

B.3 Guidelines to help UK companies

B.3.56 UK companies may find it helpful to follow the guidelines below and in Box 5, which are intended to make the changeover to the euro for their dividends and share capital as smooth, straightforward and inexpensive as possible.

(i) Timing of share capital redenomination

B.3.57 Under the DTI's proposals, GB companies will be free to decide whether to redenominate their share capital from sterling to euro (or any other currency) at any time. The decision to redenominate a company's share capital and to start declaring dividends in euro would normally be taken at its Annual General Meeting (AGM), in order to avoid the expense of calling an Extraordinary General Meeting. A company would need to consider timing and plan well in advance, taking into account the length of time needed to prepare documentation for an AGM and the need for public companies and their registrars to avoid the 'bunching' of AGMs. The DTI proposes that the redenomination would take effect on the passage of the resolution by the shareholders.

(ii) Declaration and denomination of dividends

B.3.58 In practical terms, the great majority of dividend payments would need to remain in sterling until RT. But this would not prevent companies redenominating their share capital before RT if they chose. A company would be free, where its articles of association allowed, to declare dividends in euro (or any other currency), or to continue declaring them in sterling. In any event, companies would need to instruct their registrars to continue paying dividends in sterling (if necessary converting from a dividend declared in euro to the sterling equivalent at the conversion rate). Any rounding issues would also need to be resolved between companies and their registrars.

B.3.59 Under a managed transition, UK companies would have available the following additional share capital and dividend options.

- After RT, any company redenominating its share capital from sterling to euro would probably also instruct its registrars to make dividend payments to shareholders in euro.
- UK companies paying dividends before UK entry in currencies other than sterling (including in euro) would be able to continue doing so after entry.

B.3.60 If shareholders received dividends in sterling on shares denominated in euro, this could lead to potential confusion, and so would best be avoided. To ensure a simple and consistent approach, it would be preferable for redenomination of share capital to become effective on or after RT or, if earlier, at least after payment of the final sterling dividend. However, companies which came to the market before RT with an issue of shares denominated in euro would need to pay any dividends before RT in sterling.

(iii) Methods of redenominating company share capital

B.3.61 After the start of the transition period, a company would have the choice of either voluntarily redenominating its share capital from sterling to euro during the transition period or waiting until it ended.

B.3.62 *Voluntary redenomination during the transition period* The par values of shares in most UK companies are currently denominated in sterling in round amounts (eg 1p, 5p, 10p, 25p, 50p or £1). If companies were to redenominate their share capital from sterling to euro, this would almost inevitably produce par values with odd amounts in euro. There are limited means under current law by which companies could redenominate their shares to euro and renominialise them to achieve round par values. These existing procedures would be relatively cumbersome to use. A company could, for example, cancel its existing sterling shares and issue new euro shares, but any reorganisation that involved a cancellation of shares would (subject to very limited exceptions) require both court and shareholder approval. Financial institutions engaged in securities administration and custody would also have to notify individual clients of detailed changes to their holdings and issue new documentation (including, where appropriate, new share certificates). It would clearly be desirable to avoid unnecessary corporate actions, so minimising the cost and administrative burden involved as well as the potential for confusion.

B.3.63 The DTI has published draft proposals to facilitate share capital redenomination into any currency, including the euro. These are expected to be included in the forthcoming Company Law Reform Bill. This proposes:

- Redenomination would require approval of the shareholders by ordinary resolution.
- Companies would be required to adopt a top-down method of redenomination by converting at the level of the total nominal amount of each class of shares (rather than at the level of each individual share) and rounding that amount to the nearest currency sub-unit: eg euro cent. This minor rounding would not trigger any requirement for court or shareholder approval. Companies would derive individual par values by dividing the converted share capital by the number of shares in the authorised share capital, leaving that figure stated to several decimal places if they so wished.
- Companies would be permitted to adjust the resulting par value of each share to a more convenient round figure in the new currency (eg euro), subject to shareholder approval but without the need for court approval. There would be no requirement for companies to issue new share certificates following redenomination. Any change in the total nominal share capital would be combined with a corresponding change to the company's reserves.

- Any reference in a document to the company's share capital denominated in sterling would be read as a reference to the equivalent amount in the new currency.

B.3.64 If this legislation were introduced, the redenomination of share capital to euro would be permissible but not compulsory during the transition period. If a company decided to renominialise (as well as redenominate) its shares, it would have the choice of rounding up the nominal amount of each share to a convenient round figure in euro by capitalising reserves or (if it had insufficient reserves) of rounding down, probably to the nearest euro cent (see Box 5).

B.3.65 *Conversion at the end of the transition period* It may be desirable that the legislation should clarify what would happen at the end of the transition period to sterling share capital which had not formally been redenominated to euro in advance. The legislation would probably provide for automatic (mandatory) conversion of sterling share capital to euro at the conversion rate, using the top-down method as set out above. The legislation should also state whether the nominal value of each share so converted would be left stated to several decimal places or rounded to the nearest euro cent. Rounding could give rise to significant differences in the case of shares with small nominal amounts and it may be best if rounding of nominal values is made possible but not compulsory.

(iv) Share option schemes

B.3.66 Company share option schemes would also need to be converted from sterling to euro. The timing of the conversion of these schemes would be affected by:

- the conversion of statutory limits by the Government, in the case of Inland Revenue approved schemes, from round sterling to round euro amounts;
- the conversion of the company payroll from sterling euro, primarily in the case of SAYE schemes and SIPs; and
- the wishes of the scheme administrator, in the case of these latter schemes.

B.3.67 In order to avoid a large number of euro payments between T and RT, the following approach is recommended.

B.3.68 *Save As You Earn (SAYE) share option schemes* Assuming that SAYE limits would continue to be expressed up to RT in sterling, and thereafter in euro (with the sterling equivalent provided for information), SAYE deductions should remain in sterling until the company's payroll system switched to euro. The switch in the company's payroll should take place on or after RT, so as to prevent a large number of payments being generated in euro before retail financial preparations were complete. Thereafter, all new SAYE contracts should be denominated in euro. Existing company SAYE contracts should continue in sterling until the end of the transition period, unless the terms of the

contract include an option to redenominate earlier and this is exercised, with deductions being converted to euro from the date of payroll conversion.

B.3.69 Share Incentive Plans (SIPs) Assuming that the limits for partnership shares, free shares, matching shares and dividend shares would switch from sterling to euro at the start of the tax year after RT, SIPs administrators should continue to run plans in sterling before that date, and provide new plans in euro after that date. However, it is expected that the Inland Revenue would permit payroll deductions to continue in sterling until the company's payroll switched to euro. Administrators could choose when to switch existing plans to euro. The switch should coincide with the conversion of the payroll to euro.