

A.1 STERLING WHOLESALE FINANCIAL MARKETS

A.1.3 If the UK joined EMU, sterling *wholesale* financial markets would operate in euro immediately from the entry date, whereas *retail* financial services would remain largely in sterling until later in the transition period after entry. In order to help market practitioners prepare for the changeover in sterling wholesale financial markets, the Bank of England has published a City guide. For each of the various sterling wholesale financial markets, this section of the guide distinguishes between:

- financial instruments issued before, and outstanding at, entry;
- new financial instruments issued after entry;
- financial transactions undertaken before entry but settled afterwards;
- financial transactions undertaken after entry; and
- responsibility for conversion.

The Bank of England's own preparations for possible UK entry are summarised in Box 1; and business days and holidays after entry are summarised in Box 2.

A.1.4 The guide sets out how the changeover would be expected to be handled, in the event of UK entry. Many decisions on the changeover in sterling financial markets have not yet been taken. Responsibilities for taking these decisions are summarised in Box 6. Some decisions would be subject to legislation which, though not yet drafted, would be expected to be broadly similar in nature for the UK as for the first wave. The focus here is on sterling financial instruments and transactions, governed by English law and jurisdiction.

- In the case of financial instruments, the changeover would depend on decisions by Government (eg on the method of redenominating gilts), and by other issuers, which would in turn be subject to any legislation introduced to facilitate the redenomination of bonds and company share capital (Box 5). The denomination of cash-flow payments and common market conventions (eg day counts and payments) would be determined by market practice, subject to the terms of existing contracts.
- In the case of financial transactions on exchanges, the changeover would depend on decisions by the relevant exchanges (including the London Stock Exchange and LIFFE) and settlement systems (including CREST). They would in turn be influenced by the views of market practitioners. In the case of over-the-counter financial transactions, common conventions for the changeover would depend directly on market practice.

A.1.5 In addition, it would be important to take account of any changes in sterling market practice before possible UK entry: for example, any further changes in market conventions and any future revisions to Bank and BBA guidelines for CDs and commercial paper.