



BANK OF ENGLAND

News release

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Practical Issues Arising from the Euro: November 2000

The Bank is publishing today a new edition of its practical guides to the euro.

Four areas may be of particular interest.

First, we have taken the opportunity to stand back and review – in the first highlighted section – the most significant developments in the euro markets over the period since its launch, now almost two years ago. Deep and liquid euro markets have become well established, replacing the previous – more segmented – national markets, and thereby beginning to achieve one of the objectives of the single currency.

The stock of securities denominated in euro has grown rapidly, particularly for corporate issues (debt and equity) with euro-area government needs limited by fiscal discipline and the recent third generation mobile telephone licence auctions. Trading has increased in most markets, including much greater cross-border activity, supported by fully-integrated pan-European systems for making wholesale payments; and dealing spreads have narrowed.

Alongside these developments, the euro has acted as a catalyst for structural change in Europe's financial market-place. Market practitioners are keen to see consolidation of the current fragmented arrangements for clearing and settling securities trades (where costs are considerably greater in Europe than in the US). Funds are beginning slowly to diversify their investments away from national markets across the euro area as a whole. And financial institutions themselves are consolidating, including some cross-border, to better provide a service to clients across the whole Single Market.

In the area of regulation and supervision, although much has been done to remove obstacles to the integration of Europe's capital markets, the launch of the euro has served to highlight the remaining barriers. However, market practitioners believe that, rather than through uniform regulation of securities markets, the changes required can be implemented by relying on the principles of the Single Market, and giving the necessary priority to the Commission's Financial Services Action Plan.

Second, the City of London has been making a positive and constructive contribution to the development of the euro markets. The available evidence indicates that London has fully maintained its position. This confirms our assessments in previous Practical Issues. The major international market firms continue to believe that London's role as an international financial centre does not primarily depend on whether the UK is inside or outside EMU, but that it must continue to provide an attractive environment for financial businesses, and be up with international 'best practice'.

Third, we explain in Chapter 3 the approach being taken by countries in the euro area to the completion of their changeover to the euro. The UK has a great deal to learn from the first wave for its own prospective changeover, in the event of UK entry. In addition, some of the issues which first-wave countries face will affect financial institutions in the UK.

Still largely a wholesale currency, the euro will become a reality for the general public by end-next year when euro notes and coin are introduced. The financial sector is inevitably heavily involved in this transformation from old national currencies to euro. Banks are planning intensively how they will change the denomination of all bank accounts from Deutschemarks, French francs and so on, to euro by end-2001; and how precisely they will introduce euro notes and coin early in 2002 in exchange for the current national cash. Chapter 3 sets out the different approaches being taken by different euro-area countries.

Fourth, as part of the Government's 'prepare and decide' policy, the Bank is publishing for the first time in Chapter 4 a detailed technical guide to the way a changeover to euro in sterling financial markets might work, if the UK were to join. It has been developed with the aid of market practitioners through the City Euro Group, which the Bank chairs.

Notes to Editors

This is the fourteenth edition of Practical Issues, which was first published in Spring 1996, and became the authoritative guide in the financial markets – in London, across the euro area and beyond – to preparing for the euro's launch. Since then, Practical Issues has reported on the evolution of the euro markets in practice, in London and in the euro area, as well as setting out the state of play in the City's preparations to join EMU, if the UK so decides.

Circulation of Practical Issues is 36,000, including overseas distribution.

Key Resources

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/practicalissues/nov00.pdf>