

REPUBLIC OF LITHUANIA
LAW
ON THE EURO ADOPTION IN THE REPUBLIC OF LITHUANIA

Purpose of the Law - to establish the procedure for the preparation to adopt the euro, exchange of the litas to the euro, conversion of values denominated in litas to values denominated in euro after the euro adoption in the Republic of Lithuania and withdrawal of the litas from circulation

The planned new legal regulation provisions, positive qualities of the newly regulated issues and the positive results expected

In Chapter II of the Draft Law it was established to consolidate the procedure for exchange of the litas to the euro at the Bank of Lithuania, commercial banks and foreign bank branches and their units, the list of which will be established by the Bank of Lithuania on a proposal by the banks, and at public limited company "Lietuvos paštas" (hereinafter referred to as the Lithuanian Post Office) (Article 5 of the Draft Law). It should be noted that commercial banks and foreign bank branches (hereinafter referred to as the banks), after the expiry of the 6-month period following the euro adoption date in the Republic of Lithuania (hereinafter referred to as the euro adoption date), during which they will exchange the litas to the euro free of charge at all their units, will exchange the euro banknotes free of charge for another 6 months, however, just at certain bank units, the list of which will be established by the Bank of Lithuania in advance. Whereas circulation of coins is related to rather high costs, after the expiry of the 6-month term following the euro adoption date, for exchange of the litas and cent coins the banks will be allowed to charge a fee in the amount established by themselves or not to exchange them. The Bank of Lithuania will exchange the litas banknotes, litas and cent coins to the euro free of charge without a time limit and without any limitation on the amount (Article 5(1) of the Draft Law).

Whereas the services provided by the Lithuanian Post Office are widely used by the Lithuanian residents, in particular by those residing not in cities, there is established the duty of the Lithuanian Post Office to exchange the litas to the euro free of charge for 60 calendar days following the euro adoption date. Taking into consideration that the Lithuanian Post Office, especially its units that are not in the cities, may have to deal with the issues concerning additional safety measures with regard to the national currency exchange, the Lithuanian Post Office is provided with the possibility to set a maximum permissible amount in litas to be exchanged into the euro, by notifying this information at prominent places (Article 5 (3) of the Draft Law).

The right of the banks to set a requirement that a client willing to exchange an amount of LTL 15 thousand to the euro (the Lithuanian Post Office might set a different, for example, smaller amount) must inform the bank on that in advance in accordance with the procedure established by the bank referred to in Article 5(5) of the Draft Law is based on the fact that smaller bank units usually are not provided with large cash amounts, and in order to avoid the situation when during the exchange of the litas to the euro following the euro adoption date there would be a lack of the euro in case the bank had served unexpectedly many clients or although several clients but the ones who exchanged large amounts in litas to the euro. Namely the amount of LTL 15 thousand and a three working day term of an advance notification are proposed having regard to the experience of the Republic of Latvia in the euro adoption (an amount of LVL 3000 was envisaged, for which it was possible to set the requirement for advance notification). The commercial banks did not submit any comments with regard to such a provision in the process of the Draft Law coordination with the Association of Lithuanian Banks. The Lithuanian Post Office may set another size of such an amount.

It is important to note that despite this special regulation of the national changeover, all the requirements set in the Republic of Lithuania Law on Money Laundering and Terrorist Financing Prevention apply to the exchange of the litas to the euro (Article 5(4)).

Whereas after the euro adoption date the Republic of Lithuania Law on Amending Article 1 of the Law Repealing Some Laws of the Republic of Lithuania will enter into force, which repeals *inter alia* the Republic of Lithuania Law on Money, also Amendment to Article 7(1) of the Law on the Bank of Lithuania, which provides for *inter alia* the exceptional right of the Bank of Lithuania to withdraw the litas – as the currency of the Republic of Lithuania – banknotes and coins from circulation and to establish the procedure for their destruction, in the Draft Law it is necessary to stipulate that the Bank of Lithuania following euro adoption date carries out the destruction of the litas banknotes and coins as well as cent coins withdrawn from circulation (Article 6(2) of the Draft Law) and exchanges the worn-out and damaged litas banknotes and coins, which are in compliance with the requirements set, to the euro (the worn-out and damaged money are exchanged also by other banks in accordance with the procedure established by Article 5(2) of the Draft Law) (Article 6(3) of the Draft Law).

In Article 7 of the Draft Law while regulating the procedure for conversion of the litas (euro) to the euro (litas) and rounding, a reference is made to Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro (OJ 2004 *Special Edition*, Chapter 10, Volume 1, p. 81) (hereinafter referred to as the Regulation). Also, there was established a general mathematical rounding rule, when it is rounded down if the decimal digit is under 5, and it is rounded up if the decimal digit is 5 or above it (Article 7(2) of the Draft Law). The values denominated in litas, which are converted to the euro, should be denominated to the same accuracy as they were denominated in litas (Article 7(4) of the Draft Law). It is also proposed to display a price of the unit with the same number of decimals as the price of the unit in litas (Article 7 (5) of the Draft Law).

By the provision established in Article 8 of the Draft Law it is aimed at maximum protection of the interests of the employed when converting the rate of the wages denominated in litas to the euro – in case after the conversion the third decimal digit were above 0, one euro cent would be added to the rate of the wages converted to the euro. The same rounding principle in favour of the recipient should apply also in conversion of pensions and other social security payments (Article 9(2)). These values (wages, pensions and other payments as well as their overpayments and arrears) also after conversion will be denominated to the accuracy of one cent, i.e. in euro and in euro cents.

In Article 10 of the Law it is established that cash held in all client accounts will be converted free of charge preserving a unique number of an account. Payment institutions are distinguished next to financial institutions, as not all of them are financial institutions according to the Republic of Lithuania Law on Financial Institutions. For the convenience of the clients having accounts at the same institution both in litas and in euro, in paragraph 2 of this Article it is proposed to provide such a person with the possibility within 60 days to indicate one account (or several, if he has several accounts) to be closed, while the funds held there to transfer to another account (accounts) held at the same institution. For such a transaction the client should address in accordance with a usual procedure: having arrived at the unit of credit or other financial institution or payment institution serving him or by means of electronic communication.

A general provision established in Article 11 of the draft Law that following the euro adoption date all non-cash payments in litas made or to be made before the euro adoption date will be carried out in euro means that following the euro adoption date in making settlements and non-cash payments, there will be no litas. In cases when for example, a credit institution makes automatic debit withdrawals from the client's account based on the agreements made before the euro adoption or assignments on other legal basis (executes bailiff instructions, etc.), following the euro adoption date such withdrawals should also incessantly be made in accordance with the

terms or schedule set, after the credit institution converts the amount to be withdrawn to the euro in accordance with the established rules for conversion and rounding.

As the national currency is an important instrument used in the economic activities of the country, Chapter IV of the Draft Law is designed for regulation of the references in litas and other amounts related thereto in legal instruments: references to VILIBOR and official currency exchange rate of the litas, amendments to the documents regulating services provided by financial market participants when the nominal value of securities and other financial instruments is changed.

As after the euro adoption date VILIBOR will not be calculated (there will be no national currency, therefore, credit institutions will not grant loans in litas), it is proposed that in all legal instruments (as they are understood following Regulation No 1103/97: 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) references to VILIBOR will be treated as references to EURIBOR, while references to overnight VILIBOR – as references to EONIA (Article 12(1)). By agreement between the parties in contracts it is possible to set also other indexes or to envisage that the parties will apply the last fixed rates according to VILIBOR by the end of the contract, also to agree upon any other terms and conditions acceptable to both parties (Article 12(2) of the Draft Law).

Chapter V of the Draft Law is designed for regulation of display of prices and other amounts in euro and in litas – the display of prices in litas and in euro will start 30 calendar days following the adoption of the EU Council decision on the irrevocably fixed conversion rate of the litas to the euro and will continue for one year after the euro adoption date. Based on practice in other countries, it is expected that the dual display of prices will allow to reduce the risk of unjustified raising of prices. Also, buyers will be able to faster get used to the future settlements in euro, if even before the euro adoption they will have an opportunity to be aware of prices for goods (services) in the aforementioned currency, and prices displayed in litas as well after the euro adoption date will provide for an opportunity for buyers to compare whether there is a difference between prices for the same unit of goods (services) that existed before the euro adoption and which exists after the euro adoption date. It is noteworthy that in order to ensure consumer rights protection and there were as less as possible disputes and misunderstandings in relation to the euro adoption, the price should be perceived in a broad sense, i.e. not only prices for goods, but also prices for services specified in pricelists or displayed any other way should be displayed in these sites, as well as rates, fees and other similar amounts, whereas they are also the price for the unit of goods or services and may exercise decisive influence over the consumer in making a decision to buy or not to buy (order) a certain product (service).

Chapter VI of the Draft Law is designed for adaptation of accounting, tax payments and tax returns to the euro adoption.

Although EU legislation provides for an opportunity for choice of the dual display period up to 6 months, still, in order to ensure more effective and intensive changeover from the litas to the single currency, and also considering the practice in other euro area countries and the recommendations of the European Commission, it is presumable that it is enough to shorten this period up to 15 calendar days, i. e. by stipulating in Article 25(1) that the litas, as a legal tender, will be used for 15 calendar days following the euro adoption date. It means that for 15 calendar days after the euro adoption date the cash settlements may be made not only in euro, but also in litas. Aiming at faster as possible and smoother transition to the single currency, traders (sellers) are subject to the requirement to give the change in euro after the euro adoption date, however, the situation that it will be impossible to do that due to justified practical reasons is understandable. Therefore, in view of the Commission Recommendation of 10 January 2008 2008 on measures to facilitate future changeovers to the euro, Article 25(4) of the Draft Law provides for the exception to give the change only in euro, and also exceptions regarding making settlements at automated trading sites (Article 25(6) of the Draft Law), public transport and taxi (Article 25(7) of the Draft Law).

Article 27(1) establishes the consolidation of the important provision that the withdrawal of the litas from circulation does not change any conditions of legal instruments and does not waive the obligation of execution of legal instruments or does not justify non-execution thereof, it also does not grant the right to the contracting party to unilaterally amend or terminate the legal instrument, except for the cases, where it or the conditions of the agreement between the parties establish otherwise. This should ensure the continuity of legal instruments and contribute to the smooth euro introduction in the country.

In addition to the foregoing, the Draft Law also defines the publication of images of euro banknotes and coins and the descriptions of their authentication features (Article 4), responsibility for infringement of the provisions of the Law (Article 28), reimbursement of costs of the euro adoption (Article 29), requirements for amendments to legislation related to the euro adoption (Article 30). Article 31 of the Draft Law provides the proposals to the Government of the Republic of Lithuania and other institutions, within their competence, to prepare and approve draft legal acts related to the euro adoption.

Article 32(1) of the Draft Law establishes the entry into force of the Law (except for the Article, where the proposals to the Government of the Republic of Lithuania and other institutions are provided) related to the date when the European Council makes a decision to abrogate the derogation of the Republic of Lithuania following Article 140(2) of the Treaty on the Functioning of the European Union, i.e. the decision, where the precise date for the euro adoption in the Republic of Lithuania will be established. Article 33 of the Draft Law establishes to repeal the Law on Foreign Currency from the date of the euro adoption in the Republic of Lithuania. As it was mentioned above, due to that the accompanying draft law is submitted along with the Draft Law.