stage; whereas, therefore, in accordance with paragraph 2 of the said Protocol, all Articles and provisions of the Treaty and the Statute of the ESCB referring to a derogation shall be applicable to Denmark;

(23) Whereas, in accordance with Article 109l(4) of the Treaty, the single currency will be introduced only in the Member States without a derogation;

(24) Whereas this Regulation, therefore, shall be applicable pursuant to Article 189 of the Treaty, subject to Protocols 11 and 12 and Article 109k(1),

HAS ADOPTED THIS REGULATION:

PART I

DEFINITIONS

Article 1

For the purpose of this Regulation:

(a) "participating Member States" shall mean the Member States listed in the table in the Annex;

(b) "legal instruments" shall mean legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than banknotes and coins, and other instruments with legal effect;

(c) "conversion rate" shall mean the irrevocably fixed conversion rate adopted for the currency of each participating Member State by the Council according to the first sentence of Article 123(4) of the Treaty or in accordance with paragraph 5 of that Article;

(d) "euro adoption date" shall mean either the date on which the respective Member State enters the third stage under Article 121(3) of the Treaty or the date on which the abrogation of the respective Member State's derogation under Article 122(2) of the Treaty enters into force, as the case may be;

(e) "cash changeover date" shall mean the date on which euro banknotes and coins acquire the status of legal tender in a given participating Member State;

(f) "euro unit" shall mean the currency unit as referred to in the second sentence of Article 2;

(g) "national currency units" shall mean the units of the currency of a participating Member State, as those units are defined on the day before the adoption of the euro in that Member State;

(h) "transitional period" shall mean a period of three years at the most beginning at 00.00 hours on the euro adoption date and ending at 00.00 hours on the cash changeover date;

(i) "phasing-out period" shall mean a period of one year at the most beginning on the euro adoption date, which can only apply to Member States where the euro adoption date and the cash changeover date fall on the same day;

(j) "redenominate" shall mean changing the unit in which the amount of outstanding debt is stated from a national currency unit to the euro unit, but which does not have through the act of redenomination the effect of altering any other term of the debt, this being a matter subject to relevant national law;

(k) "credit institutions" shall mean credit institutions as defined in Article 1(1) of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000, relating to the taking up and pursuit of the business of credit institutions[5]. For the purpose of this Regulation, the institutions listed in Article 2(3) of that Directive with the exception of post office giro institutions shall not be considered as credit institutions.

Article 1a

The euro adoption date, the cash changeover date, and the phasing-out period, if applicable, for each participating Member State shall be as set out in the Annex.

PART II

SUBSTITUTION OF THE EURO FOR THE CURRENCIES OF THE PARTICIPATING MEMBER STATES

Article 2

With effect from the respective euro adoption dates, the currency of the participating Member States shall be the euro. The currency unit shall be one euro. One euro shall be divided into one hundred cent.

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5 OJ L 126, 26.5.2000, p. 1. Directive as last amended by Directive 2005/1/EC of the European Parliament and of the Council (OJ L 79, 24.3.2005, p. 9).

Article 3

The euro shall be substituted for the currency of each participating Member State at the conversion rate.

Article 4

The euro shall be the unit of account of the European Central Bank (ECB) and of the central banks of the participating Member States.

PART III

TRANSITIONAL PROVISIONS

Article 5

Articles 6, 7, 8 and 9 shall apply during the transitional period.

Article 6

1. The euro shall also be divided into the national currency units according to the conversion rates. Any subdivision thereof shall be maintained. Subject to the provisions of this Regulation the monetary law of the participating Member States shall continue to apply.

2. Where in a legal instrument reference is made to a national currency unit, this reference shall be as valid as if reference were made to the euro unit according to the conversion rates.

Article 7

The substitution of the euro for the currency of each participating Member State shall not in itself have the effect of altering the denomination of legal instruments in existence on the date of substitution.

Article 8

1. Acts to be performed under legal instruments stipulating the use of or denominated in a national currency unit shall be performed in that national currency unit. Acts to be performed under legal instruments stipulating the use of or denominated in the euro unit shall be performed in that unit.

2. The provisions of paragraph 1 are subject to anything which parties may have agreed.

3. Notwithstanding the provisions of paragraph 1, any amount denominated either in the euro unit or in the national currency unit of a given participating Member State and payable within that Member State by crediting an account of the creditor, can be paid by the debtor either in the euro unit or in that national currency unit. The amount shall be credited to the account of the creditor in the denomination of his account, with any conversion being effected at the conversion rates.

4. Notwithstanding the provisions of paragraph 1, each participating Member State may take measures which may be necessary in order to:

- redenominate in the euro unit outstanding debt issued by that Member State's general government, as defined in the European system of integrated accounts, denominated in its national currency unit and issued under its own law. If a Member State has taken such a measure, issuers may redenominate in the euro unit debt denominated in that Member State's national currency unit unless redenomination is expressly excluded by the terms of the contract; this provision shall apply to debt issued by the general government of a Member State as well as to bonds and other forms of securitised debt negotiable in the capital markets, and to money market instruments, issued by other debtors,
- enable the change of the unit of account of their operating procedures from a national currency unit to the euro unit by:
  (a) markets for the regular exchange, clearing and settlement of any instrument listed in section B of the Annex to Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field[6] and of commodities; and
  (b) systems for the regular exchange, clearing and settlement of payments.

5. Provisions other than those of paragraph 4 imposing the use of the euro unit may only be adopted by the participating Member States in accordance with any time-frame laid down by Community legislation.

6. National legal provisions of participating Member States which permit or impose netting, set-off or techniques with similar effects shall apply to monetary obligations, irrespective of their currency denomination, if that denomination is in the euro unit or in a national currency unit, with any conversion being effected at the conversion rates.

Article 9

Banknotes and coins denominated in a national currency unit shall retain their status as legal tender within their territorial limits as from the day before the euro adoption date in the participating Member State concerned.

Article 9a

The following shall apply in a Member State with a “phasing-out” period. In legal instruments created during the phasing-out period and to be performed in that Member State, reference may continue to be made to the national currency unit. These references shall be read as references to the euro unit according to the respective conversion rates. Without prejudice to Article 15, the acts performed under these legal instruments shall be performed only in the euro unit. The rounding rules laid down in Regulation (EC) No 1103/97 shall apply.

The Member State concerned shall limit the application of the first paragraph to certain types of legal instrument, or to legal instruments adopted in certain fields.

The Member State concerned may shorten the period.

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6 OJ L 141, 11. 6. 1993, p. 27. Directive as amended by Directive 95/26/EC of the European Parliament and of the Council (OJ L 168, 18. 7. 1995, p. 7).

PART IV
EURO BANKNOTES AND COINS

Article 10

With effect from the respective cash changeover dates, the ECB and the central banks of the participating Member States shall put into circulation banknotes denominated in euro in the participating Member States.

Without prejudice to Article 15, these banknotes denominated in euro shall be the only banknotes which have the status of legal tender in participating Member States.

Article 11

With effect from the respective cash changeover date, the participating Member States shall issue coins denominated in euro or in cent and complying with the denominations and technical specifications which the Council may lay down in accordance with the second sentence of Article 106(2) of the Treaty. Without prejudice to Article 15 and to the provisions of any agreement under Article 111(3) of the Treaty concerning monetary matters, those coins shall be the only coins which have the status of legal tender in participating Member States. Except for the issuing authority and for those persons specifically designated by the national legislation of the issuing Member State, no party shall be obliged to accept more than 50 coins in any single payment.

Article 12

Participating Member States shall ensure adequate sanctions against counterfeiting and falsification of euro banknotes and coins.

PART V
FINAL PROVISIONS

Article 13

Articles 10, 11, 14, 15 and 16 shall apply with effect from the respective cash changeover date in each participating Member State.

Article 14

Where in legal instruments existing on the day before the cash changeover date, reference is made to the national currency units, these references shall be read as references to the euro unit according to the respective conversion rates. The rounding rules laid down in Regulation (EC) No 1103/97 shall apply.

Article 15

1. Banknotes and coins denominated in a national currency unit as referred to in Article 6(1) shall remain legal tender within their territorial limits until six months from the respective cash changeover date at the latest; this period may be shortened by national law.

2. Each participating Member State may, for a period of up to six months from the respective cash changeover date, lay down rules for the use of the banknotes and coins denominated in its national currency unit as referred to in Article 6(1) and take any measures necessary to facilitate their withdrawal.

3. During the period referred to in paragraph 1, credit institutions in participating Member States adopting the euro after 1 January 2002 shall exchange their customers' banknotes and coins denominated in the national currency unit of that Member State for banknotes and coins in euro, free of charge, up to a ceiling which may be set by national law. Credit institutions may require that notice be given if the amount to be exchanged exceeds a ceiling set by national law or, in the absence of such provisions, by themselves and corresponding to a household amount.

The credit institutions referred to in the first subparagraph shall exchange banknotes and coins denominated in the national currency unit of that Member State of persons other than their customers, free of charge up to a ceiling set by national law or, in the absence of such provisions, by themselves.

National law may limit the obligation under the previous two subparagraphs to specific types of credit institutions. National law may also extend this obligation upon other persons.

Article 16

In accordance with the laws or practices of participating Member States, the respective issuers of banknotes and coins shall continue to accept, against euro at the conversion rate, the banknotes and coins previously issued by them.

PART VI

ENTRY INTO FORCE

Article 17

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States, in accordance with the Treaty, subject to Protocols 11 and 12 and Article 109k(1).

Done at Brussels, 3 May 1998.

For the Council

The President

G. BROWN

Annex

Member State	Euro adoption date	Cash changeover date	Member State with a "phasing-out" period
Belgium	1 January 1999	1 January 2002	n/a
Germany	1 January 1999	1 January 2002	n/a
Greece	1 January 2001	1 January 2002	n/a
Spain	1 January 1999	1 January 2002	n/a
France	1 January 1999	1 January 2002	n/a
Ireland	1 January 1999	1 January 2002	n/a
Italy	1 January 1999	1 January 2002	n/a
Luxembourg	1 January 1999	1 January 2002	n/a
Netherlands	1 January 1999	1 January 2002	n/a
Austria	1 January 1999	1 January 2002	n/a
Portugal	1 January 1999	1 January 2002	n/a
Finland	1 January 1999	1 January 2002	n/a