

# National Euro Changeover Plan for the Czech Republic



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# Part I Basic Information



# 1 Introduction

The Czech Republic undertook to adopt the single European currency, the euro<sup>1</sup>, in connection with its accession to the EU. It automatically participates in the third stage of Economic and Monetary Union, but does so as a Member State with a derogation<sup>2</sup> within the meaning of Article 122 of the Treaty establishing the European Community (EC). This means the Czech Republic has not yet adopted the euro, as it has not fulfilled the necessary conditions for doing so under EU law. As a result, it is not subject to certain provisions of EU law, in particular those concerning changing the national currency. However, this temporary derogation does not exempt a Member State from the obligation to adopt the euro. The Czech Republic undertook to adopt the euro in Article 4 of the Act concerning the accession of the Czech Republic to the EU.

Member States with a derogation must work to introduce the euro as soon as possible. Euro area entry is conditional on fulfilling macroeconomic criteria known as the Maastricht criteria (see the box on p. 11 for more details) and implementing legislative changes, including new legislation on the status and duties of the central bank. Given the complexity of the changeover process, careful institution preparations also need to be made under the direction of the government-appointed National Coordinator of the Introduction of the Euro in the Czech Republic and the National Coordination Group which he leads. After the entry criteria have been satisfied, and roughly 6 months before the target date for euro adoption, the derogation will be abrogated. The conversion rate irrevocably fixing the Czech koruna against the euro will also be set at this time (see section 3 *The changeover timetable* for more details).

Besides fulfilling the economic and legal criteria, it is equally vital to make technical, institutional and legislative provision for the euro changeover. Given this obligation and in connection with the Czech Republic's planned entry to the euro area, the Czech Government ordered the preparation of a National Euro Changeover Plan for the Czech Republic (hereinafter the "National Changeover Plan") in Resolution No. 1510 of 23 November 2005 on the institutional arrangements for the introduction of the euro in the Czech Republic. The National Changeover Plan sets out the individual technical, organisational and legislative measures needed for a smooth and successful changeover to the euro in the Czech Republic. The experience of countries that have already adopted the euro or are close to doing so has shown that a timely and regularly updated plan enables everyone to prepare well in advance for the euro changeover, so reducing the associated problems and costs.

The National Changeover Plan currently contains no date for the introduction of the euro in the Czech Republic. However, it describes each of the actions and changes that will be necessary, determines how those changes will be made, recommends euro changeover procedures for central and local government authorities and non-state entities, and sets out a schedule of tasks and other measures towards adopting the euro in the Czech Republic. The Czech Republic's euro adoption target date will be set by the Government. The Government's decision to introduce the euro in the Czech Republic will be based on the document prepared every year by the Ministry of Finance and the Czech National Bank assessing the Czech economy's alignment with the conditions for entering the euro area. Another pivotal document is the Convergence Programme of the Czech Republic, which sets a course for improving the state of public finances so that the Czech Republic meets the Maastricht criteria in a sustainable way (see the box on p. 11). Decisions on the timing of the measures that will ultimately

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<sup>1</sup> The terminology in this document is based on the Guidance Notes for Work on Fulfilment of the Legislative Obligations arising from the Czech Republic's Membership of the European Union, approved in Government Resolution No. 1304 of 12 October 2005.

<sup>2</sup> In addition to Member States with a derogation there are Member States – specifically the United Kingdom and Denmark – which have negotiated permanent opt-outs from the obligation to adopt the euro. However, newly acceding countries were not able to apply this system.

lead to euro adoption are the responsibility of the Member State. However, the final examination of whether the conditions for adopting the euro have been satisfied will be made by the EU authorities (see section 4.1).

The National Changeover Plan is a general document intended for all entities in the Czech economy and Czech society. It starts by defining the basic principles on which the adoption of the euro in the Czech Republic will be based. It gives a schedule of next steps and a detailed description of the National Changeover Plan, and describes the institutional arrangements for the changeover in the Czech Republic. The National Changeover Plan focuses on identifying tasks in individual areas, including responsibilities, time constraints, examination dates and implementation dates, so that central government, local authorities and the private sector can begin to prepare in good time. In this phase, the emphasis is on measures that need to be taken ahead of the official target date for the adoption of the euro in the Czech Republic.

Under Government Resolution No. 1510 of 23 November 2005, the overall changeover preparation process in the Czech Republic is the responsibility of the Ministry of Finance, which drafted the National Changeover Plan in close cooperation with the Czech National Bank. Other major contributors to the document included the Ministry of Industry and Trade, the Ministry of Justice and the Ministry of Information Technology, with expert assistance from professional and social partners and other institutions (see also section 7 *Institutional Structure of the changeover preparations*).

## 1.1 Review of actions undertaken so far

The preparations for the changeover to the euro in the Czech Republic began with the drafting of a joint Government/Czech National Bank (CNB) "Euro Area Accession Strategy", approved in Government Resolution No. 1026 of 13 October 2003 and the aforementioned Government Resolution

No. 1510 of 23 November 2005 approving the Institutional Arrangements for the Introduction of the Euro in the Czech Republic. Under this resolution, a National Coordinator of the Introduction of the Euro in the Czech Republic was appointed and a National Coordination Group for the Introduction of the Euro in the Czech Republic was established. The original working assumption, based primarily on the Euro Area Accession Strategy, was that the euro would be adopted in the Czech Republic on 1 January 2010. However, the Government's decision of 25 October 2006 not to enter the ERM II in 2007 rules out this date. An assessment of the Czech Republic's euro adoption strategy will be submitted to the Government by the end of August 2007.

The Euro Area Accession Strategy represents a joint and coordinated approach by the Ministry of Finance, the Ministry of Industry and Trade and the CNB to the core issues associated with the Czech Republic's entry into the Economic and Monetary Union. It summarises the starting points for the Czech Republic's integration into European monetary structures and discusses the expected positive effects and potential risks associated with entering the euro area. The document recommends that the Czech Republic should enter the euro area as soon as economic conditions allow for doing so. In particular, there must have been a process of real and nominal convergence of the Czech Republic with the euro area, including the implementation of vital structural reforms.

The National Coordination Group prepared and submitted to the Government a report entitled "Choice of Scenario for the Introduction of the Euro in the Czech Republic". Based on the analyses and subsequent recommendations of all its Working Groups, the National Coordination Group recommended a single-step transition to the euro (the "Big Bang" scenario – i.e. simultaneous changeover for cash and non-cash transactions) as the best and cheapest option. The Czech Government approved this single-step transition<sup>3</sup> in its Resolution No. 1200 of 25 October 2006.

<sup>3</sup> i.e. the "Big Bang" scenario

## 1.2 Single-step transition to the euro

The government-approved single-step transition to the euro (the “Big Bang” scenario) is divided into five phases:

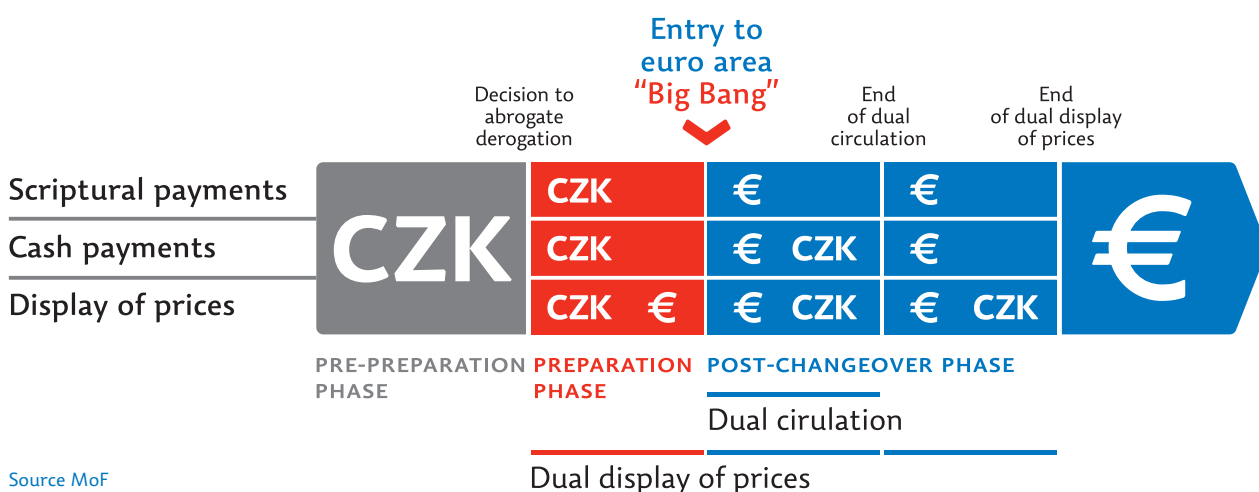
**Pre-preparation phase prior to the decision to abrogate the derogation** – Czech koruna used for all activities; technical preparations for changeover in progress.

**Preparation phase following the decision to abrogate the derogation and prior to the euro area entry date** – Czech koruna used in all payments; prices in shops, wage slip information, bank statement balances etc. given in both korunas and euros converted at the irrevocable fixed conversion rate – dual display of prices (the specific extent of the dual display of prices will be defined in detail in an update to the National Changeover Plan). Planned length of this phase: around 6 months.

**Dual circulation period** – as of the euro adoption date all non-cash (scriptural) payments must be made in euros; both euros and Czech korunas may be used for cash payments. Czech koruna is gradually withdrawn from circulation. Retailers are required to give change to customers in euros only. Dual display of prices continues. Length of dual circulation period: 2 weeks from specific changeover date (i.e. 2 full calendar weeks).

**Period between termination of dual circulation and termination of dual display of prices** – euro used in all transactions, but amounts in shops and on various statements still also given in Czech korunas for ease of comparison. This period will last until the end of the calendar year of the changeover (assuming adoption of the euro on 1 January).

**Final phase of euro adoption** – all transactions to be given in euros after mandatory dual display of prices ends. Retailers may continue giving prices also in korunas on voluntary basis, but will not be required to do so.



Source MoF

Further information on the changeover process is given in section 3 *The Changeover Timetable*.

## 2 Basic principles of the changeover in the Czech Republic

### Single-step adoption of the euro

The euro will be adopted on a single date in both non-cash (scriptural) and cash form (the “Big Bang” scenario) with no transitional period.

### Dual circulation – a short period of parallel circulation of the euro and the Czech koruna following the changeover

The euro will become legal tender in the Czech Republic on the euro adoption date. Czech banknotes and coins will be gradually withdrawn from circulation. As from the euro adoption date the euro will be the sole currency used for scriptural payments. For a short dual circulation period, lasting 2 full calendar weeks, it will also be possible to pay with koruna banknotes and coins in the Czech Republic. However, retailers will have to give change to customers in euros only. When the period of dual circulation (sometimes also referred to as parallel circulation) comes to an end, the euro will be the sole legal tender in the Czech Republic.

### Continuity of legal instruments

The introduction of the euro in the Czech Republic will have no effect on the validity of contracts and other legal instruments, i.e. 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<sup>4</sup>. All contracts containing references to Czech korunas will remain valid after the changeover. Amounts in korunas will be deemed

amounts in euros converted at the conversion rate. The introduction of the euro will not have the effect of altering any term of a contract or other legal instrument or of discharging or excusing performance under any contract or other legal instrument, nor give a party the right unilaterally to alter or terminate a contract. However, the introduction of the euro will not affect the principle of freedom of contract and contracting parties will be able, by mutual agreement, to alter the terms of a contract in any way. The euro changeover does not alter the nominal interest rate payable by the debtor in the case of instruments with a fixed interest rate.

### Rules for the use of the conversion rate

Conversion of koruna amounts to euros will have to be performed at the conversion rate to be set by the Council of the European Union in a special regulation (an amendment of Council Regulation No. 2866/1998). All koruna amounts will therefore be converted solely at this rate and no different rate will be permitted. The conversion rate will be given to six significant figures and will express the equivalent of one euro in Czech korunas (i.e. 1 EUR = XX.XXXX CZK). The conversion rate must not be rounded or truncated.

### Rounding rules

Following the changeover to the euro in the Czech Republic, references to the Czech koruna in legal instruments will read as references to the euro converted at the conversion rate<sup>5</sup>. Monetary amounts set in korunas but to be paid in euros will be rounded up or down to the nearest euro cent. In the case

<sup>4</sup> Article 1 of Council Regulation (EC) No. 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro, as amended by Council Regulation (EC) No. 2595/2000.

Article 1 of 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 and Council Regulation (EC) No. 2169/2005.

<sup>5</sup> Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro. This provision will also be contained in the General Act on the Introduction of the Euro in the Czech Republic.

of collectively invoiced services, the final amount, not the individual entries, will be rounded. No fees may be charged in relation to the conversion of koruna amounts to euros. In particular cases, most notably for taxes and fees and on-the-spot fines, specific rounding will be stipulated.

## Regulations applying to rounding

Rounding is regulated by Council Regulation (EC) No. 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro, as amended by Council Regulation (EC) No. 2595/2000 of 27 November 2000 (interpreted by the European Court of Justice in its judgment in Case C-19/03 and again in its judgment in Case C-359/05). The rounding principles will be defined in maximum detail in a binding legal regulation – the General Act on the Introduction of the Euro – and elaborated in a rounding methodology based on this Act. This methodology will be written for the general public, so citizens will be able to use it for rounding checks. A detailed rounding methodology will also be prepared for the purposes of legislative changes, and application procedures will be recommended for central and local government authorities and for the private sector, especially retailers.

The main rounding principles as laid down in the aforementioned Council Regulation:

- > The general rule is that amounts to be paid or accounted for must be rounded to two decimal places, i.e. to the nearest cent.
- > The aforementioned Regulation is a minimum protection rule, hence the national legislation may stipulate more precise rounding rules.
- > Rounding to two decimal places is the minimum necessary standard, hence rounding to more decimal places may be specified. This will apply, for instance, to some commodities, such as petrol.
- > The rounding rules laid down in the aforementioned Council Regulation and in the interpretation given in judgment C-19/03 are to be applied solely to conversions from the national currency unit to the euro unit and vice versa. These rules are

without prejudice to the rules for rounding in other areas arising under legal regulations, freedom of contract or other sources. The Czech Republic must therefore retain, or otherwise stipulate, national rounding rules for other purposes<sup>6</sup>.

- > For the purposes of conversion, the rules of Article 5 of the Regulation also apply to amounts in the national currency defined by national law (unless they are redefined or if rounding thereof is defined differently), or to all amounts to be accounted for, i.e. that represent a monetary debt.

The fixed conversion rate must always be used when converting prices and other monetary amounts. Unless stipulated otherwise in Czech law, such amounts will be rounded to the nearest euro cent<sup>7</sup>. Only the final amount is rounded. In the case of collectively invoiced services (e.g. telephone calls, bank charges), the individual entries may be given unrounded so that the rounding of such small amounts does not cause harm to the citizen and give rise to an increase in prices.

Numerous amounts given in euros in the legal regulations will need to be redefined, as conversion and rounding would in many cases generate impractical amounts. These amounts should not be changed significantly without good reason and the approximate amount in euros should correspond to the original amount. New amounts will be defined in particular in the tax area, for fixed monetary penalties, etc.

### Principle of not harming the citizen, price neutrality in the changeover

The introduction of the euro must not harm citizens or consumers. Fees and taxes, if not precisely converted according to the rounding rules, will be

<sup>6</sup> "National rounding rules for other purposes" means the rules laid down in national law for the rounding, in particular, of intermediate amounts solely for the purposes of a particular regulation – e.g. for the purposes of calculating the tax assessment base, in Czech national standards, etc. This means that in some cases a different rounding method can be stipulated, e.g. rounding to higher orders (tens of cents, euros, tens of euros).

<sup>7</sup> At the same time freedom of contract is not limited, and, for example, retailers will be able to round to higher units on a voluntary basis – although solely to the customer's benefit.

rounded down, while tax refunds and tax revenues sent to beneficiaries under the budget tax allocation rules and state payments to members of the public will be rounded up. Details on rounding are given in the paragraph Rounding rules. This rounding policy will not apply to payments and debts to the state arising from breaches of the generally applicable legislation (fines, penalties and other sanctions). In such cases the standard rounding rules will be followed.

#### **Avoiding price increases and perceived inflation, monitoring and checking**

All necessary steps will be taken to stop the changeover process being used as an excuse to raise prices. Prices will be regularly monitored and compliance with the rules for the conversion and dual display of prices rigorously checked. Price stability must also be maintained in supplier-buyer relations. However, countries that have already introduced the euro experienced a phenomenon of "perceived inflation" on the part of the public during the euro changeover, especially for some everyday consumer goods. The aforementioned policies, including dual

display of prices and open communication, will be applied in order to prevent such unjustified price hikes and subjectively perceived inflation.

#### **Minimising costs**

Each entity will be responsible for covering its individual costs arising from the euro changeover. This principle applies to both the public and private sectors. The state's role is to provide everyone with clear and timely information and recommendations for the changeover preparations in order to minimise the overall costs.

#### **Material and financial responsibility**

Central and local government authorities will be responsible for preparing the relevant legal acts in their areas of competence. All entities, including private sector ones, will be responsible for their own organisational preparations for the changeover, including the modification of information and other systems for which they are responsible or which they administer. Costs associated with the changeover preparations will not be compensated from the public purse.

# 3 The changeover timetable

The changeover timetable in the Czech Republic depends on the decision taken by the Czech Government and the Czech National Bank on the Czech Republic's ERM II entry date and on the ability of the Czech Republic to meet the Maastricht criteria in a sustainable and credible way.

The changeover process has a fixed timetable that depends on fulfilment of the convergence criteria, including the exchange rate criterion. Fulfilment of the exchange rate criterion requires a successful 2-year stay in the ERM II without devaluing. The process described below assumes the application of the "Big Bang" scenario approved by the Czech Government.

**Stage 1 – until ERM II entry** – initial preparation of the changes related to euro adoption, with the country successfully passing the ERM II accession process with the EU authorities.

**Stage 2 – from ERM II entry to the decision to admit the Czech Republic to the euro area (ERM II membership must last at least 2 years)** – communication campaign, preparation of legislative changes, modification of information systems, etc. All subsequent steps are conditional on a successful ERM II stay and on fulfilment of all the Maastricht criteria. At the end of this stage the following will happen:

- > the publication of convergence reports by the European Commission and the European Central Bank (ECB) examining the degree of sustainable convergence;
- > a positive assessment of the Czech Republic's preparedness to join the euro area by the EU authorities;
- > the publication of a European Commission recommendation to the Council of the European Union to abrogate the Czech Republic's derogation;
- > the issuing of a decision of the Council of the

European Union to abrogate the derogation in accordance with the procedure laid down in Article 122(2) of the Treaty establishing the European Community;

- > the setting of the irrevocably fixed conversion rate for the CZK/EUR exchange rate by the Council of the European Union around 6 months before euro area entry.

**Stage 3 – between the Council's decision to abrogate the derogation (and the setting of the conversion rate) and euro area entry** the country must complete its technical preparations for euro area entry, including:

- > production of a sufficient amount of euro banknotes and coins for circulation;
- > frontloading of the CNB and commercial banks;
- > sub-frontloading of retailers;
- > application of the rules for mandatory dual display of prices
- > preparation for the conversion of ATMs, vending machines and other coin or note operated machines;
- > stepping-up of communication, with an emphasis on consumer protection.

**Stage 4 – after euro area entry** it is necessary to:

- > apply the dual circulation rules and withdraw the national currency from circulation and replace it with the euro;
- > after the dual circulation period ends, continue exchanging the national currency for the euro at the central bank and commercial banks;
- > enforce the rules for the mandatory dual display of prices period;
- > monitor the price level and apply the rules preventing the changeover being used as an excuse to raise prices;
- > continue communicating and explaining the changes stemming from the adoption of the euro.

# 4 The changeover preparation process

Adoption of the euro in the Czech Republic is contingent on fulfilling all the euro area entry criteria and on reaching a situation where the adoption of the single currency and the application of the single monetary policy will generate more positives for the country than negatives. The role of National Changeover Plan is not to examine the fulfilment of the convergence criteria or to alter the economic instruments that will be used to ensure such fulfilment. The criteria are thus listed here primarily for information.

## Criteria for entering the euro area

Before it can adopt the euro, a Member State must achieve a high degree of sustainable economic convergence, assessed by reference to the fulfilment of the "Maastricht convergence criteria" set out in Article 121 of the Treaty establishing the European Community and detailed in the protocol on the convergence criteria<sup>8</sup> annexed to the Treaty. The criteria are as follows:

**Criteria of "the achievement of a high degree of price stability"**, meaning that "a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1½ percentage points that of, at most, the three best-performing Member States in terms of price stability";

**Criteria of "the sustainability of the government financial position"**, meaning that at the time of the examination the Member State is not the sub-

ject of a Council decision under Article 104(6) of the Treaty establishing the European Community determining that an excessive deficit exists in the Member State; the Council decides that an excessive deficit exists if:

- > the ratio of the planned or actual government deficit to GDP at market prices exceeds 3%, and
- > the ratio of government debt to GDP at market prices exceeds 60%.

In the assessment of the fulfilment of the fiscal stability requirement, account is also taken of other factors stipulated in the Treaty establishing the European Community (Article 104) and related acts of EU law, such as progress in reducing budget imbalances and the existence of exceptional and temporary factors contributing to such imbalances. Member States whose ratio of government debt to GDP exceeds 60% are expected to reduce the ratio towards the reference value at a satisfactory pace.

**Criteria of "exchange rate stability"**, meaning "the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the currency of any other Member State". In the assessment of the fulfilment of this criterion, emphasis is placed on the exchange rate against the euro being close to the central rate. Other factors that might cause the exchange rate to appreciate are also taken into consideration.

**Criteria of "the convergence of interest rates"** is reflected in long-term interest-rate levels and means that "observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points

<sup>8</sup> The exact name of the protocol is: Protocol on the convergence criteria referred to in Article 121 of the Treaty establishing the European Community.

that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions”.

However, the assessment also takes account of other factors such as “the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices”.

Another criterion, which, unlike the preceding ones, is not explicitly economic in nature, is a requirement to achieve independence of the national central bank and to ensure that its statutes and the legislation governing its status are fully compatible with the Treaty establishing the European Community and the Statute of the ESCB and ECB.

The European Commission and the European Central Bank, acting independently of each other, assess the fulfilment of the convergence criteria and the compatibility of the central bank’s status at least once every two years or, in exceptional cases, in the interim at the request of a Member State with a derogation.

## 4.1 Euro area enlargement procedure of EU institutions

The European Monetary Union (EMU) falls within the exclusive power of the European Community (EU), which stipulates the legal framework for the EMU. In primary law, this framework includes Articles 105 to 124 of the Treaty establishing the European Community, the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, the Protocol on the Convergence Criteria and also the Protocol on the Excessive Deficit Procedure. Also of importance for new EU Member States is Article 4 of the Act concerning the conditions of accession to the EU, which forms an integral part of the Accession Treaty, according to which each of the new Member States

participates in the Economic and Monetary Union as a Member State with a derogation.

The euro area entry criteria are thus laid down in the Treaty establishing the European Community. Fulfilment of the criteria is reviewed once every 2 years from EU accession, or at the request of a Member State with a derogation, by the Council of the European Union, meeting in the composition of the economics and finance ministers (ECOFIN), with reference to the convergence reports of the European Commission and the European Central Bank. If the criteria are satisfied, ECOFIN (after consulting the European Parliament and after discussion in the Council, meeting in the composition of the Heads of State or Government) will decide to abrogate the derogation. The Council will then fix the binding conversion rate between the national currency and the euro in accordance with Article 123(5) of the Treaty establishing the European Community.

## 4.2 Updates of the National Changeover Plan

It is impossible to define or describe in detail all the tasks arising from the euro preparation process in the Czech Republic several years ahead in the first version of the National Changeover Plan. The Plan will therefore be regularly updated. Such updates are expected to take place usually once a year, or as required.

Exceptionally, the National Changeover Plan may also be updated outside the defined dates should there be a fundamental change in the Czech Republic’s euro adoption strategy or if the Government or National Coordination Group decides to make such a change.

The updated versions of the National Changeover Plan will contain a separate section identifying tasks that have been implemented and adding tasks that have been newly defined. The National Changeover Plan will be generally revised to take account of the latest information.

## 4.3 Institutional arrangements for the changeover

In Resolution No. 1510 of 23 November 2005, the Czech Government approved a document entitled "The Institutional Arrangements for the Introduction of the Euro in the Czech Republic" and agreed to establish the position of National Coordinator of the Introduction of the Euro in the Czech Republic and to set up a National Coordination Group for the Introduction of the Euro ("NCG"). The Ministry of Finance was put in charge of managing and coordinating all work associated with the changeover preparations.

In the above resolution, the Czech Government set out several tasks and deadlines connected with the launch of the changeover preparation process. The Minister of Finance was tasked with proposing to the Government an optimal changeover scenario by 31 August 2006 and submitting a National Changeover Plan, prepared by the NCG, by 31 December 2006 (Resolution No. 1200 of 25 October 2006 later moved this date to 31 March 2007). Resolution No. 1510/2005 also imposes a duty to regularly inform the Government about the NCG's work over the past 6 months. The members of the Government and the heads of other central government authorities were instructed under the resolution to assist the Minister of Finance and the National Coordinator and, when called on to do so by the National Coordinator, to nominate representatives to the NCG and create the requisite conditions for them to do their work and perform their duties effectively.

The following institutions were approached by the National Coordinator in connection with the establishment of the NCG: the Czech National Bank, the Ministry of Foreign Affairs, the Ministry of Industry and Trade, the Ministry of Justice, the Ministry of the Interior and the Ministry of Information Technology. The Governor of the Czech National Bank and the relevant ministers were asked to nominate representatives and their alternates to the NCG. At the start of 2007, the Office of the Deputy Prime Minister for European Affairs was also asked to appoint an NCG member.

The rules for the work of the NCG and its Working Groups are laid down in the NCG's Statutes and Rules of Order and in the NCG-approved Rules of Order of the Working Groups. These documents define the rules for NCG and Working Group meetings, the position of the National Coordinator as the NCG Chairman, the rights and obligations of NCG members and the duties associated with the Working Groups' responsibilities, as well as regulating a number of other institutional, administrative and technical issues.

### 4.3.1 The National Coordinator and the National Coordination Group

The NCG is the central coordination and management body for the changeover preparations in the Czech Republic. It coordinates and manages the work of the Working Groups and, once the National Changeover Plan is approved, will oversee the fulfilment of the Plan and effective implementation of the related actions.

The National Coordinator is simultaneously the NCG Chairman. The NCG was established on 20 February 2006 in the following formation based on the nominations received: the National Coordinator, the Vice-Governor of the Czech National Bank, the Deputy Minister of Industry and Trade, the Deputy Minister of Foreign Affairs, the Deputy Minister of Justice, the Deputy Minister of the Interior, the Deputy Minister of Information Technology and the Deputy Prime Minister for European Affairs.

### 4.3.2 NCG Working Groups

The NCG decided to set up several Working Groups to prepare the National Changeover Plan. The Working Groups' brief was to draw up the relevant sections of the National Changeover Plan and to provide expert information for the NCG's strategic decision-making. Once the National Changeover Plan is approved, the Working Groups' role will be

to implement the Plan in the relevant areas and to prepare regular updates of the Plan. The Working Groups' mandates will be revised and extended in this respect by the NCG.

The Working Groups' activities are managed and coordinated by designated coordinators, namely the relevant NCG members' authorities. The following Working Groups and coordinators have been established for the preparation of the National Changeover Plan:

**Legislation Working Group**

*Ministry of Justice*

**Financial Sector Working Group**

*Czech National Bank*

**Information Technology  
and Statistics Working Group**

*Ministry of Information Technology<sup>9</sup>*

**Public Finances and Public  
Administration Working Group**

*Ministry of Finance*

**Non-financial Sector and  
Consumer Protection Working Group**

*Ministry of Industry and Trade*

**Communication Working Group**

*Ministry of Finance and Czech National Bank*

### 4.3.3 NCG Organisational Committee

An NCG Organisational Committee has been established at the Ministry of Finance to provide organisational and administrative support for the changeover process. The Committee's main activities include providing administrative support for the NCG and coordination support for its Working Groups, pooling and distributing information on the work of the NCG and its Working Groups, pooling and distributing information on practical aspects of the changeover in other EU Member States, sup-

<sup>9</sup> The competences of the Ministry of Information Technology are expected to be taken over primarily by the Ministry of the Interior during 2007. The composition of the NCG will be altered accordingly, as will responsibility for coordinating the Information Technology and Statistics Working Group.

porting communication between the NCG and its Working Groups and between the Working Groups mutually, coordinating the NCG's external communications and generally coordinating activities across the board.

A general scheme of the institutional arrangements for the changeover in the Czech Republic is given in section 7 *Institutional Structure of the Changeover Preparations*.

### 4.4 Method for assessing the changeover preparations

Czech Government Resolution No. 1510 of 23 November 2005 requires the Minister of Finance to submit a report on the NCG's work to the Government twice a year. This report must include an assessment of the performance of the changeover preparation tasks.

In the near future, the NCG's main job will be to update and revise the National Changeover Plan, among other things with reference to the tasks stipulated in section 5.7 The NCG's main tasks for 2007 and in Part II of the National Changeover Plan. The aforementioned coordinators will be responsible for performing the tasks stipulated by the NCG and the Czech Government. In the 6-monthly report on the NCG's work, the coordinators will have to report on the state of play with the preparations in the relevant area and assess the performance of the stipulated tasks. The coordinators are also expected to play an active role in the entire process and actively seek out information and experience regarding the adoption of the euro in other EU Member States. They will be supported in this work by the NCG's Organisational Committee.

In the period ahead, the role of the NCG and the coordinators will be – in addition to performing the stipulated tasks – to draft a methodology for testing the preparedness of the state administration and to carry out such a test. In areas where the coordinators' work concerns private entities

(the financial and non-financial sectors, information technology) the coordinators will also prepare methodological recommendations for testing the preparedness of the private sector. The first test of the state administration should take place 3 years before the changeover. A more detailed examination of both the state administration and the private sector should follow at least 2 years before the changeover. Others will be conducted in line with the methodology or at the decision of the NCG.

Information on the performance of tasks, the coordinators' proposals and the results of the NCG's work must be made available to the public. Conclusions and recommendations must be communicated sufficiently actively to all those concerned. The NCG and its Working Groups will be supported in this work by the Organisational Committee, which will coordinate the overall administrative process. There must also be good feedback so that the coordinators and the NCG can respond flexibly to the needs of the state and private sectors.

## 5 Summary of main tasks in individual sectors

This section briefly describes the main tasks in individual sectors of the economy and selected cross-sectoral areas. These tasks are described in detail in Part II of the National Changeover Plan.

### 5.1 Banks and other financial sector institutions

The main task of the financial sector, including the Czech National Bank, will be to coordinate the changeover to the euro for cash and non-cash transactions. As the Government has opted for the "Big Bang" scenario, these two changes will take place at the same time, unlike in the first 12 member states of the euro area. The overall costs will be far lower, as some tasks will be eliminated (e.g. the requirement to keep parallel accounts in korunas and euros during the transitional period), but the demands as regards coordinating and performing all the tasks properly and in good time will be higher.

The primary tasks of the financial sector in the euro changeover process will involve the following areas in particular:

- > the cash changeover (delivery of a sufficient amount of euro banknotes and coins, distribution of euro into economy, withdrawal of Czech koruna from circulation)
- > introduction of the euro for non-cash transactions (conversion of accounts, payment cards and other products, CNB membership of Europe's payment and settlement system TARGET)
- > adjustment of the banking sector and other financial market participants (especially in the capital market, insurance and pension scheme areas) to the single currency
- > internal preparation of the CNB for the introduction of the euro for cash and non-cash transactions, provision for the CNB's monetary policy functions in the Eurosystem, and for its performance of financial market regulation and supervision
- > implementation of necessary legislative changes concerning the financial sector

On the adoption of the euro, the CNB will become part of the Eurosystem, which consists of the European Central Bank and the central banks of countries that have adopted the euro. The introduction of the euro will necessitate the transfer of certain

competences from the Czech National Bank to the European Central Bank, most of them in the monetary policy area, but also some relating to cash circulation. The Czech National Bank will be bound by the rules set by the European Central Bank.

## 5.2 Public finances and central and local government

The introduction of the euro as the legal tender will impact on many areas of life across the whole of society. The competent central and local government authorities will have to amend a large number of legal regulations. In addition to organising their own activities, the central government authorities will create changeover-related rules for the private sector, local authorities and the public. These methodologies and recommendations will be used to prepare individual companies and local authorities and will be aimed at unifying procedures across all entities in the Czech Republic in order to ensure adequate and uniform preparations for the changeover. The state must provide a clear, high-quality methodology far enough in advance so that all entities can prepare well ahead and spread the necessary investment over as long a period as possible.

Turning to public finances and public administration, the changeover will affect the following areas in particular:

### The state budget, local authority budgets and state funds

All monetary amounts used in preparing and implementing the state budget, the state closing account and the budget chapters closing account will be denominated in euro, as will amounts relating to proposed medium-term expenditure frameworks and medium-term outlooks for the state budget, and amounts expressing financial relationships between the state budget and regional budgets, municipal budgets, regional council budgets and the City of Prague budget. The same applies to local government budgets, state funds and other funds established under special laws which form part of the system of public finances and general government.

### Administration of government debt and state financial assets

The changeover will also need to be taken into consideration in the area of government bonds and state financial assets. Changes will have to be made to the necessary legislation and rules will need to be drafted for the relevant conversions.

### Accounting, reporting, taxes, duties, wages and salaries

Besides organising their own activities, the central government authorities will also create rules for the private sector. Changes will be made to accounting, tax filing and reporting. The methods for calculating tax liabilities, tax refunds and tax revenue transfer claims and for computing duties, wages and salaries, will be adjusted to the euro.

### Prices and pricing policy

The main task of the pricing authorities will be to prepare essential changes in the areas of price regulation, price negotiation and enforcement on the market, and price checks, including penalties. Cooperation with consumer protection groups will be important, as will adequate communication of the measures intended to make prices displayed in euros easier to understand and prevent the changeover being used as an excuse to raise prices.

### Social security and public health insurance

All contributions (premiums), benefits and other payments in the social security and public health insurance systems will be converted to euro units, as will all values currently specified in korunas which are used to calculate such contributions (premiums), benefits and other payments.

### Conversion of information systems

The changeover must also be taken into consideration in all the information systems used by central and local government authorities. As modifying information systems is a time-consuming process, it is vital to make a detailed methodology available and to coordinate the changes across the entire public sector.

### Legislative amendments

The introduction of the euro as legal tender will impact on many areas of life across the whole of society. The competent central and local authorities will have to amend a large number of legal regulations. By 30 June 2007 they should have identified all the regulations that will need to be revised before the changeover, and they will regularly update the list of such regulations. Details are given in the sections focusing on legislation (Part I – 5.4, Part II – 5).

## 5.3 The non-financial sector and consumer protection

The procedures in the non-financial sector and consumer protection areas are aimed at gearing up the business sector for the changeover, simplifying the changeover for the public and, above all, protecting consumers against unjustified price consequences of the conversion of prices to euros. The experience of countries that have already adopted the euro reveals that businesses – and especially retailers – played a key role in the changeover by spontaneously taking on the role of exchangers of banknotes and coins – people used retailers to exchange money far more often than they used the banking sector. Owing to their daily contact with consumers, retail staff were in the “front line” of the conversion to the new currency, so a smooth transfer and minimisation of the related risks were heavily dependent on retailers’ preparedness and on the degree of acceptance of the euro among the population<sup>10</sup>. To ensure a smooth changeover with minimal risks, it is vital to set clear rules for consumer protection and company preparation. It will also be essential to distribute information effectively enough in order to bolster public confidence.

After conversion to euros, prices will be expressed differently in numerical terms than current prices in korunas. For some consumers this will make it difficult to judge how advantageous or otherwise the prices of specific goods and services are. The

<sup>10</sup> In the case of Austria and Germany, research suggests that around 14 days after the changeover the majority of the population no longer possessed any money in the national currency.

role of consumer protection is, among things, to prevent this temporary confusion being used as an excuse to raise prices.

Two basic terms will crop up frequently in discussions of consumer protection and the changeover: the conversion rate and price conversion.

**Conversion rate** – the irrevocably fixed rate, set by the Council of the European Union according to the Treaty establishing the European Community, which is used to convert amounts in the national currency (korunas) to amounts in euros. It is given to six significant figures in the format 1 € = xxxxxx national currency units. All koruna amounts will be converted on the sole basis of this conversion rate; it will not be possible to use any other rate.

**Price conversion** – conversion of prices expressed in the national currency to the euro, for which no rate other than the conversion rate may be used. The euro adoption legislation gives businesses the option, on a voluntary basis, of rounding prices to the benefit of the public when converting individual prices at the conversion rate and subsequently when rounding according to the rounding rules.

To bolster consumer protection and spread the workload between state and non-state institutions, it is desirable to closely involve consumer groups and institutions in the entire changeover process. The main areas of work of consumer groups will be cooperation with retailers and monitoring of price changes after the changeover.

Prices will be closely monitored pre and post changeover. Consumers will be regularly informed about the results of surveys and inspections and a detailed database of everyday consumer goods should be created.

One of the biggest risks associated with the changeover is a rise in prices and a feeling among the public that they have been hard done by. In most of the countries that introduced euro cash in 2002 consumers felt that prices had gone up disproportionately, although this was not fully confirmed in reality.

From the economic perspective, the introduction of the euro is no reason for an increase in the price level. This is borne out by statistical data from the euro area countries. In these countries an increase in prices of 0.09–0.28% was due to the introduction of the euro. This is only a small proportion of total inflation, which was 2.5% on average in the euro area countries in 2002. Consumers, however, felt that inflation was much higher. In addition to mistakes in communication, the feeling of higher inflation was fostered by a rise in prices of some services where competition was low, and an increase in prices of some types of goods and services at the start of the year unrelated to the changeover.

During the dual display of prices period, all retailers will be required to display the prices of their goods in both korunas and euros, converted exactly at the conversion rate, so that consumers have an opportunity to become familiar with prices given in euros. It will also be mandatory to give prices in both korunas and euros in price lists and similar documents. Bills from electronic cash registers will only have to show the total amount in both currencies, not the individual items. Dual display of prices will start no later than 1 month after the Council of the European Union sets the conversion rate, i.e. 5–6 months before the changeover. Retailers will be required to continue the dual display of prices for a year after the changeover, and they are advised to extend this period voluntarily for at least another 6 months.

The dual display of prices and other amounts is not intended just to prevent any dishonest practices in conversion to the new currency. The aim of this instrument is also to enable people to get used to calculating in the new currency. Extensive research has revealed that getting used to a new currency is a long process and that dual display of prices, benefits, pensions and so on greatly facilitates this process. With regard to the transparency of the whole process, it is vital that other financial information that the public comes into contact with is displayed in a similar way as for dual display of prices of goods and services. Bank balances and prices of other financial products will be dual displayed for the same period of time as prices in shops. Prices of all items on price lists and similar

documents will be dual displayed, as will amounts on salary slips, pension and social benefit statements, bills and invoices. The state administration must be an example to the private sector as regards the transparency of the changeover preparation process, a significant manifestation of which is the dual display of prices and other amounts. The specific extent of dual display of prices will be defined in detail in an update to the National Changeover Plan.

During the dual circulation period, retailers must be ready to accept payments in both korunas and euros, but will give change in euros only.

All businesses will have to adjust to the new euro reporting rules. All financial information systems will have to be modified, and staff and clients will need to be trained and kept informed.

Corporate registered capital and shares will be converted to euros. The sum of the values of the individual shares after conversion and rounding must remain equal to the converted amount of registered capital.

## 5.4 Legislative requirements for the changeover

The aim of the legislative process connected with the changeover is to introduce the euro as the legal tender in the Czech Republic and, to that end, to pass a comprehensive system of generally binding legal regulations in individual areas of Czech law. This system will consist of both new legal regulations and existing ones, the latter being amended to meet the requirements and needs associated with the changeover. One of the key principles that need to be provided for in the measures aimed at replacing the national currency with the euro is the preservation of all rights and obligations in the form in which they were established before the changeover date in line with the principle of continuity of legal instruments as laid down in EU law<sup>11</sup>.

<sup>11</sup> Council Regulation (EC) No. 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro, as amended by Council Regulation (EC) No. 2595/2000 of 27 November 2000, which regulates certain private law aspects of the introduction of the euro.

## 5.4.1 Summary of the changeover legislation, including judgments

The abrogation of the Czech Republic's derogation under Article 4 of the Act concerning the conditions of accession and Article 122 of the Treaty establishing the European Community will mean that the other provisions of the Treaty that apply solely to euro area countries will become binding on the Czech Republic. In the area of secondary EU law, the introduction and use of the euro is currently regulated by three fundamental Council Regulations adopted in 1997 and 1998. These regulations were later amended owing to the enlargement of the euro area to include Greece, the enlargement of the EU on 1 May 2004 and the adoption of the euro in Slovenia.

### Those regulations are:

- Council Regulation (EC) No. 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro, as amended by Council Regulation (EC) No. 2595/2000 of 27 November 2000, which regulates certain private law aspects of the introduction of the euro, in particular the principle of continuity of contracts and other legal instruments, and also lays down rules for the use of the conversion rates between the euro and the national currencies and rules for rounding. The regulation applies in all EU Member States.  
[Official Journal L 162, 19/06/1997, p. 1–3](#)  
[Official Journal L 300, 29/11/2000, p. 1](#)
- 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, Council Regulation (EC) No. 2169/2005 of 21 December 2005 and Council Regulation (EC) No. 1647/2006 of 7 November 2006. This is the key regulation as regards the transition from national currencies to the euro. It originally governed the introduction of the euro in the first wave of countries to enter the euro area on 1 January 1999. However, owing to the further future enlargement of the euro area it was recently amended in two specific respects by Regulation No. 2169/2005. The first, formal, change was to move the list of countries that

have adopted the euro into an annex. This simplifies any future revision of this act of law, as there will be no need to interfere with the text of the regulation itself. In substantive terms, the aforementioned amendment takes into account the fact that the euro now exists and adds two more changeover scenarios, allowing the previously obligatory transitional period to be avoided. The regulation thus contains provisions on the replacement of the national currency with the euro (i.e. the possible changeover scenarios), and the annex lists the countries that have already adopted the euro, giving the euro adoption date, the cash changeover date and the chosen scenario. This was last done in the decision on the introduction of the euro in Slovenia.

[Official Journal L 139, 11/05/1998, p. 1–5](#)

[Official Journal L 300, 29/11/2000, p. 2–3](#)

[Official Journal L 346, 29/12/2005, p. 1–5](#)

[Official Journal L 309, 9/11/2006, p. 2–3](#)

- 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, as amended by Council Regulation (EC) No. 1478/2000 of 19 June 2000 and Council Regulation (EC) No. 1086/2006 of 11 July 2006. This Regulation has to be amended upon each enlargement of the euro area, with a new conversion rate being set for each new euro area country. However, this can only be done after the Council decides to abrogate the derogation in respect of each particular Member State. The derogation is expected to be abrogated around 6 months before the Member State enters the euro area.

[Official Journal L 359, 31/12/1998, p. 1–2](#)

[Official Journal L 167, 07/07/2000, p. 1](#)

[Official Journal L 195, 15/7/2006, p. 1](#)

The three Council Regulations listed above form the secondary law of the EU concerning the introduction of the euro in the Member States. These regulations are directly applicable and will be the starting point for the planned process of adoption of new legislation – in particular the “General Act” – and the numerous changes to existing legal regulations that will need amending because of the changeover.

Secondary EU law is subject to the judgments of the European Court of Justice, which will also have to be taken into consideration when amending the legislation, for example the ECJ's decision in Case C 19/03<sup>12</sup> and recently also its decision in Case C 359/05<sup>13</sup>.

Other EU regulations relevant to the introduction of the euro in the Czech Republic will be posted and regularly updated at [www.zavedenieura.cz](http://www.zavedenieura.cz) and in other locations as listed in the box Current information sources.

## 5.4.2 Implementation of the changeover into Czech law

The aforementioned fundamental EU rules concerning the introduction of the euro take the form of regulations and as such will be directly binding and directly applicable within the territory of the Czech Republic as from the euro adoption date (full application of these regulations relates only to euro area member states). They will be implemented into the laws of the Czech Republic in accordance with the regulations for implementing EU law into Czech legal regulations<sup>14</sup>.

A draft "General Act on the Introduction of the Euro" and a new Act on the Czech National Bank will be prepared in connection with the changeover. Amendments to several legal regulations will also be proposed, based on a detailed assessment of the impacts of the implementation conducted by individual government departments. In preparing these amendments, the departments will refer to EU regulations and the General Act and also to the methodology and guidelines adopted by the National Coordination Group.

<sup>12</sup> Judgment of the European Court of Justice (Grand Chamber) of 14 September 2004; Case C-19/03 Verbraucher-Zentrale Hamburg eV v O2 (Germany) GmbH & Co. OHG. ECR 2004, p. I-08183.

<sup>13</sup> Judgment of the European Court of Justice (Second Chamber) of 17 January 2007; Case C 359/05 Estager SA v Receveur principal de la recette des douanes de Brive, publication pending.

<sup>14</sup> See in particular the Guidance Notes for Work on Fulfilment of the Legislative Obligations arising from the Czech Republic's Membership of the European Union, approved in Government Resolution No. 1304 of 12 October 2005.

The legislative changes will be adopted well in advance so that they can be implemented in an appropriate manner. The preparations for the changes should be completed as soon as possible – at least 2 years before the changeover unless stipulated otherwise. All amendments to laws should be passed so that they enter into force at least 1 year before the changeover. Where amendments with a wide-ranging impact are needed, the legal regulations should be passed more than 1 year in advance so that the revised legislation can be implemented. In the case of wide-ranging impacts on information systems, sufficient testing of the changes to those systems will also need to be ensured. A more detailed timetable is given in Part II, section 5.4.

## 5.5 Information sources and communication

For a successful changeover it is vital for everyone to be informed correctly, in good time, and to a sufficient extent about all that the changeover implies for them. The information campaign will be informative and educational in nature. The main information campaign will be targeted at the public. Special attention will be paid to particular groups of the population (senior citizens, children, the disabled, etc.). A separate information campaign will be prepared, for example, for businesses, retailers and central and local government authorities.

Appropriate communication instruments will be chosen for each target group. These will generally include information in the media (including advertisements), universal printed matter delivered to every household, a website, various brochures, leaflets and posters, billboards, audiovisual materials, a free telephone line, conferences, training sessions and lectures. Opinion polls will be conducted on an ongoing basis, with the results used to update the communication strategy to ensure that it is responsive to the current needs of the various target groups.

One of the primary objectives of the information campaign will be to make sure that enough information is made available so that those targeted have no

problem finding information relating to the changeover and that information reaches them in good time via appropriate communication channels.

## 5.6 Information and statistical systems

Given the ever increasing role of information technology and information systems and society's dependence on those systems, it is important that the changeover preparations in this area are well executed and made far enough in advance to leave sufficient time to test and verify all the changes. Owing to the rapid progress in IT (information systems, for instance, have an average life cycle of 5 years) it is vital already to factor in the fact that the euro will become the national currency in a few years' time when acquiring or creating information systems and information technology (IT) in general.

The changeover will impact above all on economic information systems and information systems used to administer the accounts of companies and public authorities. It will also have an indirect effect on all instruments used to process and handle financial information, i.e. software in particular. But the introduction of the euro will also have an effect on some types of hardware (e.g. IT used in cash registers, price tag printers and bar-code readers).

In terms of IT use, the impacts on the public sector and the private sector will probably be equal. However, the public sector will face the bigger challenge as regards information system administration, as it works within a wider legal framework than the private sector and runs numerous large information systems. In the public sector, it will also be essential to take account of the close links between information systems and the work of individual authorities and on the overall running of these authorities in general.

Generally, though, there is no fundamental difference in the approach of the public and private sectors to information systems. In both cases there will be a need to comprehensively assess each sys-

tem and to coordinate its development and operation with the changeover. In particular, it is vital to evaluate whether the system will be affected by the changeover at all. For example, a large percentage of currency information systems can already handle more than one currency, a fact that will greatly facilitate the changeover preparations.

The situation may be more complicated in the information system communication area, both internally within a single organisation and externally. Where the changeover only affects a few systems inside a single business, those systems should all be converted at the same time (unless they require phased conversion). Where a system is connected to the system of another business, post-changeover compatibility needs to be ensured. Many changes will have to be taken into consideration in the IT area, e.g. changes in invoicing, accounting and financial management, spreadsheet conversion, and rounding differences.

At the present time, Part II of the National Changeover Plan gives a basic survey of the key measures and a description of the most important tasks, which will gradually be developed. Later on, a general methodology for the modification of information systems will be drawn up and a method for certifying IS/IT suppliers, or possibly individual information systems, will be proposed.

## 5.7 The NCG's main tasks for 2007

In addition to the tasks set out in Part II of the National Changeover Plan, the following general tasks have been assigned to the National Coordination Group and the coordinators of individual areas to ensure that the changeover preparations run smoothly. These tasks will be performed in the course of 2007 and information on their performance will be published in the 6-monthly reports on the NCG's work. Many of the tasks will also be incorporated into the next update of the National Changeover Plan. The NCG and its Working Groups will receive support from the NCG Organisational Committee in implementing these tasks.

### The National Coordination Group should in particular:

- > coordinate the work of the Working Groups and their coordinators
- > by 30 June 2007, acting in cooperation with the Working Groups, prepare estimates of the public sector budget costs in a 3-year outlook, and, acting in cooperation with the Ministry of Finance, prepare a proposal for covering those costs
- > prepare the rounding methodology and, acting in cooperation with the relevant Working Groups, analyse the impacts of the various rounding methods
- > acting in cooperation with the Working Groups, prepare a system and methodology for testing the public sector's preparedness for the changeover and publish a related assessment system
- > develop cooperation with professional associations, social partners and other institutions
- > actively monitor and analyse Slovenia's experience with the adoption of the euro on 1 January 2007
- > together with the Working Groups develop communication and cooperation with countries which are already euro area members or which are preparing to join
- > via the Organisational Committee distribute information on the changeover preparations to all stakeholders
- > prepare updates of the National Changeover Plan

### The Legislation Working Group should in particular:

- > prepare a general analysis of the Czech legal regulations and determine the extent and manner of their amendment
- > discuss the content of the draft General Act on the Introduction of the Euro
- > acting on the proposal of the Ministry of the Interior, discuss the methodology for amending bylaws and other legal acts issued by local government authorities

### The Public Finances and Public Administration Working Group should in particular:

- > specify deadlines and designate responsible institutions for the public sector's changeover preparations

- > acting in cooperation with the other Working Groups, prepare a system and methodology for testing the public sector's preparedness for the changeover and publish an assessment system
- > conduct a general analysis of the impacts of the various methods of rounding (i.e. whether to round to cents, ten cents or whole euros) and setting new amounts for public budgets, and also analyse the administrative demands of each option
- > elaborate the social and health aspects of the changeover in more detail

### The Non-financial Sector and Consumer Protection Working Group should in particular:

- > prepare a more detailed changeover methodology for businesses
- > prepare changeover plan preparation guidelines for businesses
- > propose measures to boost consumer confidence and mitigate the risk of the changeover being used as an excuse for non-transparent price changes
- > analyse the experience of euro area countries and propose ways of enhancing consumer protection by monitoring and checking prices

### The Financial Sector Working Group should in particular:

- > elaborate the technical aspects of the financial sector preparations in more detail
- > develop cooperation with other financial sector partners

### The Information Technology and Statistics Working Group should in particular:

- > prepare a detailed methodology for performing a changeover audit of public sector information systems so that the audit can be performed in year €-3 and can subsequently be assessed
- > prepare a methodology for modifying and developing public sector information systems with regard to changeover compatibility
- > create recommendations for modifying and developing private sector information systems with regard to changeover compatibility

### The Communication Working Group should in particular:

> launch a special website providing information on the changeover preparations at the central URL [www.zavedenieura.cz](http://www.zavedenieura.cz)

- > launch a basic information campaign addressing topics identified by opinion polls and meeting the needs of specific target groups
- > establish communication channels with professional associations and interest groups to inform them about the changeover, and gain feedback

## 6 The National Coordinator's recommendations

The updated versions of the National Changeover Plan will contain the National Coordinator's recommendations in specific areas or for particular target groups. Implementation of these recommendations will facilitate smooth and speedy adoption of the euro in the Czech Republic. In the majority of cases, implementation of the recommendations will also give those addressed a competitive edge. The National Coordinator's recommendations will be addressed to banks and financial institutions, central and local government authorities, the public, businesses, and professional associations and interest groups.

At present, in this first version of the National Changeover Plan, the National Coordinator issues the following recommendations:

### Start preparing despite not knowing the changeover date

Although the Czech Government has not yet set an exact date for the introduction of the euro, the National Coordinator recommends that businesses and central and local government authorities should use all available documents to analyse the likely changes and start preparing on an ongoing basis to implement the changes as soon as the changeover date becomes known. Many measures can be prepared even without a fixed changeover date.

### Strengthen the coordinating role of associations

Professional associations, chambers, interest groups and other similar organisations should appoint someone responsible for monitoring the changeover process. This person should operate as an intermediary between the relevant segment of the economy and the National Coordination Group, convey the member's questions and recommendations, and inform the members about the state of play with the preparations and about the changeover recommendations.

### Get local government bodies (municipalities and regions) more involved

Regional and municipal authorities are often closer to the public than central government authorities. Therefore, they should be prepared to inform the public about the changeover's impacts on daily life. Regions and municipalities should also be closely involved in the changeover preparations.

### Establish the post of changeover coordinator in central and local government authorities

Given the need for good coordination between central government authorities it is essential by mid-2007 to appoint someone responsible for the changeover preparations in every central government authority and to notify the NCG Organisational

Committee of that person's name. This person will perform three basic roles: to be a partner for communications with the NCG and its Working Groups in the implementation of the National Changeover Plan, to coordinate the changeover preparations in his/her institution, and to pool ideas and comments on the changeover preparation plan in the areas of responsibility of his/her institution. The Czech Regions Association and the Czech Association of Local Authorities should also choose a coordinator.

### Establish the post of changeover coordinator in businesses

The changeover process will affect every company in numerous areas of activity. The National Coordinator therefore recommends that businesses should appoint a changeover coordinator as soon as possible. In the present phase, the coordinator's role should be to monitor the state of play with the preparations and subsequently to incorporate the National Changeover Plan and recommended methodologies into the business's preparation plan. The coordinator should have sufficient knowledge and powers to be able to coordinate the prepara-

tions across the entire business. It is not essential for SMEs to establish a separate post of coordinator – this is primarily a matter of assigning responsibilities (to the finance director, executive director, etc.). Business information points and financial and consultancy partner institutions should provide the coordinator with the necessary support.

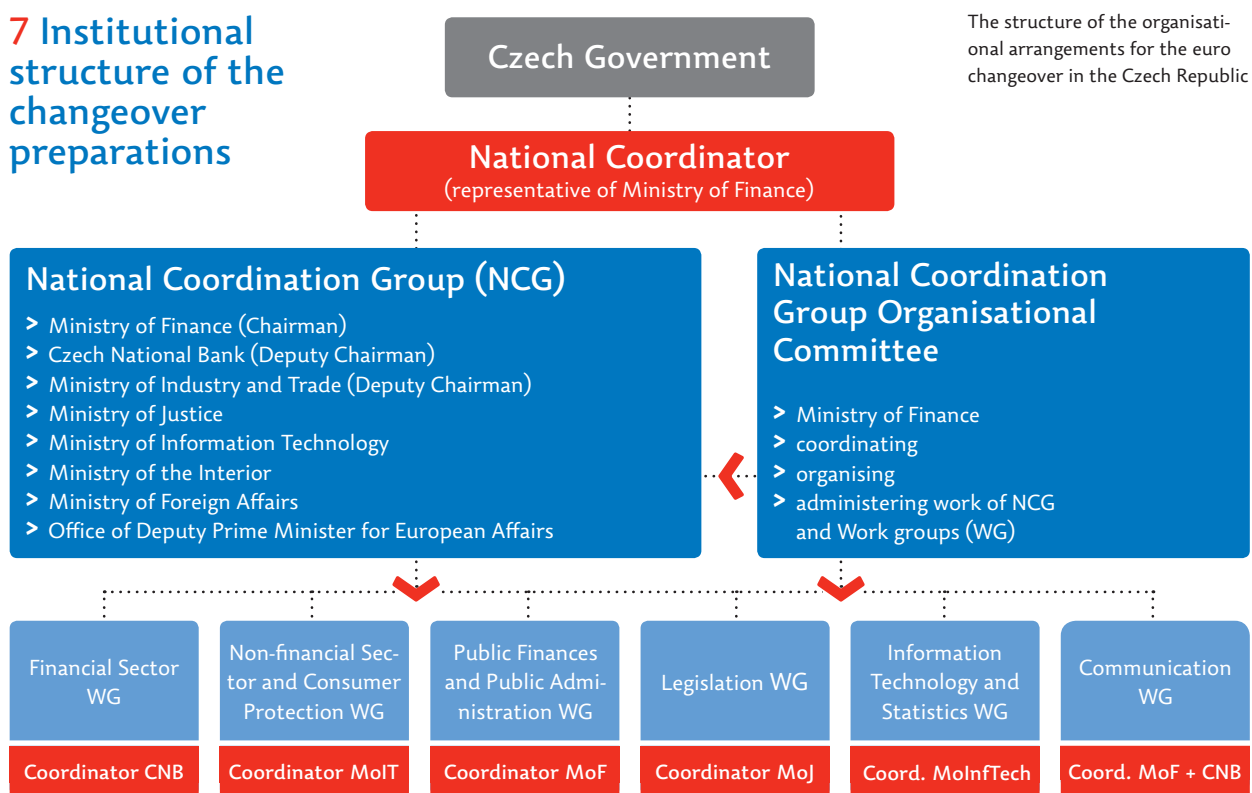
### Enhance communication

The private sector currently lacks information and the public has needless concerns about the changeover. It is therefore vital to enhance communication of the benefits and costs of adopting the euro and to explain what the changeover will entail.

### Involve consumer groups

Although the main role of consumer groups will be to monitor pricing policy in the changeover period, it is essential to get them involved in the process right now and to work actively with them to create a system to counter unjustified price increases. Consumer groups should also seek effective consumer protection methods with the aid of their euro area partners.

## 7 Institutional structure of the changeover preparations





# Part II

# Specification of Tasks in Individual Sectors



# 1 Introduction

Part II of the Czech Republic's National Changeover Plan elaborates in detail on Part I containing basic information on how the euro will be introduced in the Czech Republic and on the actions to be implemented in individual sectors of Czech society. Part II also contains actions and examination dates according to which the implementation of the National Changeover Plan will be monitored and assessed.

The individual sections of Part II were prepared by the relevant Working Groups of the National Coordination Group under the direction of the coordinators allocated to them and in conformity

with the National Coordinator's guidelines. The National Changeover Plan was discussed by National Coordination Group and approved at its meeting on 21 February 2007. The Czech Government discussed and approved this document on 11 April 2007.

## Euro adoption timing terminology

The following terms indicating the timing of the individual steps are used in the sections that follow:

year € – year of adoption of the euro in the Czech Republic

€-day – first day of year €

year €-1 – one year prior to euro adoption (analogously €-2 etc.)

# 2 Banks and other financial sector institutions

## 2.1 The cash changeover

### 2.1.1 Delivery of euro banknotes

During the preparations for the enlargement of the euro area it was decided that banknotes would, by agreement with the European Central Bank (ECB), be lent by one or more Eurosystem national central banks (the "partner NCB"). The Czech National Bank (CNB) will, in good time, prepare a request for the amount of banknotes required for the changeover and an estimate of the logistical stocks needed for the year following the changeover.

The CNB and the partner NCB will sign a euro banknote borrowing agreement whose content will be based on an ECB Guideline<sup>1</sup>. Delivery of banknotes to the Czech Republic will only be possible after the derogation has been abrogated (Article 3(4) of

<sup>1</sup> Guideline ECB/2006/9

Guideline ECB/2006/9), i.e. around 6 months before the changeover. The banknotes will be repaid later on by means of production arranged by the CNB in the years following the changeover.

### 2.1.2 Production and delivery of euro coins

Under European law, the right to issue coins resides with the individual Eurosystem Member States. Under the Act on the CNB, the central bank has the exclusive right to issue coins in the Czech Republic. This exclusive right implies that the CNB is responsible for arranging the production and delivery of coins for the needs of the Czech Republic as a Eurosystem member state. All euro circulation coins possess the same technical parameters, differing only on the reverse "national" side. The volume of coins issued is approved by the ECB.

The production preparations, production itself and the delivery and distribution of euro coins are very time consuming. The preparation phase needs to be launched at least 3 years ahead of the planned changeover date. Actual production of Czech euro coins will only be possible after the decision to abrogate the derogation has been adopted, i.e. around 6 months before the changeover.

The production and delivery of Czech euro coins needs to be divided into several phases, namely:

### 1. Choice of themes and designs for the national sides of Czech euro coins (the "national side")

> the mechanism for choosing the themes and designs of the national sides will be set by the CNB Bank Board in such a way that several options are available for the final decision

### 2. Manufacture of tools (dies) and production of a test batch of Czech euro coins

> the producer(s) of euro coins will be selected in a tender in accordance with the Public Procurement Act (the mints of EU Member States which meet all the requirements stipulated by the European Commission as of the tender publication date will be invited to tender)

> given the volume of euro coins needed and the short time in which to make them, production will probably be divided among several producers, each of which will prepare tools for specific denominations

> the scope of coin production, in terms of both volume and structure, will be decided by the CNB taking due account of the expected needs and the issue volume approved by the ECB

### 3. Coin production and delivery to the Czech Republic

> commencement of euro coin production following the abrogation of the derogation is conditional on all the tests laid down in the documents of the European Commission and its advisory bodies being passed

> provided that the requirements are met, it will be possible to transport the coins to the Czech Republic under pre-defined rules

## 2.1.3 Frontloading of banks and non-financial corporations

In the immediate run-up to the changeover, the CNB will supply banks with euro cash in the form of a loan (a process referred to as frontloading). Banks will have to provide collateral for the borrowed banknotes and coins in compliance with ECB regulations. The putting of frontloaded banknotes and coins borrowed from the CNB into circulation before the changeover date will be prohibited.

In a process called subfrontloading, banks will be able supply the non-financial sector (retailers, ATM operators, etc.) with euro banknotes and coins borrowed from the central bank. Subfrontloading of the public will not be permitted. Frontloading of banks will commence 3 months ahead of the changeover date and subfrontloading of the non-financial sector 1 month ahead.

The euro is the legal tender across much of Europe, and so banks, non-financial corporations and the public may frontload during the final phase of the changeover preparations by buying other nations' euro banknotes and coins at banks and bureaux de change at the market price. The public may also frontload by means of starter kits<sup>2</sup>.

## 2.1.4 Loading and conversion of ATMs

There are currently almost 3,000 ATMs distributed across the Czech Republic, and this number is set to rise. ATM operators, service organisations and security agencies will have to change their ATM software, hardware and loading processes in quite a short time so that the conversion of ATMs from the national currency to the euro does not disrupt cash circulation (alteration of hardware and communication with authorisation and clearing centres, cash supplies, estimation of quantity and choice of denominations, cassette size adjustment, determination of time period for dual screen settings, statement printing during dual price display period).

<sup>2</sup> Article 17(2) of Guideline ECB/2006/9

Vending machines and other coin or note operated machines and banknote and coin authentication and handling devices will likewise need to be modified.

## 215 Exchange of banknotes and coins, dual circulation and withdrawal of national currency banknotes and coins

A period of “dual circulation” will continue for 2 weeks after the changeover. Customers will be able to pay in the retail network in both the national currency and euro banknotes and coins, although retailers will give change in euro banknotes and coins only. The dual circulation period will be very hard work for all those involved, especially the retail sector.

The CNB, commercial banks and other selected entities will exchange cash for at least 6 months after the changeover date. The exchange rules will be strictly defined in the General Act on the Introduction of the Euro. Under the relevant legal authorisation it will be possible, for example, to stipulate a maximum value or number of banknotes and coins per exchange transaction. Commercial banks will implement changes to their information systems and processes relating to cash and exchange transactions.

The best way of exchanging hoarded cash in the national currency is to deposit it in advance on an account with a bank or credit union and to withdraw it in euros after the changeover as and when required. The CNB and commercial banks will undertake the necessary communication activity to inform their clients in this respect. After 6 months, the legacy currency will only be exchangeable at the CNB. Coins will be exchangeable for a period of 5 years. The length of the banknote exchange period has yet to be decided; it will, however, be sufficiently long (decades).

National currency banknotes and coins (i.e. Czech korunas) will be collected via banks at the CNB’s branches or their detached workplaces, where they will be destroyed. The CNB will decide on the most practical forms of transport after consulting with banks and security services and agencies.

## 216 Cash transport, storage and protection

The changeover will be complicated in terms of ensuring the security of transported and stored national currency banknotes and coins withdrawn from circulation and euro banknotes and coins newly put into circulation. The same applies to transport and storage facilities, not least because the preparations will be going on in the Christmas shopping period. Very close liaison will be needed between banks, the police, security agencies responsible for transport, and, where necessary, the armed forces as regards guarding the selected premises. Assistance from the intelligence services is also envisaged.

### Euro banknotes and coins put into circulation

The CNB has sufficiently large storage capacities for storing euro banknotes and coins; necessary capacities for storing euro banknotes and coins during the first few days of the changeover will also be created by banks acting in partnership with security agencies.

### Czech banknotes and coins withdrawn from circulation

The CNB will see to it that most national currency banknotes and coins are withdrawn from circulation and from the stocks of banks and other financial institutions before the frontloading of euro banknotes and coins begins. After the changeover only a small proportion of the national currency should remain in circulation; this will be gradually withdrawn from banks.

## 217 Destruction of Czech banknotes and coins withdrawn from circulation

National currency banknotes and coins will be destroyed by the CNB’s branches, which will also check the authenticity and number of banknotes withdrawn from circulation. Coins will be collected at a secure location and gradually destroyed.

## 2.1.8 Communication with professionals and the public on changeover issues, exchange of banknotes and coins withdrawn from circulation

As for the cash changeover, the options for exchanging national currency banknotes and coins for euro banknotes and coins – and in particular the phasing of the individual steps – will be explained to the public in the preparation phase. Issues relating to the protection of the euro against counterfeiting – in particular the security features on euro banknotes and the ways in which the notes can be authenticated – will be explained to professionals and the public. Particular attention will be paid to vulnerable groups (senior citizens, children, the disabled). The general principles of the cash changeover communication strategy will be defined by the CNB and are described in the section on the communication of the National Changeover Plan. Commercial banks will inform customers via the usual communication channels and will need to train their staff for this purpose.

## 2.2 The changeover for non-cash transactions

### 2.2.1 CNB membership of TARGET, modification of CERTIS

Central banks in the EU operate the TARGET<sup>3</sup> system (Trans-European Real-time Gross settlement Express Transfer system) to maintain the accounts of banks which execute currency operations in the euro area and to execute such currency operations of their own. The TARGET system can also be used for making all other interbank payments, in particular large and priority ones. Lastly, the system is used by numerous European settlement systems to clear the monetary part of securities transactions.

<sup>3</sup> A new version of the system, called TARGET II is currently undergoing development and testing. As this is scheduled to go live at the end of 2007, it is likely that the Czech Republic will be a member of the new, rather than the existing, system.

For monetary policy-making reasons, the CNB is required to be a TARGET member as of the changeover date. To enable the key tasks to be spread over time, the option of the CNB joining TARGET before the changeover (approximately 6 months before) should be considered.

For the clearing of koruna transfers, the CNB currently maintains interbank payment accounts for banks in the domestic CERTIS system. Cash settlement of securities transactions in Czech korunas also takes place in CERTIS. After the changeover, it will be possible to maintain banks' accounts either in TARGET or in CERTIS (although for no more than 4 years after the changeover). In either case it will be vital to provide for the flexible transfer of sufficient funds for settling payments between TARGET and CERTIS, hence it is essential to ensure automated connection of these systems. The role of commercial banks will be to consider how to connect to TARGET (e.g. through their parent banks) and to what extent to use other clearing systems (STEP 2, PRIEURO, etc.).

The CNB and commercial banks are continuously monitoring the payment system development trends in Europe. The current trend is gradually towards a high degree of centralisation. The Czech Republic's transition to the euro will take place in parallel with the establishment of SEPA (the Single Euro Payments Area). The manner and form of the involvement of the CNB and commercial banks will be decided once the necessary steps have been clarified at the European level. For this reason, it is appropriate in the initial phase to address the implementation of SEPA separately from the euro adoption process while keeping in mind the link between the two.

Besides planning the implementation of changes in the domestic payment system CERTIS and its connection to TARGET, it is also essential to work in cooperation with the operators of settlement systems and card clearing systems. If banks' accounts are left within the domestic CERTIS system, the settlement system operators' existing connection to CERTIS can be kept for another 4 years. If banks' accounts are transferred to TARGET, these

settlement systems will also need to be connected directly to TARGET.

## 2.2.2 Conversion of accounts, payment cards and other payment instruments

### Conversion of bank products (accounts, credit products, letters of credit, guarantees, cheques, bills)

- > banks will convert customer accounts and loan products maintained in korunas to euros at the conversion rate; conversions will be performed free of charge; customers will be notified of this fact in good time
- > in this respect the process of conversion to euros must be guided and coordinated; the whole operation must be prepared so that customers' original account numbers are preserved
- > all systems keeping accounts in Czech korunas will be changed, including exchange rate tables, receipts for customers and statements
- > when altering systems, account must be taken of the obligation of dual display of prices and financial products and for displaying amounts both in Czech korunas and in euros for the entire dual display of prices period

In the case of credit products, letters of credit and guarantees, it will also be necessary to convert adjusting entries, insurance premiums, collateral accepted in korunas and all assets and liabilities in general.

### Changes in the payment card system and reconfiguration of POS terminals

- > the Czech Republic will draw on the experience and recommendations of international card companies (Visa, MasterCard) from the euro area formation period (especially in the area of interfaces for card authorisation and clearing systems, issuance of euro banknotes, printing of the euro symbol, treatment of dual display, i.e. the showing of monetary amounts in both Czech korunas and euros in document printouts, configuration of chips on chip cards, etc.)
- > there are almost 40,000 POS (Point of Sale) ter-

minals in the Czech Republic; these allow goods and services to be paid for by debit, credit or other types of card; here too, adjustment to the changeover will be essential (in particular, authorisation and clearing centre communication software will have to be modified and rules will need to be stipulated for clearing after the changeover date, communicating with clients, etc.)

### Dual display of monetary amounts in the financial sector

- > in the banking sector, the issue of the dual display of monetary amounts will be addressed primarily by means of changes in account statements, price lists and the common payment terms of banks
- > dual display of prices will be implemented in compliance with the general regulations adopted in the Czech Republic; statements (closing balances), schedules of charges for banking services and other products will have to be issued in both currencies for the full duration of the dual display of prices period; closing balances on statements will have to be displayed in both currencies, and all items in schedules of charges will be dual displayed
- > in their business conditions banks will define their chosen approach to the dual display of prices in compliance with the legislative obligations and based on the recommendations of the National Changeover Plan, and will inform their customers about all changes in an appropriate manner (e.g. by means of guidance on the reverse sides of statements, information leaflets, etc.; other actions are given in section 2.3 of this document)

### Electronic banking

- > electronic banking covers electronic distribution channels, electronic money, electronic purses and electronic signatures
- > with regard to electronic distribution channels, modifications will be made to software by software suppliers, software users (banks' customers) and processors (banks)
- > one year before the changeover customers will have to be contacted and notified of the changes; when the conversion rate is set, electronic banking statements (balances) will be dual displayed, i.e. displayed in both Czech korunas and euros

## 2.3 Financial sector institutions and the euro, information systems, consumer protection in the financial sector

### 2.3.1 Conversion of securities and other financial market products

As a result of the changeover, the face values of all securities denominated in the Czech koruna will have to be converted.

#### Bonds

- > the face values of tradable, dematerialised koruna bonds of all issuers will be converted at the conversion rate as of the changeover date; one possible rounding method is to apply standard rounding to the nearest cent
- > the minimum tradable volume of bonds will also have to be modified in line with the rounding method adopted

#### Equity securities

- > the conversion method must ensure that the value of registered capital in euros is equal (or as near as possible) to the sum of the converted (nominal) values of the individual shares; it will be necessary to stipulate that share values must be rounded to several (approximately 4–6) decimal places, otherwise significant deviations may arise
- > when converting corporate registered capital, it must also be ensured that financial institutions comply with the minimum capital requirement after the conversion to euros; this will primarily concern investment firms and insurance companies
- > changes may also occur in the case of financial institutions which are not subject to a capital requirement under EC directives, such as the Prague Stock Exchange (the PSE's capital is governed by the Capital Market Undertakings Act), investment services intermediaries, insurance companies, etc.

#### Collective investment securities

- > the value of the investment of a collective investment client is expressed in terms of units (unit certificates/shares), which are regularly valued

- > the current value of a unit certificate (or share) will be calculated as a percentage of the equity capital of the collective investment fund, which will be expressed in euros, taking into account the accrual of standard costs of the fund
- > in connection with the adoption of the euro, the form of the calculation of the current value of a share will have to be defined (e.g. with precision to 3–4 decimal places); the initial values of unit trust shares created prior to the changeover will then be recalculated with the same precision (the overall value of a client's assets/investments will normally be rounded to whole cents)
- > the historical performance of collective investment products is reported for periods ranging from several months to years; portfolios can contain assets in foreign currencies, including euros, which were valued at the exchange rate current at the time, hence doubts can arise as to whether the past value in korunas, to be calculated at the conversion rate, should be regarded as the basis for calculating historical performance, or whether these institutions will have the option of calculating the past value in euros separately for those assets which are or were denominated in euros. The more appropriate method would seem to be to start with the past value given in korunas and to convert it subsequently using the conversion rate, so as to maintain continuity and comparability of reported values; the value in the pre-changeover period (i.e. after the conversion rate is fixed) should also be dual displayed in this way.

### 2.3.2 Adjustment of market operators and settlement systems, adjustment of market indices Securities trading

- > securities market operators will change the information on the face values of securities and other financial market instruments traded in their systems, convert their prices and change the tick value (the smallest unit by which prices on the market can change) and other trading parameters (price bands etc.)

- > creators of stock indexes will modify the equation for calculating prices given in euros
- > transaction settlement system operators must ensure the conversion of payments for unsettled transactions, recalculate the value of positions for derivatives contracts and generally technically adjust their systems (system changes should occur during the technological downtime at the turn of the calendar year so that trading on the regulated market can subsequently continue smoothly in euros)

### Conversion and replacement of market indices and reference rates

- > in the case of transactions and contracts linked to price sources, the koruna price sources must be converted to euro price sources; in order to reap the maximum benefits from the adoption of the euro, it is desirable to support some degree of harmonisation of euro markets by means of the common features of the euro currency markets applied in all countries of the euro area (PRIBOR/CZEONIA reference rates will be replaced by the corresponding EURIBOR/EONIA reference rates, the CNB's key interest rate by the ECB's MRO – Main Refinancing Operations – rate, etc.)
- > the introduction of the euro will have no effect on existing contractual obligations; it will not give a party the right unilaterally to terminate an existing contract<sup>4</sup>

## 233 Conversion of information technology

Information systems are an integral part of the governance of financial institutions. For this reason it will be necessary to identify, plan, test and implement all changes to the information technology of banks and other financial market institutions. The preparations need to start at least 3 years ahead of the changeover. It will be desirable to set up project teams in individual institutions and to divide each project into separate subprojects (in the case of the banking sector, for example, this will concern projects for the bank's central system, such

<sup>4</sup> Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

as accounts, payments, accounting, direct banking, cross-border payments, payment cards, subsidiaries, transactions on customer accounts, etc.).

The CNB will coordinate the timing of the individual stages of the process. In order to make the changes, the rules for the use of the conversion rate, rounding, treatment of historical data and dual display of prices must be known far enough in advance. Newly developed or acquired systems in the financial sector should be "euro compatible". It will be desirable to call on users of standard software to contact information system manufacturers or service providers and find out about euro-compatible versions of their software or suitable upgrades.

Financial information systems often use thresholds that activate particular processes in the system. Such thresholds must be converted to euros in order to prevent unwanted system operations.

## 234 Overview of consumer protection-related measures, revaluation of securities

One way of protecting consumers will be the dual display of prices and monetary amounts. The dual display of prices obligation will be based on a universally adopted concept and should be laid down in the General Act. Dual display of prices will be introduced within a month after the fixing of the conversion rate, i.e. around 5–6 months before the euro adoption date, and will continue for 12 months after the changeover. Thereafter it may continue for a time (around 6 months) on a voluntary basis.

### In the financial sector, the issue of the dual display of prices and monetary amounts should be addressed primarily:

- > by displaying dual balances in account statements (statements will contain the fixed conversion rate; before the changeover the balance and other appropriate data on the account will also be given in euros for information; following the changeover such data will also be given in Czech korunas for information)

- > in financial institutions' price lists for all items
- > in financial institutions' common payment terms

The rules for the dual display of prices and monetary amounts will apply to all financial sector institutions.

Customers of financial institutions such as insurance companies, building societies and pension funds should receive information in advance on the value of their regular payments in euros (payment schedules, leasing instalments, etc.). Customers should also be informed in writing about, for instance, the conversion of sums insured and, where applicable, obtain a relevant annex to their contract in which their obligations to the financial institution are converted to euros. This duty will apply analogously to unit trusts and all other investment instruments.

Financial institutions managing client assets whose value is determined by the sum total of the securities managed will have to convert these securities and notify customers of the converted value of the investment. It is desirable for financial institutions to notify customers of the converted value of their assets after the conversion rate is set and again later on after the changeover (for example in the first quarter of the year of the changeover).

## 2.4 Overview of necessary legislative changes

The adoption of the euro in the financial sector area will impact on the Czech legal regulations in two phases:

### 2.4.1 Implementation of changes to Czech law so that the Czech Republic meets the conditions for adopting the euro

Under Article 121(1) of the Treaty establishing the European Community, the convergence reports of the EC and the ECB examine among other things

the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 108 and 109 of the Treaty establishing the European Community and the Statute of the ESCB and ECB. This means it is essential to establish legal conditions for the full integration of the national central bank into the European System of Central Banks in the sense of the Eurosystem (i.e. the ECB and the central banks of countries that have adopted the euro).

In practice this will mean transferring decision-making powers lying within the Eurosystem's areas of competence (in particular monetary policy, management of official foreign exchange reserves, support for the operation of payment systems, and money circulation) from the CNB to the ECB. The CNB will, conversely, become an executive component of the Eurosystem, implementing the decisions of the ECB. The tasks performed by the CNB under its national duties (e.g. financial market supervision) will be unchanged. The amendments necessary for the Czech Republic to enter the euro area will be implemented in a new Act on the CNB. This act will be targeted to enter into force in the period prior to publication of the convergence reports (which only examine the legislation in force), but will not take effect until the changeover date.

### 2.4.2 Legislative measures for euro adoption itself

Three directly effective European regulations relate generally to the introduction of the euro (No. 974/1998 on the introduction of the euro, No. 1103/97 on certain provisions relating to the introduction of the euro, and No. 2866/98 on the conversion rates – all as amended). More detailed information is given in the part of the National Changeover Plan focusing on legislative issues (Part II – section 5).

The Czech legislation on the introduction of the euro will consist of several segments. The General Act on the Introduction of the Euro should cover all the most significant legal aspects of the intro-

duction of the euro in the Czech Republic and the aspects that are common to more than one area. It will contain several provisions associated with the adoption of the euro as the currency and legal tender in the Czech Republic, in particular a reference to the conversion rate and to the method for converting from the koruna to the euro (and other currencies where applicable), the main rounding principles, the conversion of monetary amounts on bank and other accounts, the conversion of securities, a reference to the guarantee of continuity of existing legal obligations, the rules for the dual display of prices and monetary amounts, the rules for the dual circulation of cash in Czech korunas and euros and for exchanging cash, and provisions on inspections, supervision and penalties in the event of failure to comply with the Act.

In addition to the General Act, legislation should be adopted in the areas of competence of individual government departments to regulate specific aspects of the changeover in the areas concerned.

**In the financial sector area, the legislative changes will concern the following areas in particular:**

- > the conversion of amounts given in korunas to euros – in particular amounts relating to registered capital and fines
- > the removal of incompatibilities that would otherwise arise after the changeover. Where a law or other regulation lays down an obligation to execute a transaction in korunas (e.g. to execute an interbank payment in korunas or to pay deposit insurance compensation in korunas), the possibility of directly applying the European legislation is open to question (as the transaction concerned does not involve the conversion of a specific amount). The present procedures for koruna-euro conversions (for example the conversion of the limit for deposit insurance), including any references to exchange rates declared by the CNB, will also become incompatible. A similar problem may arise with legal regulations that refer to interest rates set by the CNB
- > both these problem areas will be addressed with reference to the approved plan of legislative work

connected with the changeover and based on the approved methodology for the implementation of legislative amendments

## 2.5 Conclusions, summary, main recommendations

### The main tasks of the financial sector in the euro changeover process will be as follows:

- > to introduce euro banknotes and coins and to withdraw the national currency from circulation
- > to participate in the adjustment of payment and accounting systems
- > to implement consumer protection-related measures in the financial sector area (in particular dual display of prices of financial market products, dual statements)
- > to convert customer accounts, credit products, letters of credit, guarantees, cheques and bills precisely at the conversion rate as of the changeover date or, where appropriate, the maturity date
- > to convert other financial sector products
- > to respect the continuity of contracts (e.g. in the interest rate area)
- > preparation of the CNB for its monetary policy role as a Eurosystem participant

It is desirable for every financial institution to adopt its own changeover plan. Coordination of the main actions of the central bank, the government, financial sector professional associations and consumer groups is a necessary condition for successful implementation of the whole process.

## 2.6 Indicative timetable of changeover-related tasks in the financial sector

No.	Description, specification	Start of preparation	Implement. date	Planned coordinators
<b>1</b>	<b>Cash changeover</b>			
1.1	Preparation of euro banknotes and coins	€-36	€	CNB
1.2	> choice of designs for national sides of coins	€-36	€-24	
	> choice of themes	€-36	€-30	
	> decision on structure of euro coins in circulation, determination of expected number of coins required	€-24	€-24	
	> tender for coin supplier	€-24	€-18	
	> manufacture of tools (in partnership with mint), manufacture of limited quantity of test coins of all denominations	€-18	€-6	
	> launch of coin manufacture	€-6	€-6	
	> determination of number of banknotes required, start of negotiations with ECB on frontloading agreement with relevant NCB	€-24	€-12	
1.3	Cash changeover plan	€-36	€-13	CNB
	Preparation of frontloading of banks	€-24	€-12	CNB, banks
	> binding requests for euro banknotes	€-12	€-6	
	> binding requests for euro coins	€-12	€-6	
	> start of frontloading of banks	€-3	€	
	<b>Subfrontloading</b>			
	> binding requests of banks for euro banknotes and coins at nominal value	€-12	€-6	CNB, banks
	> start of subfrontloading	€-1	€	CNB, banks
1.4	Changes in system of payment cards, ATMs, vending machines etc.	€-27	€	banks, authorisation and processing centres
	> changes to ATM settings	€-27	€	
	> changes to ATM software	€-27	€	

No.	Description, specification	Start of preparation	Implement. date	Planned coordinators
1.5	<b>Dual circulation, exchange of banknotes and coins, withdrawal and destruction of korunas</b> > dual circulation > exchange of withdrawn coins at banks > exchange of withdrawn banknotes at banks > exchange of withdrawn coins at CNB > exchange of withdrawn banknotes at CNB	€-24 € € € € €	€+6 €+0,5 €+6 <€+6 €+60 *	CNB, banks banks, CNB banks banks CNB CNB
1.6	<b>Cash preparation, storage, protection</b> > euro banknotes and coins > Czech banknotes and coins withdrawn from circulation	€-12 €-12		CNB, banks, CIT CNB, banks CNB, banks, CIT
	<b>Cash changeover logistical support</b> > o selection of storage locations with necessary capacity (for euro coins + koruna coins); building alterations and security at storage locations > o selection of koruna coin destruction centre; security at this centre (if necessary) > o start of destruction of Czech coin stocks (if necessary) > o modification of branches to receive euros – modification of cash transfer lobby entrances/ technical and security systems > o preparation/modification of delivery vehicles as required by ECB > o discussion of method for protecting cash deliveries with Czech police > o preparation of equipment for handling euro banknotes and coins; discussions with service organisations	€-24 €-36 €-6 €-36 €-24 €-24 €-36	€-6 €-6 €+ €-12 €-6 €-6 €	CNB, banks, CIT, Czech police
1.7	Destruction of Czech banknotes and coins withdrawn from circulation	€-12		CNB
1.8	Communication with professionals and public	€-36	€+12	CNB, banks

**Note**

Dates are defined in the format

€ +/- n, where n = number of months

<sup>5</sup> The National Changeover Plan will be further updated with reference to Government Resolution No. 266 of 19 March 2007 following the revision of Act No. 2/1969 Coll., on the Establishment of Ministries and other Central Government Authorities of the Czech Republic, as amended (Competence Act).

\* Bude rozhodnuto dodatečně

No.	Description, specification	Start of preparation	Implement. date	Planned coordinators
<b>2</b>	<b>Changeover for non-cash transactions</b>			
2.1	Full participation in TARGET2	€-36	€-6	CNB
2.2	Conversion of accounts, payment cards and other payment instruments			
	> conversion of bank accounts	€-36	€	banks
	> conversion of credit products, letters of credit and guarantees	€-30	€	banks
	Changes in payment card system	€-30	€	banks, authorisation and process. centres
	> POS – modification of SW			
	Dual display of prices and monetary amounts			banks
	> conversion of bank accounts		€-5/6	
	> conversion of credit produ		€+12	
	Electronic banking	€-30	€-6	banks
	Changes to TPS – CERTIS, IBAN, BIC	€-36	€	CNB, banks
	Conversion rules and rounding rules (EU Regulations 1103/97 and 974/98)	€-36	€	universally adopted rounding rules
	Conversion of interbank market products (spots, options, swaps)	€-24	€	CNB, banks
	Conversion of adjusting entries, deposit insurance	€-24	€	banks
<b>3</b>	<b>Financial sector institutions and the euro, information systems, consumer protection</b>			
3.1	Conversion of ownership interests, conversion of registered capital	€-24	€	CNB, financial market participants
	Conversion of securities and other financial market products	€-24	€	MoF and CNB, financial market participants
3.2	Adjustment of settlement systems (SKD, BCPP, SCP, RM-S, etc.)	€-24	€-12	system operators

No.	Description, specification	Start of preparation	Implement. date	Planned coordinators
3.3	Conversion of IT and accounting systems	€-36	€	banks
	Financial market participants' internal SW systems and applications	€-36	€-6	banks
	Financial market participants' external SW systems	€-36	€-6	banks
3.4	<b>Overview of consumer protection-related measures (in particular dual display of prices of products and services and monetary amounts)</b> > consumer protection strategy > dual display (preparation – launch) > end of dual display	€-48  €-24 €-12	€-36 +př. fáze €-6 €-5/6 €+12	Mol&T, MoF, NCG  banks and other financial sector institutions
<b>4</b>	<b>Legislation<sup>5</sup></b>			
4.1	Amendment of Act on CNB	*	€-12	CNB
4.2	Amendment of Payment System Act No. 124/2002 and Decree No. 62/2004 + possibility of implementation/ reflection (IBAN, BIC, TARGET, NLF/PSD)	€-24	€-12	CNB
4.3	CNB decree on termination of validity of Czech koruna	€-12	€	CNB
4.4	Contractual documentation for banking products and services	€-24	€-6	CNB, banks
<b>5</b>	<b>Communication</b>			
5.1	Communication and preparation for € of non-banking organisations linked with operation of banking sector (mobile operators, VISA/MasterCard, BCPP)	€-36	€+6	banks
5.2	Communication and staff training in financial sector area	€-36	€+6	CNB, banks
5.3	Internal communication	€-36	€+2	financial market participants, CNB
5.4	External communication – to customers/consumers	€-24	€+12	CNB, CIT, financial market participants,

\* preparation of statement of intent started

# 3 Public finances and central and local government

## 3.1 The state budget, local authority budgets and state funds

The Ministry of Finance (MoF) plays the main role in preparing and implementing the state budget (SB), the state closing account (SCA) and the budget chapters closing account. Besides establishing the legal framework for this area, the MoF prepares the draft medium-term expenditure frameworks for central government (the state budget and state funds), the draft SB and the draft medium-term SB outlook. It monitors and analyses the fulfilment of the SB and is responsible for preparing the SCA and for executing the overall financial settlement of relationships with the SB. It methodically manages the programme funding of SB expenditures. And it proposes the creation, development and modification of the budget system and ISPROFIN information system.

The Act on the State Budget of the Czech Republic for the relevant year sets total revenues, total expenditure and the resulting balance in korunas. Schedules to the Act lay down the financial relationships between the SB and the regional budgets, municipal budgets and City of Prague budget. The data in the schedules to the Act are mostly given in thousands of korunas. The budget system will be redefined so that budget is prepared in euros. The adoption of the euro will mean that the preparation of the SB for year € will be done in both korunas and euros.

The Act on Budgetary Rules will not need to undergo any fundamental legislative revisions. Likewise the regulations implementing this Act will require only minimal changes. The draft budget chapters closing

accounts and SCA for year €-1 will be prepared in dual terms, as will the annual report for year €-1 and the financial settlement for year €-1. Information systems will need to be modified in line with this requirement.

The amendments to the relevant legal regulations should be passed ahead of the changeover so that they take effect on the euro adoption date. As from year €, the Act on the State Budget of the Czech Republic will be passed with data given in euros. The most important aspect will be to prepare and define a uniform procedure in year €-1 and for year €. A detailed procedure will be defined in one of the future updates of the National Changeover Plan.

### The following areas of local government will be affected by the changeover to the euro:

- > the financial relationships between the SB and the budgets of local government authorities (LGAs), including the contribution to the preparation of the SB and SCA and the settlement of financial relationships between LGAs and the SB,
- > the release of subsidies, loans and programme funding, all with reference to the changes in the financial relationships between the SB and local budgets,
- > the creation of legal regulations, plans, strategies and methodologies relating to LGA funding.

The calculations of LGAs' shares in tax revenues (budget allocation of taxes) will be given in euros, as will contributions to the performance of state administration, limits, payments (deductions, fees, penalties, fines), social and other benefits paid to individuals and legal entities, etc. Financial information systems and databases containing information on LGAs (the

Automated Budget Information System ARIS) and the relevant reports will need to be modified.

### 311 Relationship to social security and public health insurance

As all areas of social security and social support are funded from the SB, the preparation of the draft SB for year € in euros, i.e. the budgeting of revenue and expenditure flow variables, is conditional on converting all input stock variables, parameters and indicators (e.g. the poverty line and subsistence level, assessment bases) needed for the calculation of benefits and other payment, to euros; on calculating the indexation equations (for raising benefits and components thereof) in euros; and finally on calculating the benefits in euros.

The same applies to the planning and budgeting of revenues and expenditures in the public health insurance system by the individual health insurance companies.

The value/price per unit set for the coverage of health care provided in cases where payments are made by health insurance companies will need to be set no later than during the preparation of the SB for year €.

### 32 Administration of government debt and state financial assets

The conversion of the value of government bonds and all other outstanding bonds existing on €-day to the euro will be regulated in Act No. 190/2004 Coll., on Bonds, as amended. By means of this law it will also be necessary to set a new day count for all outstanding bonds, including government bonds, existing on €-day; this day count must be the same as is customary in the present euro area Member States. The Act will be prepared at least a year ahead of the changeover, in line with the timetable for legislative work.

As Act No. 190/2004 Coll., on Bonds, addresses the issue of bonds generally (and not just government bonds), the changes in this area will need to be coordinated with the needs of the private sector and the other legislative changes in this area.

### 33 Accounting, reporting, taxes, duties, wages and salaries

The principle of not harming the citizen will also be followed in the area of taxes, fees, benefits, pensions and other citizen-state payments. Where the citizen is the recipient of such payments, upward rounding to cents or higher units<sup>6</sup> will apply. Where the state is the recipient, the amount will conversely be rounded downwards to cents or higher units. This procedure will not apply to payments and debts to the state arising from breaches of the generally applicable legislation (fines, penalties and other sanctions). In such cases the standard rounding rules will be followed (see Part I – item *Rounding rules*).

#### 331 Accounting

Only partial changes will be made to the accounting regulations. These changes will affect provisions concerning the currency.

In year €-1 accounting will be kept in korunas. Accounting entities will be required to report their annual accounts for accounting period (year) €-1 both in korunas and in euros at the conversion rate. Figures for past accounting periods will be expressed in korunas only. As not every accounting entity has its accounting periods coincident with the calendar year, it is expected that an obligation to prepare interim accounts as of 31 December of year €-1 will be stipulated for every accounting entity which does not use the calendar year.

<sup>6</sup> These higher units may be tens of cents, euros, tens of euros or higher.

### 332 Taxes

For year €-1, non-taxable amounts of the tax assessment base, tax bonuses and suchlike will be set in korunas. Consequently, income tax returns for year €-1, which will be filed in year €, will be given in korunas. The resulting tax liability (payment/refund) will be converted to euros at the conversion rate and the tax authority/taxpayer will be required to pay it in euros rounded to cents.

A specific procedure will be defined for entities that keep tax records only in one of the future updates of the National Changeover Plan.

In the tax legislation generally, provisions using terms such as "the Czech currency" and stating individual amounts in korunas will be amended. In the vast majority of cases it will not be possible to merely convert such amounts to euros at the conversion rate; they will have to be replaced with amounts of similar value, although usually rounded to whole euros or tens of euros depending on the nature of each amount. In some cases the amount will have to stay divisible by 12.

Another area that will be affected by the adoption of the euro is the reporting of tax revenues (e.g. for the purposes of the SCA, to international institutions). Previously reported statistical data in time series will be converted at the conversion rate to allow year-on-year comparisons and analyses.

The changeover will have to be incorporated into the customs and tax administration information systems, including all parts of the applications of the Automated Tax Information System (ADIS), the Excise Tax and Divided Administration Registration Module (ME-SPD/DES) and the customs proceedings register, and also into all non-tax applications (personnel, financial, proprietary, etc. – the AVIS and VEMA systems). It will also affect the areas of cash registers, tax collection and recording, and transfers to municipalities, regions, state funds and the National Fund, as well as the analytical and statistical area. More detailed recommendations relating to information systems are given in section 7 *Information and sta-*

*tistical systems* and will be further elaborated in the next update of the National Changeover Plan.

In the case of property tax, legislative changes need to be made to provisions regulating the tax rate, the level of relief and, where applicable, the level of the minimum tax liability etc., currently expressed in korunas.

For taxpayers using a financial year that differs from the calendar year, the documents used to prepare tax returns will also be converted to euros on the basis of interim accounts as of 31 December in accordance with the accounting regulations.

### 333 Duties

Legislation in the customs administration area will be amended to convert amounts expressed in korunas to amounts in euros at the conversion rate. Amounts laid down by EC law, however, will be converted to the relevant values in euros.

Besides applying the fixed conversion rate the customs administration authority will have to prepare methodological procedures relating to customs and tax procedures under the Customs Code (duty limits of 10 euros prior to the changeover, invoices in euros prior to the changeover, cases prior to the Czech Republic's accession to the EU, rounding of individual items on SADs – Single Administrative Documents – and so on). The first draft of the methodological procedures will be prepared in one of the future updates of the Changeover Plan.

### 334 Judicial and administrative fees

Rates are set as either a fixed amount or a percentage of the fee base defined in korunas. As part of the changeover, it will be necessary to revise not only the rates set as a fixed amount, but also the base for percentage fees where the price of the subject of the fee is expressed as a monetary amount in korunas. The Ministry of Justice and all departments

responsible for the special legal regulations governing administrative proceedings will be involved in setting the rates.

### 335 Local charges

The law lays down maximum rates expressed either as a fixed amount in korunas or as a percentage. As part of the changeover, it will be necessary to revise not only the rates set as a fixed amount, but also the base for the percentage fees. In the interests of rate transparency, it is recommended not to convert at the conversion rate, but to redefine the amounts, although at a level close to the original koruna rates.

### 336 Wages and salaries

Pay regulations are generally the responsibility of the Ministry of Labour and Social Affairs (MoL&SA). With these regulations it will be possible to apply the conversion rate. Pay entitlements will also be rounded (upwards) in the conversion from korunas to euros. This will have an upward effect on wage growth.

No legislative changes are expected to be necessary with regard to Government Order No. 289/2002 Coll., laying down the scope and manner of the supply of information to the Pay Information System. Only some technical changes to the Information System will probably be required.

In conformity with the rules for converting historical statistical data it will also be necessary to amend the pay parameter series (in particular for average wages), which are administered by the MoF.

In the interests of keeping the public informed, and in line with the rules for the dual display of prices and other monetary amounts, employees of state institutions and private companies will receive notification of the level of their wages and salaries and other remuneration in euros. This notification will explain the conversion method using the conversion rate and rounding. Amounts (at least for the gross wage, the net wage, income tax and health and social

insurance) will be displayed on salary slips in korunas and in euros for the entire mandatory dual display of prices period, i.e. 5–6 months before the euro adoption date and 1 year after the changeover.

### 34 Prices

The adoption of the euro will affect prices in two respects. First, it will affect the price area generally, i.e. price negotiation and regulation, price checks and penalties for breaches of the pricing regulations.

The second aspect is price enforcement in the end-consumer market, i.e. the labelling of goods and services with prices for the end consumer. The changes to be made in this area are described in detail in section 4 *The non-financial sector and consumer protection*.

### 35 Social security and public health insurance

Incomes and benefits will need to be converted retrospectively, for instance for the purposes of state social support.

More comprehensive solutions for the state social support, hardship assistance, social law protection and social services systems will be added to the next update of the National Changeover Plan.

#### 351 Pension insurance

Pensions are indexed, i.e. individually recalculated, on 1 January each year. The basic portion of the pension will be requantified in euros (rounded to whole euros). For the percentage portion the conversion rate will be used, with the indexation decision stipulating that the existing percentage portion will be raised by a given percentage and then rounded to tens of cents or to some other level as defined in the next update of the National Changeover Plan. Pensions are paid in a given month for that month, so generally the problem of a need to pay in euros an entitlement calculated in korunas will not arise.

The Czech Social Security Administration pays Czech Post in December an advance for the payment of pensions in January of the following year. So, for the state budget for year €-1 this amount will have to be budgeted in euros, or rather the relevant sum in euros will have to be secured from state budget funds.

If a pension application is filed in year €-1 and dealt with in year € (i.e. if part of a claim in korunas is not payable until year €), the relevant koruna amount will be converted at the conversion rate and paid in euros rounded upwards to cents<sup>7</sup>.

If a pension payment for December is not collected until January, the relevant koruna amount will be converted at the fixed conversion rate and paid in euros rounded upwards to cents. The same procedure will be applied to other entitlements obtained in year €-1 and paid in year €, and, where applicable, to those unjustifiably paid in year €-1 and returned in year €.

In the interests of keeping the public informed, and in line with the rules for the dual display of prices and other monetary amounts, recipients of pensions and other social benefits will automatically receive notification of the level of their benefits in euros (a decision/notification has already been issued for state social support benefits and pension increases). This notification will explain the method of conversion using the conversion rate and rounding. The form of dual display of financial amounts in this area will be defined in more detail in an update to the National Changeover Plan.

A regulation will need to be issued converting to the euro the government's "indexation orders" changing the basic pension (i.e. Government Orders No. 19/1996 Coll., No. 218/1996 Coll., No. 129/1997 Coll., No. 104/1998 Coll., No. 565/2004 Coll. and No. 415/2005 Coll.) and Article XXIX of Act No. 237/2004 Coll. The provisions of the General Act on the Introduction of the Euro laying down the basic principles for the conversion of koruna amounts will also be applied.

<sup>7</sup> A case of the application of the principle of not harming the citizen, see Part I.

## 3.5.2 Sickness insurance

On 1 January each year the reduction limits are changed and, based on these limits, all sickness benefits are then recalculated. In year € the calculation will be performed with rounding to cents. For the benefits themselves, therefore, the conversion rate will not have to be used; only the assessment base will need to be converted.

As sickness benefits are paid retrospectively, claims for December of year €-1 obtained in korunas will be paid in January of year €. To convert such claims, which will be paid in euros, the conversion rate will be used and the resulting claim will be rounded to cents. If a new sickness insurance act enters into force, the wage compensation rules will have to be amended analogously.

## 3.5.3 Public health insurance

The assessment bases for public health insurance premium payments will have to be converted retrospectively (reference period). Likewise it will be necessary to change the value (price) per point for the coverage of health care provided in cases where payments are made by health insurance companies – i.e. from the public health insurance system.

It will also be necessary to prepare a guidance note for healthcare facilities that receive payments from persons who do not have health insurance in the Czech Republic or any other Member State of the European Union, the European Economic Area or in Switzerland and when such persons thus have to pay for health care provided to them out of their own pocket.

As the value (price) per unit expressed in korunas is currently low, the price per point in euros will probably need to be defined to several decimal places. A more detailed treatment, the rounding method and an analysis of the impacts in this specific area will be given in the next update of the National Changeover Plan.

### 3.6 Conversion of information systems

The information system changes will primarily involve identifying the need to convert information systems in public sector institutions for all areas of public administration, specifically:

- > central government,
- > local government,
- > social and health insurance funds.

Each institution must provide for the changeover of its accounting and other financial systems to the conditions of operation in the euro, based on the recommendations and time limits given in section 7 Information and statistical systems.

As the authority responsible for implementing budget policy, the MoF will ensure the conversion of the Automated Budget Information System (ARIS) and other systems such as the Central Register of Budget Subsidies (CEDR) and ISPROFIN. The MoF will also ensure the conversion of the Automated Tax Information System (ADIS) and all other tax information systems, in particular AVIS and VEMA (registers of property and personnel) at all three levels of governance (MoF, tax directorates and tax authorities).

The changeover will also have to be incorporated into the customs administration information systems, including all applications of the Customs Declaration System (CDS) for the collection of customs duties, all applications of the Excise Duty System (SPD) for the collection of excise duties and all applications of the Divided Administration System for the collection of fines. Changes must also be made to some applications of the investigation and supervision information system providing for special customs administration activities and to support systems in the personnel and property areas. The changes to the aforementioned projects will be made during the period of analysis, implementation and application of projects of the eCustoms (electronic customs procedures) programme run by DG TAXUD, the fulfilment of which must not be put at risk.

It will be necessary to modify all pension and illness insurance database and information systems, labour office systems in the area of labour (employment) market support, and the state social support and hardship assistance information system. In the public health insurance system it will be necessary to convert to euros the databases of premium payers and their payment obligations and the arrears register, and in particular the complex payment systems operating on the various koruna bases (fixed rates, limits and payments in korunas for individual procedures) that form the basis for contractual payments between health insurance companies and health care providers and also for reporting and planning expenditures.

### 3.7 The legislative aspect of the changeover in public administration

The introduction of the euro as the legal tender will affect the operations of many institutions and authorities. They perform their duties on the basis of legal regulations which will need to be prepared and revised for the use of the euro. The relevant departments play a key role in the process of amendment of legal regulations, and it is their responsibility, with reference to the general guidelines given in section 5 Legislative requirements for the changeover and the government-defined timetable, to prepare the ground for the changeover.

With regard to public administration the legislative changes will chiefly affect the social area, state and local budgets, and the setting of penalties. By-laws setting the level of local fines will also need to be revised.

# 4 The non-financial sector and consumer protection

The next section summarises the obligations and recommendations for preparing businesses and defines basic consumer protection rules. Given the scope of these topics and the need to clarify the technical issues associated with the euro changeover it will be significantly expanded in the next update of the National Changeover Plan.

## 4.1 Price conversion and the dual display of prices

Prices will be converted from Czech korunas to euros at the irrevocably fixed conversion rate. The price conversion will occur in a single step on the euro adoption date in the Czech Republic; roughly 6 months before the changeover and one year after it, however, retailers and service providers will have a legal obligation to express the relevant monetary amounts both in korunas and in euros on price tags and in price lists, as well as when displaying total amounts on bills, account statements, etc. (monetary amounts will thus be expressed in parallel in both currencies). In this respect dual display of prices will be mandatory. The practicalities of dual display of prices will be explained to the public in an information campaign.

Dual display of prices will thus be required wherever a monetary amount, price or value is displayed to the public in the domestic currency. It will apply to all prices of goods and services, monetary amounts on accounts, invoices, schedules of charges for bank services and services of other financial institutions, budget costs, consumer credit, various payments, social benefits, account statements, etc. It will also apply in all cases where a product is on display and to price offers, catalogues, advertisements, offers of services and so on.

Dual display of prices thus consists in providing information on the conversion of prices and monetary amounts from the national currency to the euro and vice versa at the conversion rate and using the binding rounding rules. The method of dual display of prices will differ from case to case depending on the type of goods or services provided. Dual display of prices is a pillar on which consumer confidence is built. Until €-day, the dual display of prices information displayed in euros will be for information only. This approach stems from the need to get consumers used to thinking in euros. After the changeover, prices displayed in Czech korunas will be for information only. The reason for this approach is to allow quicker and more effective control of any unjustified price increases. The start and end dates for mandatory dual display of prices will be the same in all cases.

For due introduction of the system into practice, the General Act on the Introduction of the Euro will provide as follows:

Dual display of prices must be implemented no later than 1 month following the setting of the conversion rate, and this obligation will last for 12 months after the adoption of the euro (businesses will be advised to continue with this system on a voluntary basis for another 6 months after this period ends). A more detailed dual display of prices method will be defined in the rounding methodology based on the General Act on the Introduction of the Euro. This method will be selected such that it will be easy to discern which of the dual displayed figures is just for information and in which currency payment is expected (hence prior to the changeover the koruna will be displayed as the payment currency and the figure in euros will be for information, and after the changeover the opposite will apply). The aim is to give people clear enough information so that they

are not confused by the amount of information provided or misled about prices or payments, and also so that they can more easily visually register the information (for example, price labels on shelves will show both currencies). The guiding principle is that consumers should always know which price is currently valid.

It should be mentioned that the dual display of prices and other amounts is not intended just to prevent any dishonest practices in conversion to the new currency. The aim of this instrument is to enable people to get used to calculating in the new currency. Extensive research has revealed that getting used to a new currency is a long process and that dual display of prices, benefits, pensions and so on greatly facilitates this process. With regard to the transparency of the whole process, it is vital that other financial information that the public comes into contact with is displayed in a similar way as for dual display of prices of goods and services. Bank balances and prices of other financial products will be dual displayed for the same period of time as prices in shops.

The dual display of prices obligation will apply to both legal entities and individuals. The specific extent of dual display of prices will be defined in detail in an update to the National Changeover Plan.

It is important in this respect that the dual display of prices requirement does not entail significant costs in the business sector and that it meets public expectations. It is therefore necessary to design simplified common formats, patterns and guidance for individual entities for displaying dual price data. In the methodology accompanying the Act, all dual display methods will be stated explicitly, including those subject to specific rules (e.g. labelling when giving pre- and post-discount prices, when giving prices in measures, when breaking down prices into prices excluding and including VAT, etc.).

> **responsibility:** further elaboration of this task is the responsibility of the Non-financial Sector and Consumer Protection Working Group together with the other Working Groups; the real dual

display of prices obligation will apply to both legal entities and individuals;

- > **link to other tasks:** to be defined in future stages of elaboration
- > **legislative aspect/impacts:** the dual display of prices and the duration of this obligation will be laid down in the General Act on the Introduction of the Euro
- > **time demands:** to be defined in future stages of elaboration
- > **fulfilment deadline:** 12 months after changeover
- > **start date:** no later than 1 month after conversion rate is set
- > **elaboration examination date:** 30 June and 31 December each year.

## 4.2 Dual circulation

The dual circulation period is the post-changeover period during which it will be possible to pay in both korunas and euros. Both currencies will be in circulation in this period. The euro will have the status of legal tender and the koruna will gradually be withdrawn from circulation, with new currency being issued only in euros. The conditions for dual circulation will be laid down in the General Act on the Introduction of the Euro and the related regulations, the main coordinator of which is the Ministry of Finance.

## 4.3 Ethics of the changeover

A relationship of trust between businesses/institutions and consumers is of great importance for a successful transfer. As this is a very sensitive, relationship-based area, it is not enough simply to follow the laws and regulations. The morality and decency – the ethics – of those involved will play an essential role. To promote ethical conduct in the changeover process, it has proven effective in the euro area Member States to establish an agreement between consumer groups on the one hand and professional associations and businesses from the retail and services sectors on the other; the state can assist in promoting such an agreement. The priority

in this respect is to adopt a voluntary commitment (known as a fair-pricing agreement) that only the conversion rate and the rounding rules will be used in the changeover phase, i.e. that everything will always be converted as it should be (free of any other influence or input). Businesses that adopt the agreement and fulfil the commitment are visibly labelled with a logo that is communicated to consumers in the state-run communication campaign as an expression of the retailer's ethical approach to the changeover. As this is essentially an "automatic licence" based on the retailer's declaration that it will abide by the prescribed rules of the agreement, it is particularly important to subsequently monitor the retailer's compliance with its commitments and to punish it immediately if it breaches the rules. Such a retailer can have its logo taken off it and its unethical conduct can be made public; relevant penalties can also be imposed on it if it breaches the generally binding regulations.

It is in the interests of both the state and businesses to guarantee a smooth, conflict-free and fair changeover that pays heed to consumer protection also by having professional associations from the retail and services sector signing a "memorandum of understanding" with relevant consumer protection associations and possibly also fair trading associations (this would involve an enhanced commitment on the part of businesses to abide by the conversion rules, and increased care, awareness and some degree of oversight on the part of consumer groups). Such a voluntary agreement will be possible once the basic scenario and conditions for the adoption of the euro are announced.

- > **responsibility:** further elaboration of this task is the responsibility of the Non-financial Sector and Consumer Protection Working Group together with the other Working Groups
- > **link to other tasks:** any link to be defined in future stages of elaboration
- > **legislative aspect/impacts:** a voluntary commitment; no direct legislative impacts expected
- > **time demands:** to be defined in future stages of elaboration
- > **fulfilment deadline:** 12 months after changeover

> **start date:** no later than 1 month after conversion rate is set

> **elaboration examination date:** 30 June and 31 December each year.

#### 4.4 Price monitoring, inspection work, dispute resolution

Measures in this area will play an essential role in the changeover, a role directly linked with the credibility, sentiment and satisfaction of consumers as well as institutions and businesses, and with overall confidence in the euro, the euro area and the European Union. Monitoring must provide the executive, as well as businesses and consumers, with essential information for ongoing systematic evaluation and, where necessary, for steering the changeover process. To this end it will be necessary not only to employ the usual ongoing surveys and research, but probably also to establish extra (ad hoc, temporary) surveys and research in areas that previous sources do not and cannot provide. Price monitoring will also involve supervision of compliance with the price conversion and dual display of prices, regulations, information duties and other prescribed changeover requirements.

Supervision of the conversion rules, conditions and formalities, and also of the subsequent related obligations to be laid down in the General Act on the Introduction of the Euro and the special and revised legal regulations, will be incorporated into the regular inspection and supervisory work of the relevant state authorities in the area of consumer oversight and protection (a list of these institutions will be drawn up in future stages, along with a proposal for a temporary widening of their powers due to the changeover). It is desirable that the law lays down adequate powers for performing monitoring, based primarily on consumer reports on whether a price has been increased because of the changeover and whether fair economic competition has been maintained. It is also desirable to specify powers for quick remedy, include the possibility of imposing penalties and adopting measures.

The aim of rigorous oversight is to ensure that remedy is made if it is found that a situation cannot be corrected by market measures. To provide for monitoring and inspection work, the law will lay down obligations for businesses and professional organisations to provide the relevant information. The actions in this area must also include the provision of information free of charge to consumers and places and means of filing complaints. It is also important to set the length of the “specific” monitoring of prices in the changeover phase (specific because the consumer basket used will not be the usual one, but a narrower one containing the most common consumer purchases or specific types of goods). A more detailed proposal will be given in the next update of the National Changeover Plan.

Based on this plan, the supervisory authorities will prepare methodological guidelines and inspection “plans” for their inspectors at least 9 months before the changeover. In order to prepare the guidelines and inspection plans, the responsible staff (methodology officers) of the individual inspection authorities must be trained by the authors of the laws and other legal regulations at least 12 months before the changeover<sup>8</sup>. Just before the mandatory price conversion and dual display of prices begins, these inspection and supervisory authorities will also set up a telephone line and e-mail address to which the public can report all cases of possible infringements of their rights during the changeover. Besides the priority goal stated in the introduction, the aim of this approach must also be to avoid negative publicity and a negative atmosphere for the overall changeover process.

It has proven very effective in the euro area Member States to organise educational campaigns, training and instruction for consumers, and in particular for special social groups (e.g. the disabled). The visually impaired have proved to be among the most vulnerable groups of consumers. It is absolutely vital to adopt measures so that these people can familiarise themselves with the new banknotes and coins well ahead of the changeover.

<sup>8</sup> By this time all the legal regulations governing the changeover procedures should have been approved.

Experience from the euro area clearly demonstrates the key significance of timely and full consumer awareness, especially about the practical preparations and about the formalities and method for carrying out conversions in the banking sector (counters, ATMs, etc.) and in the retail and service provider environment before and, in particular, after €-day; this area of the project is of major significance for the cost of the conversion in the retail sector.

The priority aim is to stop prices of goods and services rising because of the change of currency, and to prevent fluctuations in the price level and inflation leading to destabilisation of the market or the activities of non-financial sector institutions, especially in the early phase after the changeover.

- > **responsibility:** further elaboration of this task is the responsibility of the Non-financial Sector and Consumer Protection Working Group together with the other Working Groups (in particular the Information Technology and Statistics Working Group and the Communication Working Group)
- > **link to other tasks:** to be defined in future stages of elaboration
- > **legislative aspect/impacts:** to be defined in future stages
- > **time demands:** to be defined in future stages of elaboration
- > **fulfilment deadline:** see the text of this section
- > **start date:** to be defined in future stages of elaboration
- > **elaboration examination date:** 30 June and 31 December each year.

## 4.5 Main corporate aspects of the changeover

A successful changeover to the euro will depend on how businesses cope in retail and services and in other business relationships with the changeover-related tasks, in particular price conversion, dual display of prices, conversion of corporate reporting and information systems, information strategy, price stability, etc. A system of training focusing

on the legal and organisational framework for euro adoption at all levels of corporate governance will foster greater engagement with the new currency, as will training of cash handlers, especially in the detection of counterfeit euros.

Experience in other countries also clearly demonstrates that the changeover proceeded smoothly when someone was made responsible for the changeover in large and medium-sized enterprises or institutions. We therefore recommend applying the same approach in the Czech corporate transition to the euro. In the case of small enterprises and micro-enterprises, business information points and financial institutions should play a supporting role.

The following five subject areas can be identified as the most important corporate aspects of the changeover:

#### 4.5.1 The capacity aspect

Small businesses generally lack sufficient workforce capacity to set aside for changeover-related tasks in the field – in shops, offices, etc. This applies in particular to the repricing of all goods and practical cash-handling tasks in the dual circulation period (frequent delivery of money to/from the bank, storage and safekeeping of cash in both currencies at the company, etc.). Small businesses' budgets are also hit harder by additional costs for repricing goods and services, acquiring new price displays/carriers, changing communication and advertising campaigns, and for paying staff responsible for implementing the changeover in the company.

This risk can be mitigated if the business gradually creates a financial reserve (budget) to cover the transitory rise in costs and prevent a step increase in outgoings. Here it is also appropriate to mention the changeover benefits stemming from the enlargement of a stable single international monetary area in which small and medium-sized enterprises face smaller exchange rate fluctuations and cross-border transaction risks. This gets rid of a whole range of

charges and other costs arising from the existence and conversion of foreign currency, which in turn cuts costs and allows company administration to be streamlined. Small and medium-sized enterprises will also get the chance to develop new export activities, make foreign investments and seek new suppliers, since all sorts of foreign exchange regulations will disappear and there will be no need to hedge against exchange rate movements and foreign trade risks. Increased trade will be registered mainly between neighbouring euro area Member States.

#### 4.5.2 The need to invest in adjusting business reporting, computer systems, data-processing software/hardware and staff training

These investments are the "technical" upshot of the aforementioned activities.

To reduce the additional costs associated with these technical investments for the changeover, businesses should use them for internal modernisation. This applies in particular to new accounting programs, marketing databases, logistical systems and others. It has been shown that the changeover in many companies accelerated decision-making on modernisation changes that the management would have had to make sooner or later anyway. The process essentially involves optimising the timing and implementation of internal modernisation so that it coincides with the euro adoption date. When making decisions on the extent and timing of changes to information systems it is appropriate to apply the recommendations and methodologies to be prepared by the National Coordination Group's Information Technology and Statistics Working Group.

#### 4.5.3 The aspect of financial management, planning and accounting

The greatest danger in this respect is to delay the preparations for the changeover. Although the

key procedures relating to financial management, planning and accounting (including conversion of registered capital) are given in section 3 Public Finances and Central and Local Government, it should be stated that the introduction of the euro in the business sector will require in particular:

- > A review of key processes in each company for the conditions of the revised strategy in the areas of financial operation, purchasing and sales, and the identification of related changes.
- > Based on the specific changes concerning financial operation, purchasing and sales, the identification of potential risks and the proposal (based on the principle of continuity) of actions to eliminate these risks:
  - > commercial risks, including interest rate risk, foreign exchange risk and also liquidity and creditworthiness risk in relation to changes to the financial operation of the business,
  - > technical and organisational risks connected with flexibility, capacity and redenomination errors,
  - > strategic risks, in particular investment risks, risks relating to competitiveness and also the adjustment of contracts and cooperation relations.
- > Changes in financial operation processes will be brought about by the changes in the exchange rate area. Adjustment to these changes will be influenced to a large extent by companies' size, legal form, field of economic activity and level of capitalisation. Therefore, from the procedural perspective these changes must be planned, feasible and controllable. The changes will affect the activities performed within a single accounting entity, inter alia the internal processes of the business and its relations with contractual partners. In this case it will involve financial management and reporting where financial operation processes must be planned at the level of the single accounting entity and at the level of several accounting entities (in the case of branches, subsidiaries and joint ventures). This means that changes in accounting, reporting, consolidation and clearing must be carried out in a coordinated manner.

The results of exchange rate risk analyses will bring about changes in the financial strategy for liquidity management and investment. In relation to the effects of strategic (and technical) redenomination, this will require the adjustment, cancellation or establishment of new contractual relations between the business and its contractual partners (banks or other financial institutions). In practice this means:

- > conversion of koruna accounts,
- > a review of currency operations
- > a review of supplier prices,
- > the adjustment, cancellation and creation of new cooperations – contracts,
- > an assessment of the advantages and disadvantages of buying in euro,
- > a review of sales prices,
- > a review of sales and advertising materials, packaging, etc.

In the field of technical redenomination, which is connected with performing activities concerning conversion at the conversion rate in relation to accounting, financial management, accounting records and forms, this will mean:

- > a review of the suitability of the methodology and accounting procedures used,
- > the conversion of the value of assets and liabilities to the euro at the conversion rate,
- > a review of the suitability of forms and accounting records,
- > taking care of the technical side: a review of supplier prices, sales prices, sales and advertising materials, packaging, etc.,
- > invoicing.

## 4.5.4 The frontloading aspect

The key prerequisites – and simultaneously criteria – for the success of the conversion are timely and sufficient frontloading of retailers with banknotes and coins, and an optimal – preferably short – dual circulation period for the changeover. More detailed information is given in section 2 Banks and Financial Sector Institutions.

## 4.5.5 The aspect of redefining a company's market position in the medium and long run

Small businesses that plan in the short run rather than the long run may have minor financial and organisation problems with the changeover, especially if their activities do not consist primarily in international trading. They plan their commercial strategy with regard to the current or short-term favourability or otherwise of the exchange rate, which to some extent gives them the option of "speculative" economic behaviour. On the arrival of the single currency, however, they will be compelled to focus at least on the medium run in the interests

of maintaining their competitiveness, and in border areas also for the case of direct confrontation with the euro area Member States. It is also vital to think in advance about contracts with regard to these new circumstances. The aspect of medium- and long-run thinking should also be applied to evaluating the position of your business partners and immediate external environment in order to avoid a situation where a crash suffered by an external entity causes your company to crash too. It is a good idea to conduct such assessments well in advance so that you can choose sound and competitive business partners, and, where relevant, a new primary business objective, in advance as well.

# 5 Legislative requirements for the changeover<sup>9</sup>

## 5.1 Characteristics of changeover-related tasks

### 5.1.1 Preparation of the General Act

The General Act on the Introduction of the Euro (the "General Act") will be the Czech Republic's principle legal rule laying the groundwork for the smooth transition to the new currency in the Czech Republic. The Act will be based on the main EC regulations on the introduction of the euro and will implement these main EC regulations, including other related EU acts and the judgments of the European Court of Justice, in detail. It will contain several provisions associated with the adoption of the euro as the legal tender in the Czech Republic, in particular a reference to the conversion rate, the method for converting from the koruna to the euro and other currencies where applicable, the main rounding principles, price conversion and the dual display of prices, the method for converting mon-

etary amounts on bank accounts, the method for converting securities and other investment instruments, a guarantee of the continuity of existing legal obligations and administrative and judicial decisions in accordance with the principle of continuity of legal instruments, the rules for exchanging cash, inspection and supervision of compliance with the Act, and penalties in the event of failure to comply with the Act. The content of the General Act will also be the starting point for the amendment of other Czech legal regulations necessary for the introduction of the euro.

In connection with the General Act a methodology will be issued laying down the method for the dual display of prices as described in section 4.1. The dual display

<sup>9</sup> The National Changeover Plan, and in particular this section 5 Legislative requirements for the changeover (responsibility for the primary legislation), will be further updated with reference to Government Resolution No. 266 of 19 March 2007 following the revision of Act No. 2/1969 Coll., on the Establishment of Ministries and other Central Government Authorities of the Czech Republic, as amended (the Competence Act).

of prices obligation will apply to both legal and natural persons, i.e. all entities in the Czech Republic.

The period between the force and effect of the General Act will be defined such that all entities will be able to prepare in good time for the changeover and for the related rights and duties. The principal content of the General Act will be prepared and submitted to the Working Groups for comment in line with the approved "Timetable for Legislative Work Associated with the Changeover".

The General Act will take effect on the euro adoption date. Some of its provisions, however, will take effect before this date, for example those laying down the price conversion and dual display of prices rules. The General Act should enter into force at least 18–24 months before the date of adoption of the euro in the Czech Republic and will form the basis for the preparation of other necessary legislative amendments.

The bill of the General Act will be prepared by the Ministry of Finance in cooperation with the Czech National Bank and the National Coordination Group. The bill prepared by the Ministry of Finance acting in cooperation with the Czech National Bank will be assessed by the National Coordination Group before it is submitted for external comments and before it is submitted to the Government for discussion. It will then be submitted to the Government jointly by the Minister of Finance and the Governor of the Czech National Bank.

As the General Act, by its nature, will primarily be a regulation implementing EU acts, no statement of intent will be drawn up, but rather a structured version of the bill will be prepared directly pursuant to Article 3(3) of the Legislative Rules of the Government, as amended.

## 5.2 Preparation of the new Act on the Czech National Bank

The new Act on the Czech National Bank, which will replace the currently valid Act No. 6/1993 Coll.,

will provide for the transfer of certain decision-making powers, especially in the monetary policy area, to the Governing Council of the European Central Bank (ECB). The monetary policy that will be implemented in the Czech Republic will be the monetary policy of the EU, defined with reference to price stability in the EU, or rather the countries that have adopted the euro as their currency.

The Act will contain the following provisions on the currency: "The currency of the Czech Republic shall be the euro. The abbreviation of the name of the euro shall be EUR and the Euro symbol shall be '€' in accordance with Communication from the Commission COM (97) 418 of 23 July 1997 on the use of the Euro symbol (€). The currency unit shall be one euro, which shall be divided into one hundred cent in accordance with Council Regulation (EC) No. 974/98 on the introduction of the euro."

Another significant qualitative change that will affect executive activities will be the CNB's membership of the European System of Central Banks (ESCB) as regards issuing euro banknotes and coins and providing for their circulation. The Act will respect the fact that the ECB has the exclusive right to authorise the issue of banknotes. The CNB's involvement in issuing euro banknotes will be limited to organising – at the decision of, and with the consent of, the ECB – the printing of banknotes, organising the delivery of banknotes from suppliers, checking their quality in the interests of ensuring smooth and efficient money circulation, overseeing the protection and security of unissued banknotes and the storage and destruction of printing plates, other printing tools and invalid and rejected banknotes and, above all, putting euro banknotes into circulation and withdrawing euro banknotes from circulation in the territory of the Czech Republic.

The Treaty establishing the European Community allows individual euro area Member States to issue coins subject to the competences established in national law. The valid EU acts in this area must be respected. The volume of coins issued is subject to approval by the ECB. The Act will therefore leave the right to issue coins with the CNB, which will

continue to organise the minting of coins and the delivery of coins from suppliers, check the quality of coins supplied in order to ensure smooth and efficient money circulation, oversee the protection and security of unissued coins and the storage and destruction of dies and invalid and rejected coins and, above all, put euro coins/cents into circulation and withdraw euro coins/cents from circulation in the territory of the Czech Republic.

In the process as a whole the General Act will have a relatively short, or transitory, function, whereas the Act on the CNB will perform the role of monetary act in the long term. The existence of these two laws, which will help to ensure the conformity of Czech law with the EU's legal regulations and with the Statute of the ESCB within the meaning of Article 121 of the Treaty establishing the European Community, is equally vital as a condition for satisfying the economic parameters for joining the euro area.

### 5.3 Preparation of the Timetable for Legislative Work

The adoption of the euro in the Czech Republic will give rise to a need to amend numerous legal regulations. In order to determine the scope and manner of this amendment work, a detailed analysis of the legislation in force in the Czech Republic will be conducted. This will include an assessment of the impacts of the implementation of the directly applicable EU regulations on the introduction of the euro. The individual ministries, other central government authorities and the Czech National Bank, acting on the basis of the methodology of the National Coordination Group and the Legislation Working Group, will be responsible for conducting this analysis. Based on the results of this analysis, the NCG will draw up a list of the legal regulations that will need revising in connection with the changeover. This list will be broken down into legal regulations that must take effect before the euro adoption date and legal regulations that will take effect on the euro adoption date. The detailed list of the legal regulations that will need revising will be part of the "Timetable for Legislative Work Relating to the

Introduction of the Euro" (the "Timetable"). The Timetable will also contain the basic principles for making legislative amendments to the legal regulations arising from the aforementioned analysis.

The NCG will submit the Timetable to the Government for approval as a separate document. It will be regularly updated and submitted to the Government for discussion and approval. The document will be submitted to the Government for the first time on 31 December 2007.

It will be necessary in particular to amend legal regulations that make direct mention of the currency "Kč" or "CZK" or the words "koruna" or "Czech koruna", as well as legal regulations governing the imposition of monetary penalties and legal regulations containing rules for koruna rounding (e.g. the tax regulations). Legal regulations containing formulae and calculations, legal regulations in which rounding will need to be redefined in euros (e.g. rents, housing loans), and generally regulations whose texts conflict with the fact of the euro being the legal tender in the Czech Republic, will also have to be revised.

The Timetable will contain the specific legal regulation, the coordinator of that legal regulation determined in accordance with the Competence Act (the responsible /co-responsible person), the planned date of submission to the Government for discussion, and the date of effect of the legal regulation. It will also contain a description of the problems related with the implementation of EU regulations, including proposed solutions, which the government departments identified in their analysis. Given the ongoing legislative work, the departments will regularly update this list.

The tasks assigned to the individual members of the Government and the heads of other central government authorities will be laid down in a government resolution on the Timetable, which will contain all the legislative tasks ensuing from the National Changeover Plan together with the entities responsible for performing them and specific deadlines for doing so.

## 5.3.1 Method of division of legal regulations into groups

The legal regulations that will need amending or newly adopting are divided into two basic groups depending on their required date of effect. It generally holds that laws should have gone through the legislative process and be in force at least 1 year before the changeover. In the case of laws that will introduce more extensive changes and will require sufficient time for preparation it is recommended to conduct the legislative process such that the laws are in force at least 18 months before they take effect.

### Group 1

This group will contain regulations that will take effect on the euro adoption date (€-day) at the latest, with some of their provisions taking effect earlier (in the €-5/6 months period) owing to the nature of the rights and obligations laid down in them. These regulations are either completely new ones connected with the adoption of the euro (e.g. the General Act) or regulations that lay down obligations which must be fulfilled some time ahead of the changeover (e.g. the rules for price conversion and the dual display of prices).

It is up to the individual departments and individual NCG Working Groups to identify such obligations and the corresponding legal regulations when assessing the impacts of the implementation of the directly applicable EU regulations on the introduction of the euro.

This group will contain at least the following regulations:

- a) the General Act
- b) the new Act on the CNB
- c) the rules on the dual display of prices (if not contained in the General Act)

### Group 2

This group will contain amendments of legal regulations that need to be revised with effect from the euro adoption date. It will include those regulations whose provisions cannot be bridged by the General Act or the directly applicable EU regula-

tions for reasons of legal certainty and practical consequences.

Group 2 will include, for example, the tax laws, the legal regulations in the field of accounting, social security and public health insurance, and other legal regulations to be identified by the individual departments.

It generally holds that the legal regulations included in these two groups should enter into force gradually as the legislative process proceeds, but must take effect at the latest on the stipulated date, i.e. €-x (most probably the date of the Council decision to abrogate the Czech Republic's derogation<sup>10</sup>) or on €-day.

## 5.3.2 Recommendations for sponsors of individual bills

The following text identifies some of the problems associated with the implementation of the EU regulations on the introduction of the euro which the government departments should focus on and propose solutions to when performing the analyses within their remits. The NCG will process all the suggestions and propose a single conceptual solution.

When converting or changing amounts given in Czech legal regulations, it is necessary to ascertain whether these amounts or their ranges are stipulated directly in an EU act. If so, the amount stipulated in the EU regulation must be used.

The rounding rules are based on an EU act on the one hand (see the item Rounding rules in Part I of the National Changeover Plan), and on the principles stipulated for the changeover in the Czech Republic on the other hand (see section 2 Basic Principles of the Changeover in the Czech Republic in Part I of the National Changeover Plan). The fundamental principle is rounding to the benefit of the public. This principle must be incorporated into the relevant legislative changes.

<sup>10</sup> i.e. 5–6 months before the changeover

Particular attention must be paid to monetary penalties. One specific problem is the issue of administrative punishment, which is the responsibility of the Ministry of the Interior. All government departments will therefore proceed in accordance with the methodology and principles of administrative punishment prepared by the Ministry of the Interior.

The legislative proposals associated with the introduction of the euro will have to be clearly distinguished from the other proposals submitted to the Government by the individual departments. Because the draft legal regulations will be submitted to the Government in accordance with the approved Timetable ensuing from the National Changeover Plan and the Government's Legislative Work Plan, we recommend stating this fact as the reason for the submission of the document on the first page of the document in compliance with the Government's Rules of Order. This will clearly indicate that the reason for submission is the adoption of the euro in the Czech Republic. The objective of identifying the legislative proposals submitted as part of the euro adoption process is to unify the approach of the legislative bodies of the Government to the proposed changes and also to simplify the discussion of these proposals. It is important to ensure that the laws submitted only contain changes associated with the changeover and not other unrelated changes. The Parliament of the Czech Republic must also be called upon to act in the same vein.

Government departments will base their legislative activities on the content of the bill of the General Act and on the methodology prepared by the Legislation Working Group. With reference to the content of the bill of the General Act, the departments will submit proposed legal regulations either independently or jointly with one or more other departments in line with the defined competences of the individual central authorities. Departments should already be reflecting the planned currency changeover in the preparation of legal regulations, i.e. preparing each draft legal regulation in such a way that it can be completed and submitted for approval as a separate bill of law (or draft government order or decree) in the shortest possible time.

The individual departments are required to update regularly the list of legal regulations that will be affected by the changeover, for the purposes of regular updating of the Timetable. Updates are sent to the Ministry of Justice as the coordinator of the Legislation Working Group and also to the NCG's Organisational Committee.

The legislative changes associated with the introduction of the euro should be prepared with the objective of minimising any negative impact on individuals and legal entities. Where the legislative changes associated with the introduction of the euro affect public budgets, the financial impact on the public budgets must be explicitly stated in the explanatory report in accordance with the Legislative Rules of the Government, as amended.

Given the nature of the changes to the Czech legal regulations associated with the introduction of the euro in the Czech Republic, it will be necessary to assess whether the drafts of such legal regulations need to be consulted with the ECB in accordance with Article 8a of the Legislative Rules of the Government, as amended. If so, the procedure laid down in the Legislative Rules of the Government will have to be followed. At the very least the bill of the General Act and the bill of the new Act on the CNB will be subject to consultation.

### 5.3.3 Identification of regional and local government legal acts

Given that local government units (municipalities, regions, cities) can issue legal acts that will need revising in connection with the changeover (e.g. regulations that make mention of the currency "Kč" or "CZK", rounding, etc.), it will be necessary to monitor this area and prepare the competent authorities so as to ensure a smooth changeover to the euro.

Responsible: the Ministry of the Interior acting in cooperation with the NCG Legislation Working Group.

## 5.4 Schedule for legislative work associated with the changeover

### 5.4.1 Preparation of the General Act

The sponsor of the bill for the General Act will be the Minister of Finance together with the Governor of the CNB. The Ministry of Finance, the CNB and the National Coordination Group will work together closely on preparing the Act.

- > responsible: Minister of Finance, Governor of the CNB and NCG

#### Timetable for the preparation of the bill for the General Act:

- > duration: 12 months
- > start date: immediately after the National Changeover Plan is approved by the Czech Government
- > first draft: 31 March 2008
- > completion date: €-2 years
- > entry into effect: some provisions €-x (around 6 months, i.e. by the date of the Council decision to abrogate the Czech Republic's derogation), remaining provisions €
- > entry into force: €-1.5 (sufficient time between force and effect is necessary)

### 5.4.2 Preparation of the new Act on the CNB

- > responsible: Governor of the CNB
- > start date: December 2006 – submission of statement of intent to the Government
- > entry into force: €-1 year
- > entry into effect: €

### 5.4.3 Preparation of the Timetable for Legislative Work Associated with the Changeover

Work on the Timetable for Legislative Work Associated with the Changeover will proceed according to the following plan:

1. NCG call to start work on analysis of legislative impacts of introduction of euro and to draw up Timetable
  - > responsible: National Coordinator
  - > deadline: immediately after National Changeover Plan is approved by Czech Government

2. assessment of impacts of implementation of directly applicable EU regulations on introduction of euro and submission of results to NCG (Legislation WG)
  - > responsible: members of Government and heads of other central government authorities
  - > deadline: 3 months from date of approval of National Changeover Plan

- 3 elaboration of Timetable itself, with regulations divided into groups in accordance with item 5.3.1 of Part II of National Changeover Plan
  - > responsible: chairman of Legislation Working Group
  - > deadline: 2 months from delivery of reports from departments under step 2

4. approval of Timetable in NCG responsible: chairman of Legislation Working Group and National Coordinator
  - > deadline: 1 month from elaboration of Timetable under item 3

- 5 submission of Timetable to Government following comments procedure
  - > responsible: National Coordinator
  - > deadline: 1 month from approval by NCG

6. incorporation of Timetable into Government's Legislative Work Plan for individual calendar years and into Government's Legislative Work Outlook for defined period
  - > responsible: members of Government, heads of other central government authorities and Minister of Justice and Chairman of Government's Legislative Council
  - > deadline: depending on preparation of Government's Legislative Work Plan

**7. examination of fulfilment of Timetable**

- > responsible: National Coordinator
- > deadline: ongoing

**8. regular updating of Timetable**

- > responsible: chairman of Legislation Working Group and National Coordinator
- > deadline: once a year

# 6 Information sources and communication

## 6.1 Objectives of the changeover information campaign

The primary objective of the information campaign will be to contribute to a smooth and problem-free changeover to the euro in the Czech Republic. Every citizen will have access to information in good time, to a sufficient extent, and in an appropriate form. Special attention will be devoted to vulnerable and minority groups.

The public will receive enough information to avoid suffering any potential material loss in the changeover. Maximum possible attention and market protection will be provided to consumers in connection with the changeover.

The private sector will have access to information allowing it to adjust its relevant activities efficiently to the new currency. Large enterprises will additionally be given information support for their changeover-related information activities. Non-profit organisations will be provided with information support for their role as information multipliers.

The public sector will be provided with information support to enable it to fulfil its role as an information multiplier and also as an actual recipient of changes with regard to the performance of its duties. Special attention will be paid to regions, cities and municipalities, particularly in terms of providing for their information activities targeted at the region.

A key element will be the communication of the National Changeover Plan and its content in individual areas straight after it is adopted. All the information used in the campaign must be consistent with the content of the National Changeover Plan.

## 6.2 System and principles of communication

Communication is based on defining the information needs of each individual target group, paying particular regard to its potential to disseminate the information it obtains. The information campaign will be managed so that those targeted do not have to seek out the information themselves, but so that it reaches them directly – e.g. at school, at home, at work, etc. To this end it will be vital to choose appropriate communication channels.

The primary target of the information campaign will be members of public in their various roles (schoolchildren and students, workers, pensioners, etc.). Special attention will be paid to vulnerable groups (the long-term unemployed, the disabled, the socially vulnerable, etc.). Another significant group will be the private sector, most notably sole traders and non-profit organisations. Professional associations and chambers will play a key role in communication with the private sector. Consumer groups and the media will be important in communication with the public.

Besides being a recipient of changes, the public sector will be a significant information multiplier vis-à-vis the public and businesses. This applies in particular to regions, cities and municipalities. Special attention will be paid, for instance, to regions with high levels of unemployment.

The role of information multiplier will also be supported in central government authorities and large enterprises. The media will play a vital role in the whole process.

The main message of the information campaign will be the news that the euro will be introduced in the Czech Republic on €-day and that all residents and private and public sector entities in the Czech Republic must be prepared for using the euro in cash and non-cash transactions. The content of the campaign will consist of recommendations/advice and procedures on how to prepare for the changeover.

The most intensive part of the campaign will be conducted in the period between the decision of the Council of the European Union to admit the Czech Republic into the euro area (or to abrogate the derogation) and the entry date itself, i.e. in the final 6 months before the Czech Republic enters the euro area. The information campaign will primarily be informative and educational in nature.

#### Primary objectives of the campaign:

1. to explain that adopting the euro is an obligation arising from our accession to the EU
2. to provide information on all aspects of the changeover and on instruments to minimise the associated risks
3. to provide information on the individual stages (timetable) of the changeover, including the ERM II mechanism, and on the euro adoption date (as soon as it is decided), the possible ways of exchanging banknotes and coins, and other practical information connected with the changeover
4. to familiarise people with the binding conversion rate (as soon as it is announced) and the mechanism for the conversion of prices, salaries, pensions and all other income and expenditure, including the issue of rounding

5. to explain the difference between the dual display of prices period and the dual circulation period, including the benefits of these instruments in the changeover process
6. to familiarise people with the consumer protection measures adopted, the dual display of prices and the price control mechanisms
7. to dispel fears about the changeover causing a rise in prices
8. to familiarise people with the fact that the koruna will cease to be the Czech national currency as of the euro adoption date
9. to explain that during the dual circulation period koruna banknotes and coins will be circulating in parallel with euro banknotes and coins and that it will be possible during and after the dual circulation period to exchange koruna banknotes and coins at commercial banks and the central bank and possibly at other authorised institutions
10. to familiarise people with euro banknotes and coins and their security features, and to explain the common and different features of euro cash (banknotes the same in all countries, and coins having a national side).

The NCG's Communication Working Group will continuously assess the importance of, need for and relevance of information as well as the communication strategy itself. It will regularly consult the National Coordinator and the other NCG Working Groups, in particular the Non-financial Sector and Consumer Protection Working Group, on the information it acquires. The information campaign will also reflect the results of regular opinion polls.

## 6.3 Institutional arrangements

The main coordinator of the communication activities will be the Communication Working Group, acting on the instructions of the National Coordinator and the National Coordination Group. To this end, the Communication Working Group may work in partnership with a selected specialised agency. It will also cooperate with central and local government authorities, professional associations and chambers, consumer groups, financial institutions,

commercial and non-profit organisations and public-service media organisations, as well as with the other NCG Working Groups.

At the international level the Communication Working Group will cooperate with the European Commission (DG ECFIN) under the PRINCE partnership programme, which facilitates co-financing of selected communication activities and free use of relevant audio-visual and printed materials. It will also cooperate with the European Central Bank – in particular in the form of consultations on the preparation and realisation of the information campaign and also as regards the free use of audio-visual and printed materials on the designs of euro banknotes and coins and their security features and on procedures for checking the authenticity of money – and, where relevant, with other partners under the twinning programme sponsored by the European Commission.

## 6.4 Target groups

**The public – the primary target group of the campaign in their various roles (consumers, employees, pensioners, etc.), focusing especially on:**

- > schoolchildren and students
- > teachers
- > vulnerable groups (low-income families, the disabled, the socially vulnerable, the long-term unemployed, senior citizens, etc.)
- > ethnic minorities
- > foreigners and expatriates.

**The private sector – in the context of the preparation of its activities for the new currency, focusing especially on:**

- > sole traders
- > small and medium-sized enterprises
- > non-profit organisations.

**The public sector – in relation to the performance of its duties, focusing especially on:**

- > regions, cities and municipalities.

**Information multipliers will play a vital role in the information campaign. The main information multipliers are:**

- > consumer groups and professional associations and chambers
- > financial institutions
- > the media
- > large corporations
- > central government authorities
- > regions, cities and municipalities
- > others (Czech Post, Czech Railways, bus transport operators, Czech Airlines, hospitals, etc.).

## 6.5 Communication instruments

The communication instruments employed will depend on the specific target group in order to ensure that the objective of the information campaign – to provide information in good time, to a sufficient extent, and in an appropriate form – is achieved. The instruments will be applied progressively in line with the timetable of preparations for the changeover. The main instruments are:

- > information website on the changeover
- > communication instruments providing information on European issues (Euroskop, Eurokurýr, Eurocentres and Eurofon)
- > communication instruments of the European Commission's representation in the Czech Republic (the Europe Direct network), and other available communication instruments
- > PR activities of individual institutions
- > printed materials produced by the European Community and by Czech institutions (delivered to every school and household, placed in public transport vehicles, etc.)
- > advertisements in the media (paid), as a source of undistorted information
- > information campaign in the media
- > audio-visual and multimedia materials – videocassettes, CD-ROMs, DVDs, intended in particular for local authorities and educational institutions
- > conferences, lectures, training sessions and seminars
- > promotional materials

- > o special events, for example Euro Day - an event for the general public at the beginning of the most intensive part of the campaign (approximately €-day minus 100)

## 6.5.1 Logo and slogan of the information campaign

A national euro adoption logo and slogan will be chosen for use in the information campaign alongside the euro adoption logo of the European Commission and the European Central Bank. The logo of the National Coordination Group has now been chosen; this will be used primarily for institutional communication.

## 6.5.2 Opinion polls

The preparations and assessment of the information campaign will involve regular opinion polls (and possibly a psychological map of the Czech Republic), which in terms of content (specification of questions) will be organised by the Communication Working Group acting on the approval of the National Coordinator. Another important source of information will be the Eurobarometer and Flash Eurobarometer surveys conducted on behalf of the European Commission. Relevant and well-founded surveys conducted by other institutions and companies may also be taken on board.

## 6.6 Campaign schedule

The communication strategy will be based on the individual stages of the euro area accession process in the Czech Republic with reference to the government decision on the target date for entering the euro area and also with reference to the admittance of the Czech Republic to the euro area by the Council of the European Union.

Communication is divided into four main periods.

### I. until ERM II entry

The target date for the Czech Republic's entry into the euro area will not necessarily be known in this period. Communication will be focused on publishing objective information linked with the euro area entry process and providing information on all aspects of the changeover and on instruments to minimise the potential risks, including dispelling fears about the changeover causing a rise in prices (consumer protection). The basis for communication will be the content of the National Changeover Plan. The main instruments employed will be the information website, instruments providing information on European issues (Euroskop, Eurokurýr, Eurocentres and Eurofon), printed materials produced by the European Community and by Czech institutions, information in the media, and conferences, lectures, training sessions and seminars. Regular opinion polls will be commenced and a psychological map of the Czech Republic may be drawn up. Communication will be stepped up after the political will to enter the euro area on a specific date is expressed.

The main messages in this period will be:

1. adopting the euro is an obligation arising from accession to the EU
2. providing information on all aspects of the changeover and on instruments to minimise the potential risks
3. dispelling fears about the changeover causing a rise in prices.

### II. from ERM II entry to the decision by the EU authorities to abrogate the derogation

This phase will chiefly involve communicating the target date for euro adoption and the ensuing preparation timetable. The emphasis will be on practical information connected with the changeover, including the ERM II mechanism. Familiarisation with the consumer protection measures adopted will be more intensive than in the first stage. The most used instruments in this phase will be advertisements in the media and audio-visual and multimedia materials – videocassettes, CD-ROMs, DVDs, intended in particular for local authorities and educational institutions and for distribution

by consumer groups and professional associations and chambers. In this stage considerable attention will be paid to information multipliers and their information support.

**The main messages in this period will be:**

1. the individual stages of the changeover timetable, including the ERM II mechanism and the target date for euro adoption
2. more intensive familiarisation with the consumer protection measures adopted, the dual display of prices system and the price control mechanisms
3. practical information connected with the changeover
4. familiarisation with euro banknotes and coins, and their security features, explanation of the common and different features of euro cash (banknotes the same in all countries, and coins having a national side)
5. dispelling fears about the changeover causing a rise in prices

**III. From the abrogation of the derogation to the introduction of the euro in the Czech Republic**

This phase will chiefly involve communicating the target date for euro adoption and the binding conversion rate, with an emphasis on practical information connected with the conversion of prices, salaries, pensions and all other income and expenditure, including rounding, and the possible ways of exchanging banknotes and coins, and also on explaining the principles of dual circulation and dual display of prices, including confirmation of the consumer protection measures adopted on an ongoing basis. As regards the instruments used, considerable emphasis will be put in this phase on advertisements in the media (as a source of undistorted information) and the intensive part of the media information campaign will be commenced.

**The main messages in this period will be:**

1. the euro adoption date
2. the conversion rate and the mechanism for the conversion of prices, salaries, pensions and all

other income and expenditure, including the possible ways of exchanging banknotes and coins

3. familiarisation with the fact that the koruna will cease to be the Czech national currency as of the euro adoption date
4. explanation that during the dual circulation period koruna banknotes and coins will be circulating in parallel with euro banknotes and coins, although only the euro will have the status of legal tender. Korunas will be gradually withdrawn from circulation in this period. After the dual circulation period ends it will be possible to exchange koruna banknotes and coins only at the central bank, commercial banks and possibly at other authorised institutions
5. confirmation of the consumer protection measures adopted and familiarisation with the dual display of prices system and the price control mechanisms
6. information on changeover-related European and Czech legislation that has been adopted or is in the process of being adopted
7. dispelling fears about the changeover causing a rise in prices.

**IV. After the introduction of the euro as the Czech currency**

This phase will chiefly involve communicating practical information connected with the exchange of the legacy currency and contact points in the public sector (central government authorities, ombudsman, regions, cities and municipalities) and the private sector (consumer groups and professional associations and chambers) where help can be sought if problems arise.

**The main messages in this period will be:**

1. the Czech Republic is a member of the euro area
2. monitoring of experience, evaluation
3. information on changes in prices and avoidance of perceived inflation.

## 6.7 Funding

The Czech Government will stipulate the financial framework for the information campaign in a resolution based on the decision to enter the euro area on a specific date. Until then, the National Coordination Group will draw on the budgets of member institutions to provide for its activities.

## 6.8 Tasks in the period prior to ERM II entry:

### Information website on the changeover

- > **Responsible:** Ministry of Finance / National Coordination Group
- > **Deadline:** ongoing

### Use of instruments providing information on European issues (Euroskop, Eurokurýr, Eurocentres and Eurofon), communication instruments of the European Commission's representation in the Czech Republic (the Europe Direct network), and other available communication instruments

- > **Responsible:** Ministry of Finance, CNB
- > **Deadline:** ongoing

### Distribution of printed materials containing basic information on the changeover – produced by the European Community and by Czech institutions

- > **Responsible:** Ministry of Finance, CNB
- > **Deadline:** ongoing

### Cooperation with the media, conferences, lectures, training sessions and seminars

- > **Responsible:** National Coordination Group
- > **Deadline:** ongoing

### Opinion polls and possibly a psychological map of the Czech Republic

- > **Responsible:** National Coordination Group at the proposal of the Communication Working Group
- > **Deadline:** ongoing

### Updating the National Changeover Plan in the area of providing information on the changeover

- > **Responsible:** Communication Working Group as instructed by the National Coordination Group
- > **Deadline:** 31 March 2008

# 7 Information and statistical systems

## 7.1 Actions for ministries and other central government authorities

The primary objective is to map the current state of the information systems of ministries and other central government authorities with regard to the interdependence between these systems and the changeover and related legislative changes. It will also be necessary to define a general methodology for ministries and other central government authorities to follow during the changeover. The specific tasks for ministries and other central government authorities are as follows:

- > by mid-2007 to appoint a specific person responsible for communication with the Information Technology and Statistics Working Group and to notify the NCG Organisational Committee of that person's name (email: [euro@mfcz.cz](mailto:euro@mfcz.cz)),
- > to conduct, by €-3, a review of the existing financial information systems in their areas of competence and determine which need to be adjusted for the changeover,
- > after conducting the review, to prepare, by €-2.5, a plan for the conversion and modification of financial information systems, such plan to contain the steps needed to convert the financial data contained in the information system and, where relevant, to modify to the operation of the system itself,
- > based on the plan for the conversion and modification of financial information systems, to carry out, by €-2, the actual conversion of financial information systems in line with the recommendations given in the description of the most important tasks (see point 7.4),
- > the testing phase will last until €-1. This phase will involve fine-tuning the information systems and eliminating problems found during trial operation,

- > commissioning of information systems that are prepared for the euro as legal tender as from €-day.

Ministries and other central government authorities will, within their areas of competence, oversee the organisations they have established, especially with regard to the preparedness of information systems for the changeover.

In the statistics area there will be close liaison with the Czech Statistical Office (CZSO). Under Act No. 89/1995 Coll., on the State Statistical Service, as amended, the CZSO is responsible for the creation and revision of the methodology for all state statistical service workplaces and also for the coordination of state statistical service workplaces, including the methodology, indicators and units of measurement used and specification of the content of statistical surveys.

## 7.2 Actions for local government authorities

The most important task is again to map the current state of the information systems of local government authorities, municipalities, cities and regions with regard to the interdependence between these systems and the changeover and any related legislative changes. It will also be necessary to define a general methodology for local government authorities, municipalities and cities to follow during the changeover. The specific tasks for local government authorities are as follows:

- > to conduct, by €-3, a review of the existing financial information systems in their areas of competence and determine which of them need to be adjusted for the changeover,

- > after conducting the review, to prepare, by €-2.5, a plan for the conversion and modification of financial information systems, such plan to contain the steps needed to convert the financial data contained in the information system and, where relevant, to modify to the operation of the system itself,
- > based on the plan for the conversion and modification of financial information systems, to carry out, by €-2, the actual conversion of financial information systems in line with the recommendations and in accordance with description of the most important tasks (see point 7.4),
- > the testing phase will last until €-1. This phase will involve fine-tuning the information systems and eliminating problems found during trial operation,
- > commissioning of information systems that are prepared for the euro as legal tender as from €-day.

### 7.3 Changeover actions in the business sector

The most important task is again to map the current state of the information systems in the business sector with regard to the interdependence between these systems and the changeover and any related legislative changes. It will also be necessary to draw up general recommendations to prepare the business sector for the changeover in good time. The business's euro coordinator will play an important role (see also section 4 The Non-Financial Sector and Consumer Protection).

Information systems are integral part of corporate governance, having a support function in most of the processes going on in businesses. In connection with the changeover, there is a need to identify (test), plan and implement all changes in business ICT. In substantive terms this chiefly concerns accounting and analytical software applications. The technical conversion of korunas to euros will involve:

- > assessing software usability,
- > verifying hardware capacity,
- > adapting and purchasing software.

These changes must reflect the requirements stemming from the changes in corporate financial management, sales, purchasing and legal processes. In the area of payments, the changes will affect invoicing as well as cash circulation and electronic cash registers. The extent of the changes will be proportional to the company's size, organisation structure and existing scope of ICT.

### 7.4 Description of the most important tasks

It is essential to clearly identify which information systems will be affected by the euro changeover. As a rule these should only be information systems operating with financial information in the Czech currency, in particular:

- > electronic payment systems,
- > accounting systems,
- > invoicing systems,
- > systems processing wages and salaries,
- > production management systems working with financial indicators,
- > financial planning applications,
- > cost monitoring applications,
- > enterprise resource planning (ERP) applications,
- > state treasury information systems and other applications used for public finance management,
- > bank systems, including CNB systems,
- > legal databases containing financial contracts,
- > and others.

Acting on the basis of the recommendations of the Information Technology and Statistics Working Group, the responsible person will draw up an analysis of information systems having a potential impact on the euro changeover. The analysis will be prepared in a broad discussion with the Working Group so that the potentially wider demands as regards the functionality of these systems in the period following the changeover can be covered, allowing for the possibility of feedback.

Attention must be given to the technology used, since hardware may be negatively affected by the changeover, especially in the case of simpler technical equipment.

Interconnections between systems (not only internally, but also externally with customers and suppliers) will need careful monitoring. It is crucial to define the affected systems and their quality from the logical and technological perspectives for the euro changeover strategy. In the case of low-quality information systems it is necessary to make global changes, and not just partial modifications that would later have negative impacts.

In setting priorities it is essential to take the importance and complexity of information systems into consideration. An organisation's key systems for the changeover should have higher priority. Complex systems require more time for conversion, hence they must be given higher priority.

Attention must be devoted to the parallel adjustment of all systems within the fixed time limit, something which requires extensive coordination work. It is important that the coordination of the changes to information systems proceeds in line with the overall preparation of the institutions and that it is top-down managed by the principal changeover coordinator of the institution or business.

## 7.5 Procedure for converting statistical databases and information systems

It is essential to identify the material extent of the technical conversion of large financial and statistical information systems with regard to internal guidelines or legislative amendments issued by central government authorities.

The responsible person will propose the minimum length of historical statistical time series for which it will be appropriate to convert data in financial and statistical databases that contain financial (value) information. The conversion process itself will be

performed only following the issuing of a legislative regulation. By that time it will be necessary to have identified lists of the data to be converted according to the generally binding legal conversion principles for all statistical systems. Owners of large information databases will prepare software solutions for the conversion according to the nature and structure of the individual data stores.

For converting statistical databases it will be necessary in particular:

- > to evaluate the complete lists of indicators that are to be converted (methodological management by the CZSO will be essential),
- > to determine the method for converting data for the period of collection of data in the Czech currency in the process of statistical data processing prior to euro area entry,
- > to define principles and coefficients for converting data to the euro and to set the date from which it will be mandatory to publish data in both currencies,
- > to determine the rounding method and multiples of the euro (unit of measurement) for storing data,
- > to set methodological principles for ensuring the comparability of data and principles for resolving balance differences,
- > to propose specific statistical surveys to be performed for the needs of the changeover (indicators, independent surveys, adding additional indicators to existing media).

### 7.5.1 Recommendations for adjusting information and statistical systems

The basic recommendation which should help to eliminate the potential negative impacts of the changeover is to perform a technical and technological audit of the information systems concerned. The acquisition of new information systems and also significant changes to systems should already be taking the euro changeover into account. We recommend explicitly incorporating these changes

into contracts with information system suppliers already. The audits should focus on the following areas:

#### Problems with inputs:

- > receipt of financial information in both the euro and the Czech koruna – duplication,
- > changing the current system:
  - > requires time for planning and testing,
  - > risk of error by clerks.
- > use of parallel systems (two identical versions of financial information systems):
  - > often impossible owing to technical limitations of hardware,
  - > risk of error from confusing the euro information system with the koruna information system,
  - > problems with transactions,
  - > problems with limits for customers.
- > sequential changeover:
  - > need for interface between systems,
  - > risk of confusion between users as to the currency used.

#### Problems with outputs:

- > creation of financial outputs in two currencies – duplication.

#### Problems with interfaces:

- > exchange of financial information between euro information systems and koruna information systems,
- > creation of currency converters,
- > simultaneous change – all at once,
- > autonomous groups – groups of systems that are relatively autonomous.

#### Problems with conversion:

- > in the case of historical financial data in korunas which will be needed following the euro changeover – this data must be converted to the euro,
- > manual conversion,
- > instrument for automated conversion,
- > change of information systems.

#### Technical details that need to be taken into consideration:

- > rounding:
  - > differences may arise in conversion between the koruna and the euro leading to the suspension of information processing,
- > interfaces between systems,
  - > building interfaces may be more demanding than first appears – especially as regards rounding problems,
  - > attention must be focused on possible threats from the confusion of euro amounts and koruna amounts,
  - > attention must be focused on systems that are interconnected with other systems of other organisations – in this case a common procedure needs to be agreed in the two organisations, especially as regards when and how these systems will convert to the euro.
- > conversion of historical data:
  - > the conversion of historical data sources must be performed using the same methodology and the same system, otherwise unforeseeable errors and problems may occur,
  - > problems may occur in the conversion of financial metadata.
- > decimal places – this primarily concerns information systems that have been configured for working with korunas with no decimal places – these systems will need modifying for the use of euro cents,
- > displaying both currencies:
  - > this may cause problems owing to the limited number of columns displayed on the screen.
- > limits – financial information systems often use limits to define the system's actions; these limits must be converted to the euro so as to prevent unexpected system actions,
- > spreadsheets – given the very high demands of creating an instrument for the automatic conversion of tabular models to the euro it is more efficient to rebuild this tabular model and not attempt manual conversion,
- > staff training.

## 7.6 Costs, risks and recommendations associated with the changeover

### 7.6.1 Costs

The costs are mainly non-recurring ones associated with the conversion of korunas to euros, as many information systems are unable to perform this conversion. The estimate for the elimination of this problem is 2–3 years, by means of gradual modification and updating of information systems. These costs depend on the organisation's size, type of activities and adjustment to the relevant legislative revisions so that the changes can be made far enough in advance. Late definition of changes will mean pressure for faster changes and hence higher costs for the changes.

Change area – all information systems and software working with financial information.

We recommend conducting a timely audit of information systems, with an emphasis on system interconnection.

### 7.6.2 Risks

The following can be regarded as the main risks:

- > underestimation of the time, work and financial demands of changing information systems,
- > delayed methodological procedures arising from amended legislation,
- > a shortage of professionally experienced internal and external staff,
- > the non-existence of a testing environment for live testing of the modifications,
- > obsolete hardware and software blocking necessary modifications.

### 7.6.3 Recommendations

The main recommendations for the changeover are as follows:

- > new information systems acquired after the changeover – clearly define the demands on the supplier – full functionality for work with the euro,
- > new information systems acquired before the changeover – clearly define the demands on the supplier – full functionality for work with the euro and also changeover-related functionalities,
- > existing systems – require the supplier to guarantee changeover-related functionalities under the maintenance agreement,
- > conduct a careful analysis of systems processing economic data,
- > prepare an analysis of the impacts of the necessary changes to the information system on the organisation's other information systems – system interconnection,
- > prepare an action plan for implementing changeover-related functionality in the information system,
- > prepare a testing strategy and testing plan far enough in advance,
- > coordinate individual projects and document common rules, problems, solutions, etc.,
- > at central level create the post of coordinator for each professional association.

## 7.7 List of tasks in the field of information and statistical systems

Create a matrix of public sector information systems with defined interconnections.

- > **Responsible:** MoF
- > **Deadline:** €-3

Conduct a specialised audit of public sector information systems, focusing on the ability of the system to change over to the euro.

- > **Responsible:** Responsible person, coordination by NCG (Information Technology and Statistics Working Group)
- > **Deadline:** €-3

Prepare methodological guidelines for the creation of new information systems with a view to guaranteeing their compatibility with the euro.

- > **Responsible:** Responsible person, coordination by NCG (Information Technology and Statistics Working Group)
- > **Deadline:** €-3

Draw up and publish methodological guidelines for the conversion of historical data.

- > **Responsible:** Responsible person, coordination by NCG (Information Technology and Statistics Working Group)
- > **Deadline:** €-3

Draw up and publish a list of critical factors that must receive attention in the process of preparing systems for the changeover.

- > **Responsible:** Responsible person, coordination by NCG (Information Technology and Statistics Working Group)
- > **Deadline:** €-4

Prepare recommendations for the private sector concerning the building of new information systems, adjustments to existing information systems and conversion of historical and statistical data.

- > **Responsible:** Responsible person, coordination by NCG (Information Technology and Statistics Working Group)
- > **Deadline:** €-4

Prepare and publish revised statistical forms.

- > **Responsible:** CZSO in cooperation with competent ministries
- > **Deadline:** €-1

Prepare statistical data conversion methodology.

- > **Responsible:** CZSO
- > **Deadline:** €-2
- >



# Part III Glossary of Basic Terms



**“Big Bang” (single-step changeover scenario)** – one of the possible euro changeover scenarios; a single-step changeover, i.e. simultaneous introduction of the euro for cash and non-cash transactions with no transitional period. As from the introduction of euro cash, newly issued legal instruments (i.e. invoices, bills, contracts and other documents containing monetary amounts) may only be denominated in euros; existing legal instruments denominated in national currency units will be converted at the conversion rate. In Resolution No. 1200 of 25 October 2006, the Czech Government approved a single-step, comprehensive transition to the euro, with simultaneous introduction of the euro for cash and non-cash transactions, as the euro changeover scenario in the Czech Republic.

**Changeover scenario** – there are three basic changeover scenarios, differing in terms of the phasing of the introduction of the euro for cash and non-cash transactions and the length of the transitional period. The changeover scenario is not directly addressed in the Treaty establishing the European Community, but is regulated in secondary law, specifically Council Regulation No. 974/98, as amended. In substantive terms, this regulation defines the following changeover scenarios:

- > a scenario with a transitional period (the “Madrid scenario”)
- > a single-step changeover (the “Big Bang” scenario)
- > a single-step changeover with a phasing out period (the “Phasing-Out” scenario).

The specific choice of changeover is made by the country seeking entry to the euro area.

**Conversion rate** – the irrevocably fixed rate, set by the Council of the European Union, used for converting amounts in the national currency (koruna) to amounts in euro. It is given to six significant figures in the format 1 € = xxxxxx national currency units. The conversion rates are laid down in Council Regulation (EC) No. 2866/98, as amended. Council Regulation (EC) No. 1103/97, as amended by Council Regulation (EC) No. 2595/2000, stipulates binding

rounding rules for the conversion. More details will be incorporated into the regulations on the introduction of the euro in the Czech Republic.

**Criteria for entering the euro area** – before it can adopt the euro, a Member State must achieve a high degree of sustainable economic convergence, assessed by reference to the fulfilment of the “Maastricht convergence criteria” set out in Article 121 of the Treaty establishing the European Community and detailed in the protocol on the convergence criteria annexed to the Treaty. The criteria are as follows:

- > **Criteria of “the achievement of a high degree of price stability”**, meaning that “a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1½ percentage points that of, at most, the three best-performing Member States in terms of price stability”;
- > **Criteria of “the sustainability of the government financial position”**, meaning that at the time of the examination the Member State is not the subject of a Council decision under Article 104(6) of the Treaty establishing the European Community determining that an excessive deficit exists in the Member State; the Council decides that an excessive deficit exists if:
  - > the ratio of the planned or actual government deficit to GDP at market prices exceeds 3%, and
  - > the ratio of government debt to GDP at market prices exceeds 60%.

In the assessment of the fulfilment of the fiscal stability requirement, account is also taken of other factors stipulated in the Treaty establishing the European Community (Article 104) and related acts of EU law, such as progress in reducing budget imbalances and the existence of exceptional and temporary factors contributing to such imbalances. Member States whose ratio of government debt to GDP exceeds 60% are expected to reduce the ratio towards the reference value at a satisfactory pace.

- > **Criteria of "exchange rate stability"**, meaning "the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the currency of any other Member State". In the assessment of the fulfilment of this criterion, the emphasis is placed on the exchange rate against the euro being close to the central rate. Other factors that might cause the exchange rate to appreciate are also taken into consideration.
- > **Criteria of "the convergence of interest rates"** is reflected in long-term interest-rate levels and means that "observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions".

However, the assessment also takes account of other factors such as "the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices". Fulfilment of the convergence criteria is regularly monitored by the European Commission and the European Central Bank in convergence reports prepared under Article 121 of the Treaty establishing the European Community.

Another Maastricht criterion, which, unlike the preceding ones, is not explicitly economic in nature, is a requirement to achieve independence of the national central bank and to ensure that its statutes and the legislation governing its status are fully compatible with the Treaty establishing the European Community and the Statute of the ESCB and ECB.

**Criteria of alignment with the euro area** – on entering the euro area the Czech Republic will lose

the option of pursuing an independent monetary policy (i.e. the option of using interest rates and the exchange rate as instruments of adjustment to economic shocks). Following the adoption of the single currency there exist certain risks to macroeconomic stability. The magnitude of these risks is examined in "alignment analyses" (a high degree of alignment reduces the costs and increases the benefits of the single currency; the existence of functioning adjustment mechanisms reduces the costs, meaning that a lower degree of alignment is then sufficient). Under Government Resolution No. 1026 of 13 October 2003, the preparedness of the Czech economy to adopt the euro is assessed once a year in a report entitled "Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Republic with the Euro Area", which is submitted to the Government.

**Czech National Bank (CNB) and the euro** – The CNB is a pivotal institution in the changeover preparation process. The central bank's primary tasks will be to put euro banknotes and coins into circulation, to withdraw the national currency, to adjust payments and to work in partnership with the banking sector and other financial service providers during the changeover. Together with the government it will contribute fundamentally to the decision on whether and when the Czech Republic will apply to enter the ERM II. To fulfil the institutional conditions for entering the euro area the Act on the CNB will have to be amended or a new version of it prepared, as the Act's conformity with the Treaty establishing the European Community and the Statute of the ESCB and ECB will be subject to examination in the convergence report. The CNB will play an important role in ensuring a smooth transfer of monetary policy decision-making powers to the ECB and the handover of other competences. The CNB contributes fundamentally to the work of the NCG, acts as coordinator of the Financial Sector Working Group and, jointly with the Ministry of Finance, participates in the management of the Communication Working Group. The CNB is represented in all the NCG's Working Groups.

**Derogation** – a temporary exemption for an EU Member State from the introduction of the euro as its currency and legal tender. New EU Member States have such a derogation until they fulfil the criteria for adopting the euro (the Maastricht convergence criteria). Strictly speaking, under Article 122 of the Treaty establishing the European Community, this derogation, which means that some provisions of the Treaty do not apply to the Member State concerned (in particular those on the introduction of the euro), is in essence a condition precedent. After the relevant conditions have been fulfilled (see also Criteria for entering the euro area), the Council of the European Union will abrogate the derogation, taking due account of the reports drawn up by the European Commission and the European Central Bank under Article 121(1) of the Treaty establishing the European Community.

**Dual circulation** – a relatively short period (in the case of the Czech Republic lasting 2 weeks) after the changeover during which it will be possible to pay in cash in both koruna and euro. Change for cash payments will be given in euro. During this period the two currencies will circulate in parallel, although the euro will have the status of legal tender, while the koruna will be gradually withdrawn from circulation.

**Dual display of prices** – the displaying of prices and monetary amounts in both the national currency and the euro. The method of dual pricing will differ depending on the type of goods or services provided. In terms of timing, the dual pricing period will be linked to the abrogation of the derogation and the fixing of the conversion rate between the koruna and the euro by the Council of the European Union. Dual pricing should start around a month after the setting of the conversion rate and should continue for around a year after the adoption of the euro in the Czech Republic.

**ECOFIN** – The Council of the European Union meeting in the formation of economic and finance ministers of the Member States.

**Economic and Monetary Union (EMU)** – the process of harmonisation of the EU Member States' monetary and economic policies, including the adoption of the single currency. EMU was the theme of one of two intergovernmental conferences in December 1990. The Treaty establishing the European Community provides for the implementation of EMU in three stages:

1. **First stage** (1 July 1990 – 31 December 1993): free movement of capital between the Member States, closer coordination of economic policies and closer cooperation between central banks;
2. **Second stage** (1 January 1994 – 31 December 1998): convergence of the Member States' monetary and economic policies (in order to ensure price stability and sound public finances);
3. **Third stage** (from 1 January 1999): launch of the ECB, fixing of the euro area member states' exchange rates and introduction of the single currency.

Eleven Member States introduced the euro on 1 January 1999. Four Member States did not adopt the single currency, either because they decided not to do so under an "opt-out" clause in the protocols annexed to Treaty establishing the European Community (the UK and Denmark), or because they had not fulfilled the convergence criteria defined in the Maastricht Treaty (Sweden and Greece). Greece became the twelfth euro area member on 1 January 2001. The Czech Republic automatically became an EMU member (with a derogation) on its accession to the EU.

**ERM II** – the fixed exchange rate mechanism in which the currency of each country wishing to enter the euro area must participate for at least 2 years prior to the convergence assessment; the aim of the mechanism is to prepare the economy for functioning in the monetary union. The currency of a country participating in ERM II has a fixed central rate against the euro and fixed fluctuation margins for movements of its exchange rate. ERM II is based on an intergovernmental arrangement and is derived in terms of content from Article 121 of the Treaty establishing the European Commu-

nity and the protocol on the convergence criteria annexed to the Treaty. ERM II was established by a Resolution of the Amsterdam European Council of 16 June 1997. Entry is conditional on participation in an agreement between the central banks, which the CNB signed on 29 April 2004. The Czech Republic's intention (as expressed in the Euro Area Accession Strategy) is to stay in ERM II for only as long as is necessary, i.e. to limit its membership to 2 years before the preparation of the convergence report culminating in the Council decision to abrogate the derogation. For technical reasons, however, the stay in ERM II will in reality be longer – around 2½ to 2¾ years before euro area entry. The Czech Republic should therefore enter the system early in the spring of year “€-3”.

**EU regulations concerning the euro** – The European Monetary Union (EMU) falls within the exclusive power of the European Community (EU), which stipulates the legal framework for the EMU. In primary law, this framework includes Articles 105 to 124 of the Treaty establishing the European Community, the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, the Protocol on the Convergence Criteria and also the Protocol on the Excessive Deficit Procedure. Also of importance for new EU Member States is Article 4 of the Act concerning the conditions of accession to the EU, according to which each of the new Member States participates in Economic and Monetary Union as a Member State with a derogation.

In the area of secondary EU law, the introduction and use of the euro is currently regulated primarily by three fundamental Council Regulations, adopted in 1997 and 1998 in connection with the introduction of the euro, and later amended owing to the enlargement of the euro area to include Greece and Slovenia and also to the expected adoption of the euro in other new EU Member States in the near future:

- > Council Regulation (EC) No. 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro, as amended by Council Regulation (EC) No. 2595/2000;

- > 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 and Council 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, as amended by Council Regulation (EC) No. 1478/2000 and Council Regulation (EC) No. 1086/2006.

**The euro and the new EU Member States** – the obligation to adopt the single currency was one of the conditions of accession of the new Member States to the EU. The euro should therefore be introduced in all the new Member States provided that they satisfy the conditions laid down in Article 121 of the Treaty establishing the European Community. At present, the new Member States thus have a temporary exemption (“abrogation”) from adopting the euro, unlike the “old Member States” the UK and Denmark. The timing of the process leading up to the fulfilment of the euro adoption criteria is a political decision; the central bank plays a predominantly analytical and technical role in the overall process. However, it does play a fundamental role in maintaining price stability and also in the ERM II accession process and in implementing the mechanism.

Article 121 in particular requires compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 108 and 109 of the Treaty establishing the European Community and the Statute of the ESCB and ECB, as well as fulfilment of the Maastricht economic criteria – price stability, long-term interest rates, stability of public finances and participation in ERM II for at least two years. The euro area entry criteria are laid down in the Treaty establishing the European Community, and fulfilment of the criteria is assessed once every two years or at the request of a Member State with a derogation with reference to the convergence reports of the European Commission and the ECB. If the criteria are satisfied, ECOFIN, after discussion in the European Council and after consulting the European Parliament, will decide to

abrogate the derogation. The Member State must fulfil the criteria continuously, although in order to satisfy the exchange rate stability criterion it must be a member of ERM II; the timing of its entry into the system is entirely at its own discretion.

**Euro area** – the name given to the integration group of EU Member States that have adopted the euro and in whose territory the euro is the legal tender.

**Euro Area Accession Strategy** – a document setting out the basic framework for the changeover, prepared jointly by the Ministry of Finance, the Ministry of Industry and Trade and the Czech National Bank and approved in Government Resolution No. 1026 of 13 October 2003. In Government Resolution No. 1231 of 25 October 2006, it was decided – following an assessment of the Czech Republic's fulfilment of the Maastricht convergence criteria and its degree of economic alignment with the euro area – that the Czech Republic would not seek to enter the ERM II in 2007 and the Minister of Finance was tasked with reviewing the Czech Republic's changeover strategy in cooperation with the Governor of the Czech National Bank. The results of this review should be submitted to the Government by 31 August 2007.

**European Central Bank (ECB)** – the legal basis for the single monetary policy is the Treaty establishing the European Community and the Protocol on the Statute of the European System of Central Banks and of the European Central Bank. Both the ECB and the European System of Central Banks (ESCB) were established under this Statute on 1 July 1998. The ECB was established as the governing unit of the ESCB. The term Eurosystem is used to refer to the part of the ESCB where the euro has been adopted. The ECB and the national central banks jointly implement the tasks conferred upon them by the Treaty and the Statute. The ECB has legal personality.

**European System of Central Banks (ESCB)** – the ESCB comprises the ECB and the national central banks of all EU Member States (Article 107(1) of

the Treaty) regardless of whether or not they have adopted the euro.

**Eurosystem** – The Eurosystem comprises the ECB and the national central banks of the Member States which have adopted the euro (see also Euro area). The ECB has a governing role in the Eurosystem and a coordinating role across the ESCB as a whole. The Eurosystem and the ESCB will operate side by side until all the Member States of the EU become members of the euro area.

**Frontloading** – the supplying of banks with euro banknotes and coins before they are put into circulation.

**General Act on the Introduction of the Euro** – the fundamental legal regulation which, with reference to the directly applicable EU regulations, will lay down the basic legal framework for the introduction of the euro. It is expected to contain in particular: general provisions on the changeover from the national currency to the euro, including dual circulation; cash exchange rules; the method for converting the national currency to the euro; rounding rules; dual pricing rules; amendments, where appropriate, of legal regulations connected with the changeover; delegating provisions; and basic provisions concerning control and oversight of the changeover process.

**Legal principles concerning the euro** – a number of principles arising from the European legislation introducing the euro will be applied in connection with the changeover: no conversion rate other than the one set by the Council of the European Union may be used; the changeover must not affect the validity of contracts or other legal instruments; the changeover may not be used as a reason for altering or terminating contracts and other legal instruments; conversion from koruna to euro will only be possible on the basis of the conversion rules; the changeover must not harm the public, and the conversion rules must respect this last principle.

**Madrid scenario (scenario with a transitional period)** – one of the possible euro changeover scenarios,

involving a transitional period during which the euro is initially introduced in scriptural (non-cash) form and the national currency becomes a subdivision of the euro (a “non-decimal denomination” converted at the conversion rate). During the transitional period national currency banknotes and coins remain valid and euro banknotes and coins are not legal tender. The transitional period between the introduction of the euro as a scriptural currency and the introduction of euro cash lasts for no more than three years. Scriptural payments can be made in either national currency units or euro units.

**Ministry of Finance and the euro** – under Government Resolution No. 1510 of 23 November 2005, the Ministry of Finance is coordinator of the overall changeover preparation process. It is also coordinator of the NCG’s Public Finances and Public Administration Working Group and joint coordinator with the CNB of the Communication Working Group. Via the National Coordinator as the NCG chairman, the Ministry of Finance is involved in managing the NCG and is represented in all the NCG’s Working Groups. An NCG Organisational Committee has also been established at the Ministry of Finance to provide organisational and administrative support for the changeover process.

**Monetary sovereignty** – independent monetary policy-making as an instrument for steering the economy, as performed by the national central bank. On entering the euro area a country loses this monetary sovereignty, as its monetary policy decision-making powers transfer to the European Central Bank (ECB). The national central banks of the euro area member states (see Eurosystem) participate in the implementation of the single monetary policy.

**National Changeover Plan** – the document setting out the changeover preparation process, including the essential changeover-related actions to be undertaken in each area and including relevant timetables (i.e. a manual that must exhaustively answer the questions of “what”, “who”, “when” and “how”). The National Changeover Plan was prepared and submitted to the Czech Government

under Resolution No. 1510 of 23 November 2005 and was subsequently approved by the Government on 11 April 2007. It will be updated every year to adequately reflect the latest experience from the changeover preparations. The National Changeover Plan does not set out to examine the fulfilment of the Maastricht criteria or to monitor the economic policies that are supposed to ensure the fulfilment of those criteria. It is a document defining the institutional and technical aspects of the changeover preparations.

#### **National Coordination Group for the Introduction of the Euro in the Czech Republic (NCG)**

– established under Government Resolution No. 1510 of 23 November 2005 as the fundamental unit of institutional provision for the introduction of the euro in the Czech Republic. The NCG is an inter-departmental body composed of representatives of the Ministry of Finance, the Czech National Bank, the Ministry of Industry and Trade, the Ministry of the Interior, the Ministry of Foreign Affairs, the Ministry of Information Technology, the Ministry of Justice and the Office of the Deputy Prime Minister for European Affairs. The primary objectives of the NCG are to prepare the National Changeover Plan (new deadline: by the end of March 2007 – see Government Resolution No. 1200 of 25 October 2006) and to implement the Plan, to coordinate the changeover preparation process (e.g. the decision on the form of communication strategy) and to adopt essential recommendations for the Czech Government (e.g. a recommendation as regards the choice of specific changeover scenario). The NCG decided to establish working groups, whose primary role is to prepare relevant parts of the National Changeover Plan and to provide specialised information for the NCG’s strategic decision-making. The NCG chairman is the National Coordinator, who was appointed under the aforementioned Government Resolution.

#### **National Coordinator of the Introduction of the Euro in the Czech Republic**

– the government-appointed chairman of the National Coordination Group. The National Coordinator manages the NCG, coordinates the work of its Working Groups

and coordinates the changeover preparations throughout the Czech Republic, in particular the preparation and implementation of the National Changeover Plan.

**NCG Organisational Committee** – established at the Ministry of Finance to provide organisational and administrative support for the changeover process. The head of the Organisational Committee is a deputy National Coordinator. The Committee's main activities include providing organisational support for the NCG's work, pooling and distributing information on practical aspects of the changeover in other EU Member States, supporting communication between the NCG and its Working Groups and between the Working Groups mutually, coordinating the NCG's external communications and generally coordinating activities across the board.

**NCG Working Groups** – the NCG decided to set up a Legislation Working Group, a Financial Sector Working Group, a Communication Working Group, a Public Finances and Public Administration Working Group, an Information Technology and Statistics Working Group and a Non-financial Sector and Consumer Protection Working Group. The primary role of the Working Groups is to prepare the relevant sections of the National Changeover Plan and to implement the Plan. Its outputs are a key input for the NCG's strategic decision-making. The work of each Working Group is managed and coordinated by its chairman. Each Working Group has been assigned a coordinator, namely the authority of the relevant NCG member.

**PAN II** – an expert group (full name: Public Administration Network II) established by the European Commission at DG ECFIN and consisting of representatives of countries preparing to adopt the euro. This group regularly discusses technical, legislative, procedural and other institutional issues relating to the changeover, assesses the preparation processes in individual countries and draws up recommendations for further action.

**Phasing-out** – a changeover scenario with a phasing-out period. This scenario is only possible in combi-

nation with the "Big Bang" scenario and is based on a rule that selected legal instruments denominated in the national currency may be used for a fixed period (no more than one year) following the adoption of the euro (a partial exception from the general principle that the national currency unit cannot be used in new legal instruments following the introduction of euro cash). The application of this principle should be temporally and substantively limited to defined areas. Payments, however, can only be made in euros.

**Price conversion** – the conversion of monetary amounts in Czech koruna to the euro or vice versa at the conversion rate. Also linked with price conversion is the display of prices and monetary amounts in both currencies at the same time – dual pricing.

**Referendum on the euro** – the Czech Republic undertook to adopt the euro by signing the Act concerning the accession of the Czech Republic to the EU (the "Act"). The public expressed its approval with the accession conditions contained in the Act in a referendum. Under Article 4 of the Act, the Czech Republic participates in Economic and Monetary Union as a Member State with a derogation within the meaning of Article 122 of the Treaty establishing the European Community. Under Article 2 of the Act, the Czech Republic also pledged to abide by European Community law, which includes the Maastricht convergence criteria for adopting the euro and entering the euro area. After the convergence criteria have been satisfied and the Czech Republic has expressed its will to enter the euro area, the Council of the European Union – acting on the recommendation of the European Commission – will decide on the Czech Republic's entry into the euro area. Fulfilment of the convergence criteria is reviewed regularly, or at the request of a Member State with a derogation, by the European Commission and the European Central Bank in "Convergence Reports" under Articles 121 and 122 of the Treaty establishing the European Community. The entire euro adoption procedure is laid down in European Community law and is binding on the Czech Republic. Given the Czech Republic's

commitment to meet the Maastricht convergence criteria and subsequently adopt the euro, any euro referendum in the Czech Republic could at most be only consultative, or could only relate to the specific timing of the changeover, because a no vote on the euro per se would bring the Czech Republic into conflict with its EU membership obligations.

**Statute of the ECB** – regulates the status of the European Central Bank (ECB) and its basic rules of operation; is a part of (a protocol to) the Treaty establishing the European Community.

**Subfrontloading** – the frontloading of retailers and enterprises with euros and the ensuring of timely distribution of cash to the public by preparing ATMs, banks and post offices for cash withdrawals. This process will follow on from the successful frontloading of banks with euro banknotes and coins (see also Frontloading). Officially, the public can only be subfrontloaded with coins in special starter kits.

**TARGET** – Trans-European Automated Real-time Gross settlement Express Transfer system. A system covering European territory which is used for real-time settlement of euro payments, primarily for the purposes of implementing monetary policy in the euro area. The Czech Republic must join either this system or TARGET II (preparations for the changeover to this new system are currently ongoing in the EU) at the latest on entering the euro area.

**Transitional period** – the period between the introduction of the euro as a scriptural currency and the introduction of euro cash. Only the national currency, which has the status of legal tender, exists in cash. Non-cash payments can be made either in the national currency or in euros. When the euro area was formed, the transitional period lasted from 1 January 1999 to 31 December 2001. The “Big Bang” and “Phasing Out” changeover scenarios do not involve a transitional period.



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# Current information sources

All the aforementioned documents and other studies and reports are available at these websites:

National Coordination Group

[www.mfcr.cz/euro](http://www.mfcr.cz/euro)

Euro Changeover in Czech Republic Portal

[www.zavedenieura.cz](http://www.zavedenieura.cz)

The following information sources can also be used to get an overview of the changeover:

Czech National Bank

[www.cnb.cz/cz/mezinarodni\\_vztahy/euro](http://www.cnb.cz/cz/mezinarodni_vztahy/euro)

Euroskop

[www.euroskop.cz/euro](http://www.euroskop.cz/euro)

European Commission

[ec.europa.eu/euro](http://ec.europa.eu/euro)

European Central Bank

[www.ecb.int/bc](http://www.ecb.int/bc)

For any other information on the changeover preparations in the Czech Republic you can contact the National Coordination Group Organisational Committee at: [euro@mfcr.cz](mailto:euro@mfcr.cz)