

## **Guidelines for the conversion of past data related to the euro changeover process**

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## 1. Objective

These guidelines aim to enable organisations in determining:

- 1.1 whether to convert the past monetary and financial data, and if so, whether fully or in partial terms;
- 1.2 how such a conversion takes place and what other factors to consider in the conversion process.

## 2. Applicability

The two generic reasons for converting would be :

1. **For comparison purposes** i.e. pre-euro changeover data has to be compared with post-euro changeover data for accounting and time series analysis.
2. **For operational reasons**<sup>1</sup> i.e. data processed or issued in Lm before €-day but needs to be further processed after €-day, for example payments that have to be made for invoices issued (in Maltese lira) before €-day and which were denominated in Maltese lira.

All governmental, business, non-profit organisations or body corporates need to analyse their particular generic and specific requirements for conversion.

These guidelines also apply for cases where conversion is not opted for.

## 3. Principle(s)

These guidelines are based upon the understanding that:

- 3.1 It is the responsibility of each organisation to identify any past data that needs to be converted;
- 3.2 **Only data with a strong logical or operational need<sup>2</sup> would be required to be converted;**
- 3.3 **When an organisation decides to convert, the irrevocably fixed conversion rate must be used.** Where relevant, the only exception applies to data that was originally denominated in euro and converted to Maltese lira for use by the organisation;
- 3.4 When an organisation opts **not** to convert past data it must make sure that ways and means would be available at all times in the future (after €-day) for unconverted data to be recognised and converted into euro when the need arises;
- 3.5 It is unlikely that legal requirements would require that monetary or financial data be converted, since it is more probable that existing data would need to be produced in its original format for use as evidence. Conversion could then be made when requested by the Law Courts.

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<sup>1</sup> This does not necessarily refer to past data only.

<sup>2</sup> The usage of the data concerned also needs to be taken into consideration.

## 4. Guidelines

### 4.1 Costs of conversion

Each organisation would need to decide whether to convert data for its particular needs and whether it is cost effective both in the short and long run. The costs may include:

- the actual conversion exercise (including hardware and software);
- any new or upgraded systems, or programming routines needed to carry out the conversion;
- potential systems *downtime* for carrying out the conversion;
- the need for precise records of what was carried out as an audit trail;
- training requirements and testing;
- human resources; etc.

These costs should be balanced against the benefits of converting the data.

### 4.2 Extent of conversion

In the case of financial accounts and similar data, organisations must decide whether to convert all the data components or just the balances as at 31<sup>st</sup> December 2007. If different conversion approaches are adopted for different types of data, then the chosen approaches should be made clear.

4.2.1 **Coordination on conversion of data that is used by multiple business areas:** In this case, it is necessary that the other business areas using the same data are fully consulted beforehand.

4.2.2 **Number of years to which past data is converted:** It is also relevant to decide the number of years for which data will be converted. The use of the data for time series and comparison purposes should primarily dictate this decision but it would not be recommended to convert data for more than four years, i.e. data as from December 2003<sup>3</sup>.

### 4.3 Method of conversion

Past monetary and financial data denominated in Maltese lira should be converted to euro at the irrevocably fixed conversion rate set when the derogation is abrogated. **The conversion should be carried out by dividing the Maltese liri amounts by the conversion rate, rounded to the nearest euro cent<sup>4</sup>.** Therefore, except for data originally denominated in euro, if relevant, the rate prevailing at the time of storage of the data would **not** be used.

Where applicable, in the case of past data originally denominated in euro (which had to be converted to Maltese liri for processing purposes), it would **not** be appropriate to re-convert this data at the irrevocably fixed conversion rate but it would make more business and logical sense to retain the original euro amount. For instance, if an outstanding invoice in euro was converted to Maltese liri for accounting, budgetary and authorisation purposes before €-day,

<sup>3</sup> This would thus represent five end-of-year and four full years of data.

<sup>4</sup> Article 4 (in part) of Regulation (EC) No 1103/97 states:

1. *The conversion rates shall be adopted as one euro expressed in terms of each of the national currencies of the participating Member States. They shall be adopted with six significant figures.*
2. *The conversion rates shall not be rounded or truncated when making conversions.*
3. *The conversion rates shall be used for conversions either way between the euro unit and the national currency units. Inverse rates derived from the conversion rates shall not be used.*

it would not be appropriate to re-convert the Maltese liri amount back to euro at a rate different from the original as the euro amount might work out to be different from the original.

#### 4.4 Timing of conversion

Malta's derogation to adopt the euro can only be abrogated after at least two years participation in ERM II has elapsed i.e. after 2<sup>nd</sup> May 2007. Convergence Reports<sup>5</sup> for Malta have to be prepared to establish:

- (a) whether Malta has converged to the Maastricht criteria,
- (b) the irrevocably fixed conversion rate for the euro/Maltese liri and
- (c) the date of the adoption of the euro.

The introduction of euro cash would also coincide with Malta's entry in the euro area on 1<sup>st</sup> January 2008. This means that the Maltese lira would still be the only legal tender currency in Malta before this date and data will still be processed, recorded and reported in Maltese liri. It would therefore **not** be advisable to convert data piecemeal before €-day but a big-bang approach would need to be adopted and data would be converted at the irrevocably fixed conversion rate on the close of business of 31<sup>st</sup> December 2007.

However, if it would be more advantageous and cost effective, dormant data could be converted before €-day after conversion rate has been irrevocably fixed.

In any case, enough lead-time has to be established for the proper testing of the conversion systems and to ascertain that all data that need converting is actually converted.

After €-day, conversion might need to be carried out on data received in Maltese lira (which would have been issued or processed before €-day). This data might include cheques, payment orders, invoices, etc. Data received after €-day or events happening after that date might effect prior year's information which might need reviewing or amending.

#### 4.5 Conversion and rounding

Conversion of data using individual transactions or summary balances might lead to rounding-up errors. If a document is issued with data in both Maltese liri and euro and €-day occurs half way through the document, all amounts in Maltese liri should be summed up as at €-day and only this total (not the individual items) is converted at the irrevocably fixed conversion rate. The converted euro balance is used for the continuation of the document. Until specific rounding regulations are issued by legislation, normal rounding rules are to be applied that take into consideration Council (EC) regulations<sup>6</sup>. Normally, euro amounts are rounded to the nearest euro cent and results that are exactly half-way should be rounded up.

<sup>5</sup> The two-yearly Reports prepared independently by the European Commission and the European Central Bank analyse the progress of the individual Member State in fulfilling the convergence criteria. On the basis of these reports, the European Commission could initiate the procedure to abrogate the derogation. These reports could also be prepared on request.

<sup>6</sup> Article 5 of Council Regulation (EC) No 1103/97 of 17 June 1997 states:  
*"Monetary amounts to be paid or accounted for when a rounding takes place after a conversion into the euro unit pursuant to Article 4 shall be rounded up or down to the nearest cent. Monetary amounts to be paid or accounted for which are converted into a national currency unit shall be rounded up or down to the nearest sub-unit or in the absence of a sub-unit to the nearest unit, or according to national law or practice to a multiple or fraction of the sub-unit or unit of the national currency unit. If the application of the conversion rate gives a result which is exactly half-way, the sum shall be rounded up."*

#### 4.6 Backing-up of original data

Back-up copies of the original data should be kept on separate read only storage devices. It must be ensured that the original data should always be accessible. Care should be taken on electronic databases to make sure that the data would still be readable in the future when updates to the original software are made or the original software is made redundant or obsolete.

#### 4.7 Statement of conversion

Converted past monetary and financial data should clearly state this fact in any document publishing the data. The fixed conversion rate used should also be indicated.

#### 4.8 Audit requirements

Audit trails and controls for audit requirements should be observed. Where the same data is held by different sections within the organisation and different conversion strategies are adopted the reasons for this should be clearly stated.

#### 4.9 Legal requests

Each organisation needs to consider any potential legal requests for presenting monetary data to courts where it is more likely that original documentation would be required. Requirements of the Data Protection Act (Cap 440) should also be considered if relevant.

### 5. Definitions

**Derogation** refers to temporary exemption for a Member State agreed in the Treaty of Accession with respect to the application of some articles of the chapters on economic and monetary policy in the Treaty establishing the EC.

**€-Day** refers to the date when Malta enters the euro area, i.e. the euro becomes the monetary unit of Malta.

**Irrevocably fixed exchange rate** refers to the unalterable and irrevocably fixed exchange rate between the national currency of the Member State and the euro determined on the abrogation of the derogation for that Member State. The conversion rate of the Maltese lira against the euro will be irrevocably fixed some time before this date, but not more than seven months before since the minimum two years participation in ERM II will end on 2<sup>nd</sup> May 2007.

**Past data** refers to:

- (i) **stored monetary and financial** data denominated in **Maltese lira** held in any format (i.e. **electronic or otherwise**) **before €-Day**;
  - (ii) data that is **in continuous use** and utilised for processing on a regular basis (live) **or data that is not required for day-to-day operational purposes** (dormant).
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