the Malta Institute of Accountants

Technical Department
4 September 2007

Guidance Notes

Euro Changeover for Accountants

TECH 02/07

These Guidance Notes are issued by the Malta Institute of Accountants (MIA) in conjunction with NECC on 5 September 2007 to assist Members in considering the more relevant issues, and carrying out the necessary procedures, pursuant to the changeover to the euro. These Guidance Notes are not a substitute to any legislation, IFRS, Interpretations or parts thereof and should be read in conjunction with the relevant legal notices issued by the Ministry of Finance in relation to the euro changeover and relevant guidelines issued by the National Euro Changeover Committee. This document has been prepared by the MIA Euro Changeover Task Force, in conjunction with NECC, and sets out what is deemed as best practice by the MIA.

These Guidance Notes have been endorsed by the National Euro Changeover Committee (NECC) on 24 August 2007.

Preface

Following its accession to the European Union on 1 May 2004, Malta joined the Exchange Rate Mechanism (ERM) II only a year later on 2 May 2005 and, since then, the National Euro Changeover Committee (NECC) was set up to oversee Malta's changeover to the euro and a number of sectoral committees and focused task forces were set up to assist it in this regard.

The Central Parity Rate that was established upon joining the ERM II mechanism was set at €1:Lm0.429300. The rate was subsequently confirmed and set as the Irrevocably Fixed Conversion Rate by ECOFIN, the European Council of Finance Ministers, when it approved unanimously Malta's entry into the euro zone on 10 July 2007. Therefore, this is the rate that will be applied when Malta adopts the euro on 1 January 2008.

Since Government's decision to apply for the adoption of the euro, and the consequent setting up of the National Euro Changeover Committee (NECC), sound foundations have been laid for a smooth changeover to the euro and, amongst other educational and communication initiatives, the NECC have also issued technical guidelines on a number of practical issues that should be dealt with during the changeover to the euro.

To complement the guidelines issued by NECC the MIA is hereby issuing these Guidance Notes to identify the main considerations that are of particular relevance to accountants, and to set out the MIA best practice recommendations in this regard.

The fact that accountants very often fulfil wider roles that are not always limited to the practice of the accountancy profession is acknowledged. These Guidance Notes therefore are not only limited to issues that are purely accounting-centric, but also go into other considerations in relation to which an accountant can provide advice and be of service to his or her clients and/or employers.

Although these Guidance Notes do not specifically go into euro preparedness issues and considerations for businesses, accountants should nevertheless bring up euro preparedness and awareness amongst his or her clients and/or employers at every possible opportunity. Accountants have a key role to play in ensuring a smooth changeover to the euro and these Guidance Notes are meant to assist them in this regard.

These Guidance Notes come into force with immediate effect.

1. Scope

1.1 The purpose of these Guidance Notes is:

(a) to identify the main considerations that are relevant to accountants in planning and carrying out procedures relative to the euro changeover; and

(b) to set out the MIA best practice recommendations pertinent to these considerations.

1.2 Although these Guidance Notes may draw upon relevant Legal Notices, International Financial Reporting Standards (IFRS), SIC Interpretations and NECC Guidelines, they are not a substitute to any of these, and these Guidance Notes should be read in conjunction with the aforementioned pronouncements.

1.3 The computations illustrated in these Guidance Notes are based on the Irrevocably Fixed Conversion Rate (IFR) of 0.429300 Maltese lira to the euro (€1:Lm0.429300).

2. Definitions

2.1 Throughout these Guidance Notes, the following terms and abbreviations are used in the context of the connotations set out in this paragraph:

(a) *Central Parity Rate (CPR)* refers to the rate of exchange of €1:Lm0.429300 which was applicable during ERM II, i.e. between 2 May 2005 and 10 July 2007;

(b) The *Conversion Method Prescribed in EC Regulation 1103/97* refers specifically to the conversion method prescribed in Article 4 of EC regulation 1103/97 which states that:

(i) 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.

(ii) The conversion rates shall not be rounded or truncated when making conversions.

(iii) The conversion rates shall be used for conversion either way between the euro unit and the national currency units. Inverse rates derived from the conversion rates shall not be used.

(c) *€-day* is the date when Malta joins the euro zone and the euro becomes legal tender in Malta, that is 1 January 2008;

(d) *Functional Currency* is the currency of the primary economic environment in which an entity operates;

(e) *Irrevocably Fixed Conversion Rate (IFR)* is the unalterable and irrevocably fixed conversion rate between the Maltese lira and the euro. It is adopted for the national currency of the Member State by the European Council according to the first sentence of Article 109l of the Treaty establishing the European Community. This rate has been set at €1:Lm0.429300 by ECOFIN on 10 July 2007;

(f) *Monetary items* are money held and assets or liabilities to be received or paid in a fixed or determinable amount of money. All other assets and liabilities are non-monetary items;

(g) *NECC* refers to the National Euro Changeover Committee; and

(h) *Presentation Currency* is the currency in which an entity's financial statements are presented.

3. Financial Reporting Considerations

3.1 This section identifies a number of considerations of a financial reporting nature and sets out the respective MIA recommendations. This section does not apply to entities whose presentation currency is not Maltese lira as the financial reporting of such entities should not be affected by the euro changeover.

Financial Statements conversion process

3.2 International Accounting Standard (IAS) 21 *The Effects of Changes in Foreign Exchange Rates* distinguishes between two 'types' of currencies namely, the *functional* currency and the *presentation* currency. This section sets out the main considerations and recommendations pertinent to the change in an entity's presentation currency, while section 4 sets out the main considerations and recommendations pertinent to an entity's change in functional currency.

Treatment for the change in presentation currency from Maltese lira to euro

3.3 IAS 21 defines an entity's presentation currency as the currency in which an entity presents its financial statements and, unlike the restrictions applicable to the choice of functional currency, IAS 21 allows absolute choice in the determination of the presentation currency. However Article 187(1) of the Companies Act (Chapter 386 of the Laws of Malta) requires an entity to draw up its annual financial statements in the currency in which its share capital is denominated. If the presentation currency is different from the functional currency, IAS 21 then requires an entity to translate the results and financial position from the functional currency into the presentation currency.

3.4 NECC Guideline NECC/0006/06 *Guidelines on the conversion of company share capital from Maltese lira into euro* was issued by the Malta Financial Services Authority, and endorsed by NECC, on 29 May 2006. The Guidelines set out the manner in which a company's share capital, which is denominated in Maltese lira as at 31 December 2007, shall be converted into euro on €-day. The guidelines are based on the principle that, since the national currency upon €-day will no longer be the Maltese lira but the euro, with effect from €-day (without any intervention being necessary by companies) the nominal value of shares denominated in Maltese lira will automatically become denominated in the equivalent euro amount on the basis of the IFR.

3.5 As contemplated in the NECC guidelines, the conversion of share capital shall be carried out at the nominal value per share level by dividing the Maltese lira value by the IFR, and rounding the resulting euro amount to six decimal places, even though it is customary to keep the nominal value per share rounded to the nearest integer or cent. By way of an example, 10,000 issued ordinary shares of Lm1 each shall be converted to €2.329373 per share, adding up to a total issued share capital of €23,293.73.

3.6 As a result of the 'automatic' conversion of all Maltese lira denominated share capital into euro those entities which used to present their financial statements in Maltese lira shall present their financial statements for periods ending on or before 31 December 2007 in Maltese lira, and financial statements for periods ending on or after 1 January 2008 in euro, which were the currencies in which their share capital was denominated as at those dates. The presentation currency of entities whose share capital is denominated in a currency other than Maltese lira should not be affected by the changeover and the conversion of share capital as set out in paragraph 3.5 would not apply to such entities.

3.7 Amounts converted into euro should be rounded to the same level of precision as previously reported (e.g. to the nearest euro integer if the previous financial statements were reported to the nearest Maltese lira integer).

Treatment for the change in presentation currency from Maltese lira to euro when the underlying functional currency is not the Maltese lira

3.8 Entities whose presentation currency will be changed from Maltese lira to euro, but whose functional currency will not change to euro on 1 January 2008 (because their functional currency is a currency other than Maltese lira), need to consider the additional requirements of paragraph 39 of IAS 21. The IAS states that when translating the results and financial position for a period where the functional currency was different from the entity's presentation currency, the entity will need to translate the results and financial position into the presentation currency by applying the following method:

(a) assets and liabilities for each balance sheet presented (i.e. including comparatives) shall be translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement presented (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions. An average rate for the period may be used to translate income and expense items provided that exchange rates do not fluctuate significantly; and

(c) all resulting exchange differences shall be recognised as a separate component of equity.

2007 and earlier Financial Statements

3.9 NECC Guideline NECC/0009/06 *Guidelines for the filing of statutory financial returns and/or declarations* already deals with the presentation currency to be used in the preparation of financial statements in respect of financial periods pre, post and straddling €-day and entities shall have regard to these Guidelines in preparing their financial statements. The scope of this sub-section, which is only concerned with an entity's presentation currency, is to summarise the NECC requirements and set out the MIA recommendations in the choice of options of presentation currency granted under the NECC Guidelines.

3.10 As stated in paragraph 3.2 of the NECC Guidelines, these only determine the reporting currency of submission of statutory returns and financial declarations and in no manner prescribes the bookkeeping requirements of individual organisations. In fact, a change in an entity's bookkeeping (hence functional) currency before €-day is strictly prohibited as paragraph 36 of IAS 21 states that an entity's functional currency can be changed only if there is a change to the underlying transactions, events and conditions. This will not happen until the changeover to the euro takes place.

3.11 In essence, the NECC Guidelines prescribe as follows:

(a) financial statements relating to financial periods ending on or before 31 December 2007 shall be presented as follows:

(i) in Maltese lira if presented (i.e. filed with the competent authorities) between 1 January 2008 and 31 December 2008;

(ii) in Maltese lira or euro if presented on or after 1 January 2009; and

(b) financial statements relating to financial periods ending on or after 1 January 2008 shall be presented in euro, regardless of when they are filed with the competent authorities.

Table 1 – illustrating paragraph 3.11 (NECC Guidelines)		
Financial Period	**Date Submitted**	**Reporting Currency**
2007 or earlier	Between 1 January 2008 and 31 December 2008	Maltese lira
2007 or earlier	After 31 December 2008	Maltese lira or euro
2007/8 (straddles €-day)	Any filing date	Euro
2008 and later	Any filing date	Euro

Source: Guideline NECC/0009/06

3.12 The MIA is in agreement with the approach contemplated in the NECC Guidelines however the MIA recommends that, unless there is good reason to do otherwise, the presentation currency to be used in the preparation of financial statements relating to periods ending on or before 31 December 2007 should in any case be the currency in which the entity’s share capital was denominated at the end of that period, i.e. Maltese lira, irrespective of the date when these are filed with the competent authorities.

4. Accounting Considerations

4.1 This section identifies a number of considerations of an accounting nature and sets out the respective MIA recommendations. This section does not apply to entities whose functional currency is not Maltese lira prior to 31 December 2007 as the accounting of such entities should not be affected by the euro changeover.

Accounting for the change in functional currency from Maltese lira to euro

4.2 An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to the entity. It is likely that an entity's functional currency will be the currency in which the accounting records are kept. Once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.

4.3 All else being equal, for entities whose functional currency is Maltese lira up to 31 December 2007, the change in currency from Maltese lira to euro is deemed as a change in an entity's functional currency and accounting treatment for the changeover to the euro must therefore be similar to that contemplated in IAS 21 for a change in functional currency. The IAS requires that the effect of a change in functional currency is accounted for prospectively. In other words, an entity shall translate all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non monetary items are treated as their historical cost.

4.4 Therefore all assets, liabilities and equity shall be translated to euro using the Irrevocably Fixed Conversion Rate, subject to special requirements set out in paragraph 3.5 on the conversion of share capital, and subject to the special requirements set out in paragraphs 5.2(b) – 5.4 of these Guidance Notes on the conversion of items originally denominated in euro. Any balancing differences which may arise from such rounding should be recognised in retained earnings in the period in which the conversion takes place, i.e. the first reporting period after €-day, being also the reporting period in which €-day falls.

Example illustrating paragraph 4.4 (IFR = €1:Lm0.429300)			
	31/12/07	→	01/01/08
	Lm		€
Property, Plant and Equipment	93,200	Property, Plant and Equipment	217,098
Current Assets	153,720	Current Assets	358,071
Current Liabilities	(121,020)	Current Liabilities	(281,901)
Deferred Taxation	(14,000)	Deferred Taxation	(32,611)
Bank Loan	(15,000)	Bank Loan	(34,941)
Total Net Assets	96,900		225,716

Example illustrating paragraph 4.4 (cont.)			
	31/12/07	→	01/01/08
	Lm		€
Share Capital (10,000 shares of Lm1.00 each)	10,000	Share Capital (10,000 shares of €2.329373 each)	23,294
Revaluation Reserve	26,000	Revaluation Reserve	60,564
Retained Earnings	60,900	Retained Earnings €	
		As converted 141,859	
		Rounding differences (1)	
		As restated	141,858
Total Capital and Reserves	96,900		225,716
In the above example converting the individual balance sheet amounts and rounding the results to the nearest euro would result in a total capital and reserves figure of €225,717. To match the total capital and reserves to the net assets, an adjustment of €1 was passed against retained earnings in the financial statements covering the period 1 January to 31 December 2008.			

Accounting for the change in functional currency from Maltese lira to euro in an entity's accounting records

4.5 In most instances, especially when entities are of a certain size and complexity, the accounting software in place would include tools or ancillary features that enable conversion of balances (and transactions making up the account balances) from Maltese lira to euro with minimal or no need for manual intervention. Such software would also typically enable conversion of the functional (hence bookkeeping) currency during a financial period and would also be able to handle dual base currency systems (for example a set of accounting records in Lm and a set in euro). However, when the accounting software in place cannot automatically convert balances and underlying transactions, or cannot convert such data during a financial period, or cannot sustain dual currency accounting records, manual intervention is needed for changing the functional (bookkeeping) currency from Maltese lira to euro in the accounting records. For the relatively smaller and simpler entities whose financial reporting period ends on 31 December, this should not be a major issue. Such entities should pass final 'year-end' adjustments in their Maltese lira books as they would normally do to 'close-off' their books of account on 31 December 2007. Subsequently they should perform the procedures recommended in sub-paragraphs (c), (d), (e) and (f) of the following paragraph. For such entities the 2007 figures will be converted to euro only for financial reporting purposes when presenting them as comparatives in the 2008 financial statements. In the latter case the sub-section *Translation of Comparatives* under section 5 shall apply.

4.6 For entities whose financial reporting period ends on a date other than 31 December, and whose accounting software cannot automatically convert balances and underlying transactions, or cannot convert such data during a financial period, or cannot sustain dual currency accounting records, the MIA recommends that such entities:

(a) keep their functional currency in Maltese lira up to 31 December 2007;

(b) close off their Maltese lira books at 31 December 2007;

(c) convert the closing balances to euro as in paragraph 4.4;

(d) adjust the converted balances as necessary, for example to take account of rounding differences as contemplated in paragraph 4.4 of these Guidance Notes;

(e) carry forward the euro converted balances as at 1 January 2008 to a new set of accounting records, for example by creating a 'new company' the functional currency of which is euro. The method of inputting such opening balances depends on the accounting system in use. For a number of systems this would necessitate the setting up of new books of account though certain software tools will greatly facilitate this process. It is recommended that IT advice is sought at this stage; and

(f) keep their accounting records in euro as from 1 January 2008.

4.7 The method recommended in the preceding paragraph assumes that an entity will be in a position to close-off its books of account and convert to euro before posting any transactions in 2008. If due to operational restrictions this approach is not possible, the entity shall make plans to work around this problem. For example, a company may choose to continue retaining accounting records in Maltese lira in 2008 up to the date when it is in a position to close-off the 2007 books of account. When it is ready for such conversion the company would convert the balances as at 31 December 2007 as recommended in the preceding paragraph, together with any transactions posted in 2008. Such a procedure will pose some complications and would typically be applied if an automated conversion tool is available, and provided that business operations (e.g. issuing of invoices, receipts, etc) can still be effected in euro as from € day. However it is a potential option for those entities which cannot do otherwise.

4.8 If an entity's functional currency changes to euro, but the presentation currency is a currency other than euro, an entity shall apply sub-paragraphs (a), (b) and (c) of paragraph 3.8 in translating the results and financial position into the presentation currency.

Conversion of the bookkeeping currency before €-day

4.9 Some entities, particularly those with reporting dates straddling 31 December, may be considering conversion of their bookkeeping currency to euro before €-day. Thus, for example, a company with a 30 September year-end may report in Maltese lira for the year ending 30 September 2007 and convert to euro as from 1 October 2007, possibly whilst carrying out its year-end procedures. However, formal conversion will not be as smooth a process as that contemplated for those companies that convert on €-day due to the fact that IAS 21 prohibits an entity from changing its functional currency unless there is a change to the underlying transactions, events and conditions (this will not happen until the changeover to the euro takes place). Also due to legal requirements on entities to issue invoices, statements, VAT returns, etc in Maltese lira up to 31 December 2007, entities would have to maintain their accounting records in Maltese lira up to that date and will thus have to maintain accounting records in dual currency if early conversion of the bookkeeping currency is opted for.

4.10 Therefore, the MIA recommendation is to take the simpler and more practical approach, that is converting on €-day. In some instances, entities may find that their accounting software will be able to handle a change in functional currency during the year and such companies should keep their accounting records in Lm up to 31 December 2007 and convert to the new currency on that date. However, some accounting packages will not support such a conversion and in those instances the MIA recommends that these entities continue to trade and account in Lm up to 31 December 2007 and carry out the procedures contemplated in paragraph 4.6 of these Guidance Notes after that date.

4.11 The foregoing paragraphs of this sub-section refer to an entity's functional currency, which will also be the currency in which their accounting records are kept. Some entities may however have subsidiary internal reporting packages that are linked, but are not an integral part of, that entity's primary accounting software. These systems are commonly found in catering and accommodation establishments and manufacturing establishments. Such subsidiary packages would normally keep track of guest invoicing (in the case of a hotel), food and beverage consumption (in the case of catering establishments) and cost of materials and labour (in the case of manufacturing concerns), and 'feed in' the primary accounting software upon conclusion of the transaction, such as when a guest checks-out of the hotel or the restaurant bill is issued or the item in production is completed. For practical reasons, given that unlike most other entities such establishments would be actively operating on the night of 31 December 2007 (in the case of hotels and restaurants) or immediately after the new year (in case of manufacturing concerns), these establishments might consider early conversion to euro in their internal reporting subsidiary packages. Since this is not tantamount to a change in functional currency before €-day, the early conversion of internal reporting subsidiary packages is permissible. Nonetheless, such entities should make sure that reports that are given to the end consumer, such as hotel bills, invoices and quotes, are issued in the currency applicable at the time.

Conversion of the bookkeeping currency for overnight traders

4.12 NECC have granted a special concession to overnight traders, i.e. those organisations that will be actively trading on the night of the 31 December 2007/ 1 January 2008 such as hotels, restaurants and bars. Such organisations have been granted an extended euro changeover deadline. Therefore, for all intents and purposes, in the first few hours of 2008 such organisations may keep on trading (and keep their bookkeeping currency) in Maltese lira, may issue bills and receipts in Maltese lira, may keep their cash tills (including receiving cash and giving change) in Maltese lira, and do not have an obligation to accept euro cash if tendered after midnight. Such organisations will change over to the euro at the earliest opportunity but shall nevertheless change over and be in a position to resume trading in euro as from breakfast trading on €-day.

4.13 Special concessions have also been granted to casino operators. It is advisable that such organisations contact the NECC for further information.

5. Other Accounting and Financial Reporting Considerations

5.1 This section identifies a number of other considerations of an accounting and financial reporting nature, namely:

(a) conversion of historic transactions originally denominated in euro;

(b) conversion of past data in accounting records;

(c) translation of comparatives;

(d) dual display in financial statements; and

(e) disclosures.

Conversion of historic transactions originally denominated in euro

5.2 NECC Guideline NECC/0002/06 does not specify whether to convert balances and/or the underlying transactions, and therefore the decision on what data to convert, and to what extent, rests entirely with the entity's management. The Guideline however states that past data denominated in Maltese lira, such as data stored in an entity's accounting records, should be converted at the Irrevocably Fixed Conversion Rate. The Guideline also states that if an amount was originally denominated in euro and converted at an exchange rate which is different from the Irrevocably Fixed Conversion Rate, than the original euro amount should be retained. It should be noted that, while the NECC Guideline (which is intended for general public use) prescribes the treatment for the conversion of monetary and financial data, it does not intend to prescribe the different treatments between monetary and non-monetary items as prescribed in IAS 21. The use of the term 'monetary' data in the NECC Guideline refers to stored data that is denominated in Maltese lira before €-day. Monetary and non-monetary items originally denominated in euro and previously translated to Maltese lira should be translated back to euro in the following manner:

(a) non-monetary items as defined in IAS 21, that were originally denominated in euro, shall be translated at the IFR. Therefore the original euro amount becomes irrelevant and non-monetary items should never be translated back to the original euro amount if this is different. For example, a piece of machinery bought from Italy in 2004 for €23,000 was initially recognised at Lm10,000 and following four years of depreciation (10% per annum) its carrying amount as at 31 December 2007 is Lm6,000, which is translated at the IFR on 1 January 2008 to €13,976. On conversion €13,976 is considered to be the asset's carrying amount which is subsequently depreciated or impaired as the case may be. Therefore there will be no changes in the value of non-monetary items as a result of the euro changeover. However, any monetary amounts outstanding in respect of non-monetary items, for example a balance payable to the asset's supplier, are treated as a monetary item and therefore converted in accordance with the following sub-paragraph; and

(b) Monetary items as defined in IAS 21 outstanding on €-day that were originally denominated in euro shall be translated back to their original euro amount.

5.3 In theory the conversion of monetary items back to their original amount may result in a change in the value of the monetary item if the amount was originally recorded at a rate of exchange that is different than the IFR, or if a method of conversion that is different than that in EC 1103/97 was applied. Nevertheless, in practice since the CPR and the

IFR are equal, if monetary amounts originally denominated in euro are translated at the IFR, the resulting euro amount would be equivalent to the amount already recognised in an entity's accounting records as an entity would have translated these monetary amounts to Maltese lira at the end of its previous financial reporting period at the CPR (with a provision for unrealised exchange differences recognised in accordance with paragraphs 23 and 28 of IAS 21). However, upon translation of monetary items to the original euro amount, an entity shall recognise any unrealised exchange differences on the respective items as realised, as also contemplated in paragraph 51 of a paper entitled *Accounting for the introduction of the euro*, prepared by the Directorate General Internal Market and Financial Services in June 1997, which states that *"…after the introduction of the euro… all existing exchange differences between participating currencies will have become permanent, since a further increase or decrease of the exchange differences is impossible. Considering the general principles... these exchange differences are realised."*

5.4 Euro-denominated bonds, equities, units in a collective investment scheme and similar instruments shall be considered as monetary items and translated in accordance with sub-paragraph (b) of paragraph 5.2 and the preceding paragraph if these are to be received or paid in a fixed or determinable amount of euro.

Conversion of past data in accounting records

5.5 An issue that all entities need to consider is the conversion of past transactional data, such as individual items making up debtors' and creditors' account balances (see paragraph 5.6), the cost or net realisable value of individual items of inventory making up the total inventory figure on an entity's balance sheet (see paragraph 5.7) and any similar historic transactional information that is required by an entity for operational purposes. NECC Guideline 0002/06 *Guidelines for the conversion of past data related to the euro changeover process* do not require the conversion of past transactional data and assign the responsibility of identifying any past data that needs to be converted to the respective organisation. The Guidelines also recommend that only data with a strong logical or operational need is converted and recommends that such data is only converted when the inherent costs of conversion are outweighed by the resulting benefits. However, when an entity translates such data the Guidelines require that the IFR is used, except for items that were originally denominated in euro in which case they shall be translated back to their original euro amount as contemplated in paragraphs 5.2(b) – 5.4 of these Guidance Notes. Historic transactional information should be converted into euro and rounded to the nearest euro cent, or to a higher level of precision if such amounts were previously recorded to such level of precision. Any rounding differences arising from the conversion of historic transactional data should be written off to profit or loss in the year ending after 1 January 2008. If any such data is converted before €-day, any resulting rounding differences should be deferred and written off in profit or loss for the period ending on or after 1 January 2008.

5.6 Although the conversion of past data is an entity-specific issue, in that entities need to analyse their particular generic and specific requirements for conversion, the MIA recommends that entities translate individual line items making up debtors' and creditors' account balances as follows:

(a) dormant data, such as old invoices, credit notes and payments matched thereto that will not be used post €-day need not be converted if the costs outweigh the benefits from the conversion. Such data shall nevertheless be available for conversion if the need arises, and entities should ensure that ways and means remain available for the conversion of such data, for example software that will be made redundant after e-day; and

(b) invoices, credit notes and payments on account outstanding or unmatched at 31 December 2007 should be converted to euro as these will be eventually settled in euro post €-day. The need to use the service of an IT expert in such a conversion should also be considered. An entity should also consider any implications that might result from the matching of payments received post €-day to invoices, net of credit notes, issued before €-day. Hence, in addition to the conversion of individual items' monetary amounts making up debtor and creditor account balances, entities should also ensure that non-financial data, such as dates, invoice numbers, etc are accurately carried forward to 1 January 2008.

5.7 The cost (or net realisable value if applicable) of individual items in inventories shall be converted at the Irrevocably Fixed Conversion Rate as this will inevitably be used in the day-to-day trading and operations (invoicing) of the entity post €-day. It is recommended that specialist IT advice is sought in the conversion of inventory items.

5.8 The individual items referred to in paragraphs 5.6 and 5.7 may be converted prior to 31 December 2007. If an entity opts to convert dormant data it is recommended that an early conversion is opted for. Dynamic data that is used on a day-to-day basis can also be converted prior to 31 December 2007 however entities need to make sure that such data is kept updated between the date of conversion and the euro changeover date, for example by keeping dual accounting systems denominated in Maltese lira and euro and carry out dual postings in both systems.

5.9 Entities should ensure that, following conversion of past data, certain documents and records are retained (or can be re-generated) for possible future presentation in their original format for tax and legal purposes.

Translation of Comparatives

5.10 This sub-section applies only to the conversion of comparatives presented in an entity's first euro financial statements.

5.11 Both IAS 1 *Presentation of Financial Statements* and the EU Fourth Directive (78/660/EEC) require an entity to present comparative figures for the preceding financial year in an entity's financial statements for a given year. Moreover both the Fourth Directive and International Financial Reporting Standards require comparatives to be expressed in the same currency as the figures for the current year. However, neither IAS 21 nor SIC Interpretation 7 *Introduction of the Euro*, specifically deal with the conversion of comparatives. For this purpose, these Guidance Notes distinguish between two scenarios. Paragraph 5.12 sets out the MIA recommendations where an entity's functional currency used to be Maltese lira prior to €-day, while paragraph 5.13 deals with the situation where an entity's functional currency is, and continues to be, a currency other than Maltese lira or euro after €-day.

5.12 NECC Guideline NECC/0002/06 indicates that past financial data (hence comparatives) denominated in Maltese lira should be converted at the IFR. This is also consistent with the approach recommended in a paper entitled *Accounting for the introduction of the euro*, prepared by the Directorate General Internal Market and Financial Services in June 1997, which states that *"the only logical method for translating comparative figures would be to translate them at the fixed conversion rate"*. This effectively means that the presentation currency in which comparatives are presented in the current year financial statements will be different than the functional currency at which they were originally stated and paragraph 39 of IAS 21 applies. This requires an entity to translate the results and financial position into the presentation currency as set out in sub-paragraphs (a), (b) and (c) of paragraph 3.8 of these Guidance Notes, and would require the conversion of comparatives at the CPR. Since the CPR and IFR are equal there is no conflict between the requirements of NECC/0002/06 and IAS 21 and the rate to be used in the translation of assets and liabilities and income and expenses (sub-paragraphs (a) and (b) of paragraph 3.8 respectively) is the IFR, i.e. €1:Lm0.429300.

5.13 When an entity's presentation currency prior to 31 December 2007 is Maltese lira but its functional currency is not, the entity would translate the results and financial position to Maltese lira using the procedures in paragraph 39 of IAS 21, for financial statements ending on or before 31 December 2007. While the entity's functional currency would not change in this case as a result of the euro changeover, the presentation currency will become euro after €-day. Therefore, financial statements ending on or after 1 January 2008 shall be presented in euro. This applies both for the current and prior year (comparative) figures. In this case entities shall choose either of the following two approaches, which both yield the same results, for the translation of prior year figures:

(a) an entity may translate the prior year figures by converting the Maltese lira amounts reported in an entity's financial statements (for the period ending on or before 31 December 2007) at the IFR; or

(b) an entity may translate the preceding year's figures by translating the results and financial position denominated in the functional currency by applying the procedures of paragraph 39 of IAS 21, using the applicable exchange rates between the functional currency to the Maltese lira, and subsequently translate the Maltese lira amounts to euro at the IFR.

Dual Display in financial statements

5.14 Legal Notice 4 of 2007 *Euro Adoption (Dual Display and Euro Pricing Regulations, 2007* issued under the Euro Adoption Act (Chapter 485 of the Laws of Malta) prescribes that financial statements published in the general media between 11 July 2007 and 30 June 2008 shall include dual display of the key figures. Prior to € day the financial statements shall include dual display information in euro while after € day the financial statements shall include dual display information in Maltese lira. If an organisation employs voluntary dual display outside the mandatory period the same provisions would apply.

5.15 NECC Guideline NECC/0005/06 *Dual Display Guidelines* outline the parameters governing the reporting of prices, values and monetary amounts of goods and services offered to the consumer, in both Maltese lira and euro and how such provision of information can be achieved. The Guidelines are applicable to all governmental entities, businesses, non-profit organisations or other entities where monetary amounts, prices or values are stated and/or displayed in goods and services offered to the end consumer. Thus, dual display will not be necessary for entities where monetary display is used exclusively at business-to-business level. The scope of this sub-section is to provide further guidance on what financial information is required to be displayed in dual currency, and how.

5.16 Of particular relevance to these Guidance Notes is paragraph 5.3.14 of the NECC Guidelines which states that dual display is applicable to all Maltese lira denominated financial statements that are published during the period of dual display *appearing in the general media*. It is only necessary for dual display to be applied to *key financial information*, for example, at profit/loss & balance sheet account level.

5.17 The MIA interpretation is that dual display not only applies to financial information published in the general media, such as newspapers and websites, but also applies to interim financial statements and/or information published for widespread distribution to the general public as this is tantamount to services (financial reporting) offered to the end consumer as contemplated in paragraph 5.15 above.

5.18 The MIA recommends that key financial information to be reported in dual display should at least contain the following information:

(a) Revenue, Turnover or Operating Income (as the case may be);

(b) Profit for the Year after tax;

(c) Earnings per share (if applicable);

(d) Dividends;

(e) Total Assets and Total Liabilities, or Net Assets;

(f) Net Asset Value and Net Asset Value per share (in case of collective investment schemes, investment funds and similar institutions); and

(g) Cash flows from Operating, Investing and Financing activities.

5.19 Dual display information shall be converted to euro (prior to €-day) and Maltese lira (post €-day) at the IFR. Dual display amounts shall be rounded to the nearest cent or to the same level of precision as the original amount.

5.20 The MIA recommends that, for the avoidance of confusion, the information referred to in paragraph 5.18 is separately reported, in Maltese lira and euro, in a note to the financial statements rather than on the face of the primary financial statements.

Disclosures

5.21 In line with the requirements of paragraph 54 of IAS 21, when there is a change in an entity's functional currency that fact and the reason for the change in functional currency shall be disclosed. In addition, NECC Guideline NECC/0002/06 requires that financial statements containing converted past financial data (i.e. all financial statements where the functional currency will change from Maltese lira to euro) shall indicate the fact that the underlying records have been converted and shall also state the exchange rate used. In this regard the MIA considers the following to be an appropriate disclosure:

"Following Malta's adoption of the euro as its national currency on 1 January 2008, the entity's functional currency was changed from Maltese lira to euro. Consequently, the results and financial position were translated at the Irrevocably Fixed Conversion Rate of €1:Lm0.429300 as at that date."

5.22 Accounting policies and notes to the financial statements should also be reviewed to ensure that the wording remains applicable following the conversion to euro.

5.23 For entities with a financial year ending before 31 December 2007, the introduction of the euro is an event taking place after the balance sheet date which can still have an impact on the financial statements for that financial year. Under the currently applicable IFRS, entities are required to disclose information on material non-adjusting events after the balance sheet date. For instance, an entity that ends its financial year on 30 September 2007 would have to disclose the effects of the changeover to the euro in its financial statements for that period. Typically, this would include disclosure of material amounts recognised in respect of impairment of assets (if applicable), material exchange differences recognised as realised, and investments in Property, Plant and Equipment, for example investment in new hardware and software, after the balance sheet date if material.

6. Fiscal Reporting Considerations

6.1 This section provides guidance on the currencies to be used for fiscal reporting purposes, and identifies fiscal incentives relevant to the introduction of the euro. The term *fiscal incentives* in this section should be construed accordingly.

VAT Reporting

6.2 Value Added Tax (VAT) reporting periods of both individual traders and entities end on different dates staggered over a calendar year (normally every three months) so however that every individual trader or entity files a VAT return declaration at least annually.

6.3 Notwithstanding the VAT reporting requirements imposed by the respective legislation, the VAT department will issue VAT return declarations to all individual traders and entities as at 31 December 2007 so that a VAT reporting period will not straddle €-day, giving individuals an unequivocal cut-off for their VAT reporting obligations. Therefore, VAT return declarations shall be reported in the following manner:

(a) in Maltese lira for all VAT return declarations whose period ends on or before 31 December 2007, so however that any amounts due to be paid in 2008 will have to be converted to euro at the IFR and paid in euro; and

(b) in euro for all VAT return declarations whose period ends after 1 January 2008; and

(c) both VAT returns (i.e. leading up to 1 January 2008 in Maltese lira, and immediately following 1 January 2008 in euro) are to be submitted to the VAT department simultaneously, due within the usual period for submissions.

Income Tax Reporting

6.4 Guidelines NECC/0009/06 are also relevant for income tax reporting purposes and Table 1 of these Guidance Notes summarises the criteria to be followed under those Guidelines.

6.5 In essence, income tax reporting will be denominated as follows:

(a) Income Tax Returns for year of assessment 2008, hence for financial periods ending in calendar year 2007, will be issued in Maltese lira. Therefore both Income Tax Returns (manual) and Tax Index of Financial Data (TIFD) electronic files shall be reported in Maltese lira, though any amounts payable or refundable shall be converted to euro at the IFR, and settled in euro;

(b) Income Tax Returns for years of assessment 2007 and earlier, hence for financial periods ending on or before 31 December 2006, Income Tax Returns or TIFD files which for some reason may have not yet been submitted to the Inland Revenue Department (IRD), shall be reported in Maltese lira if submitted before 31 December 2008, and may be reported in Maltese lira or euro if submitted after that date. In the latter case, the MIA recommends that such returns are reported in the currency in which the relevant chargeable income was denominated, hence Maltese lira; and

(c) for year of assessment 2009 and thereafter, hence for financial periods ending on or after 1 January 2008, Income Tax Returns will be issued in euro, and therefore both

Income Tax Returns (manual) and Tax Index of Financial Data (TIFD) electronic files shall be reported in euro and any amounts payable or refundable shall be stated in euro.

6.6 Moreover, the Inland Revenue Department (IRD) will be converting all past data in its internal reporting system, including balances receivable from, and payable to taxpayers, to euro at the IFR. Past data originally denominated in Maltese lira will still be available for reporting purposes by the IRD in their original currency. Therefore, amounts outstanding (both payable and receivable) that were originally denominated in Maltese lira would be reported in that currency in statements issued by the department after €-day. Balances payable or refundable will nonetheless have to be settled in euro after that date.

Income Tax Bands, Fines and Penalties

6.7 Rounding and smoothing of individual income tax bands, fines and penalties imposed by virtue of the respective legislation will also be carried out by the IRD however, at time of writing, the process has not been concluded and therefore guidance cannot be given in this respect.

Income Tax Deductions (Euro Related Expenditure)

6.8 Legal Notice 93 of 2007 issued under the Income Tax Act (Chapter 123 of the Laws of Malta) grants certain fiscal incentives to qualifying persons who or which (in case of entities) incur expenditure on equipment to enable the proper discharge of the business in euro currency.

6.9 The two conditions that are necessary for a person (an individual trader or entity) to qualify for the fiscal incentives are the following:

(a) the person must be carrying on a trade, business, profession or vocation that is either registered under the Value Added Tax Act or, failing that (for example in the case of the Insurance Industry), is registered under the Income Tax Act; and

(b) that person incurs expenditure in purchasing, installing, modifying, upgrading or enhancing any equipment during the two calendar years starting 1 January 2006 and ending on 31 December 2007, to enable the proper discharge of the business in euro currency as from the date when the euro becomes legal tender.

6.10 The term equipment in sub-paragraph (b) of the preceding paragraph and throughout the rest of this sub-section may be taken to refer to the following types of equipment, provided that these display or store monetary amounts electronically:

(a) cash registers;

(b) point of sale systems;

(c) weighing scales;

(d) computer hardware and software; and

(e) any other electronic equipment that displays or stores monetary amounts electronically.

6.11 All expenditure incurred on equipment that satisfies the conditions in paragraphs 6.9 and 6.10 may qualify for the fiscal incentives granted by the Legal Notice, even if this was incurred prior to the issuance of the latter, but in no case incurred earlier than 1 January 2006. Where a qualifying person has already claimed deductions for wear and tear in respect of such expenditure in the Income Tax return for year of assessment 2007, any fiscal incentives being availed of under Legal Notice 93 of 2007 in respect of that expenditure shall be reduced by the wear and tear deductions already claimed.

6.12 Where fiscal incentives are claimed under the following paragraph no deductions for wear and tear may be claimed in respect of the same equipment. Where the overall euro related costs that qualify for fiscal incentives exceed the tax deduction threshold in the following paragraph, the MIA recommends that such expenditure is claimed for deductions in the following order:

(a) claim fiscal incentives under Legal Notice 93 of 2007 up to the extent allowed by the thresholds therein (set out in the following paragraph);

(b) claim wear and tear allowances under the normal rules in respect of expenditure on equipment that did not qualify under sub-paragraph (a) of this paragraph, provided that such expenditure qualifies for recognition as an asset; and

(c) recognise expenditure incurred on modifications to existing equipment in the income statement (and the income tax return), hence taking full deduction of that expenditure from the respective year's chargeable income, as would normally be the case with repairs and maintenance costs.

6.13 Subject to the conditions in paragraphs 6.9 and 6.10, and subject to the limitations set out in paragraph 6.11, a qualifying person may claim a deduction equal to 200% of the cost of expenditure incurred (excluding VAT) subject to a maximum of one thousand Maltese liri (Lm1,000) from the qualifying person's income that is chargeable to tax in the year of assessment 2008, or in year of assessment 2009 as prescribed by the Legal Notice.

6.14 Legal Notice 4 of 2007 states that the exemption from mandatory dual display on fiscal receipts generated by cash registers is lifted where fiscal incentives are availed of in respect of replacement of cash registers. Such replaced cash registers shall therefore produce fiscal receipts with dual display in accordance with the Legal Notice.

Retention of pre-2008 information for tax purposes

6.15 It is pertinent to point out that, in line with the requirements of NECC Guideline NECC/0002/006, pre-2008 data needs to be available in its original format due to legal requirements. The MIA interpretation is that pre-2008 data supporting tax returns needs to be made available in its original format as requested, for example in case of a tax inspection requiring reprinting of accounting records. Therefore the MIA recommends that entities should take the necessary steps to ensure that pre-2008 records will be available in the future. Typically this would include taking necessary backups of pre-2008 data and ensuring that there are systems in place to enable its retrieval. The latter would apply to relevant software which may be made redundant as a result of the euro changeover, and which therefore still needs to be available in the future for back up retrieval and data interrogation.

7. IT & MIS Considerations

7.1 It is beyond the scope of these Guidance Notes to go into IT-centric technical issues that are relevant to the euro changeover however, in recognition of the fact that accountants (especially Professional Accountants in Business) might be heavily involved in the administration and management of entities for which they work, IT issues could not have been completely overlooked by these Guidance Notes. Consequently, the scope of this section is to identify (rather than set out recommendations) some IT issues that might be particularly relevant to accountants and which may have to be considered in relation to the changeover to the euro. This section does not present an exhaustive list of all possible IT-relevant issues.

7.2 Paragraphs 4.6, 5.6 and 5.7 of these Guidance Notes, dealing with the accounting for the change in functional currency in an entity's accounting system, and with the conversion of past data incorporated in subsidiary and general ledgers' balances, already recommend the involvement of an IT expert in an entity's changeover to the euro. This section identifies other factors of an IT nature that accountants need to consider and on which expert advice might be opportune.

General approach to preparing IT systems

7.3 A critical issue that should be considered is planning the IT changeover. The more IT applications an entity relies on and the more complex are the systems in place, the earlier it needs to start planning the IT changeover. Such preparations include, but are not limited to:

(a) making an inventory of all the information systems that store or use monetary amounts and which will therefore be affected by the euro changeover. Examples include accounting packages, payroll applications, management reporting and management information systems (MIS), purchasing software, stock control applications, invoicing and billing systems, timesheet recording applications, spreadsheets, etc;

(b) identifying any hardware that might need to be upgraded or replaced;

(c) ensuring that relevant information systems can support dual display, where applicable, through the end of June 2008;

(d) identifying conversion requirements to the relevant information systems. System users should consider what information needs to be converted, such as opening balances, historic transactions, selling prices, credit limits, subsidiary ledgers etc. The method of conversion should also be considered (e.g. whether manual intervention is required to round prices, whether an automated conversion tool is required due to the amount of data, etc). The timing of the conversion is also an issue, particularly for entities which will be trading shortly before and after €-day (e.g. certain systems need to be converted overnight on 31 December 2007/1 January 2008);

(e) determining whether the relevant information systems can meet the requirements in sub-paragraphs (c) and (d) above, and deciding on whether the systems can be modified, upgraded or enhanced, or whether these should be completely replaced so that the entity can smoothly change over to the euro and fulfil its reporting obligations;

(f) considering and coordinating the use of IT expertise as early as possible, especially if this will be needed closer to the euro changeover date when availability may be limited;

(g) considering other issues identified in the respective sections of the *Euro Changeover checklists for business organisations* prepared by NECC which is freely downloadable from the NECC website or through the following link: http://mfin.gov.mt/image.aspx?site=NECC&ref=Euro Changeover Checklists; and

(h) ensuring that all IT systems and databases undergo 'dummy' test conversions prior to 1 January 2008, and all results are carefully reviewed. All operational functions of such IT systems should be fully tested against the newly converted databases, to instil confidence in a smooth actual currency changeover.

IT related controls

7.4 Upon conversion of past data, such as that included in the general ledger, in subsidiary ledgers and inventory, entities shall put in place effective IT and manual controls of an internal audit nature to test the integrity of data and to mitigate the risk of inadequate conversion. Controls would typically include:

(a) reconciliations of all the general ledger account balances, possibly with the use of spreadsheets which would facilitate such controls;

(b) reconciliations of all debtors' and creditors' account balances pre and post conversion. An effective means of implementing this control is by exporting data before and after the changeover and make use of spreadsheets to identify inconsistencies. Where a reconciliation of 100% of the population is impracticable, material account balances and a random selection of other account balances shall at least be reconciled;

(c) reconciling a sample of transactions posted in the debtors' and creditors' accounts prior to the changeover to ensure that qualitative data, such as dates, transaction references, etc have been properly carried forward to the euro converted accounts. This may also be done though the export of data from the accounting software package to spreadsheets to identify inconsistencies;

(d) reconciling the cost or net realisable value of individual items in inventory denominated in euro after the changeover to the respective original amounts in Maltese lira;

(e) ensuring that relevant IT related controls, such as authorities given to users of applications which may be capped by thresholds or other monetary amounts, are appropriately converted to euro. For example entities should make sure that authorities for digital signatures of purchase orders capped to a certain Lm amount are converted into euro;

(f) obtaining evidence that prices, rates per hour, standard costs used in production, rates per night, and similar 'back-office' data that is stored electronically and used for trading purposes is properly converted to euro. Accountants should therefore make sure that financial and monetary amounts contained in all relevant subsidiary accounting packages that ‘feed in’ the principal accounting package are aptly converted into euro.

7.5 Entities should ensure that audit trails are kept for future reference. The MIA recommends that audit trails should, amongst others:

(a) indicate how data was converted;

(b) include each individual amount being converted, the date of conversion, the exchange rate and rounding method used; and

(c) note any rounding differences and where such differences are accounted for.

7.6 Controls and checks relating to conversion should clearly be evidenced and retained for future reference. This will greatly assist management in evaluating the performance of such controls and subsequently allow auditing of the controls.

7.7 Entities should ensure that any internal management reports required for internal reporting and decision making purposes can be processed and issued by the respective software applications in the applicable currency, i.e. euro, after the changeover date. Controls should therefore be in place to ensure that the conversion to euro of any application does not hamper that application’s reporting facilities. The importance of this control should not be underestimated. Although the significance of such reports may vary from unimportant to critical from one entity to another, this control is essential where the non-issuance of such reports may undermine an entity’s continued operability after the euro changeover.

Payroll software

7.8 IT considerations in relation to payroll software include the following:

(a) ensuring that the software provides dual display as per Legal Notice 4 of 2007 for the total amounts on payslips and other reports issued by the system and provided to employees;

(b) making sure that the software enables wages and salaries processed on or before 31 December 2007 to be issued and paid in Maltese lira, and those processed on or after 1 January 2008 to be issued and paid in euro;

(c) ensuring that wages and salaries accrued as at 31 December 2007 are converted to euro as amounts paid after 1 January 2008 will have to be paid in euro even if the period to which they relate straddles €-day;

(d) making sure that the payroll software application supports dual currency as certain reports relating to 2007 need to be issued in Maltese lira for tax (FSS) purposes even though issued after 1 January 2008 when the system would have been converted to euro. Moreover, it is to be ensured that such reports also contain dual display of Gross Emoluments, Tax Deductions and Social Security Contributions sub-totals in euro. If the application does not support dual currency, that is it is not capable of issuing reports in Lm when its base currency is euro, or is not capable of displaying dual currency information as required, entities should consider installing a new application as from 1 January 2008;

(e) converting rates per hour or per unit of billable time to euro in time keeping software applications; and

(f) ensuring that any interface with other applications, such as accounting software, is not hampered as a result of the changeover to the euro and the necessary conversions.

Spreadsheets

7.9 Spreadsheets are commonly used particularly where the information systems do not provide sufficient functionality to support operational needs. Such spreadsheets storing financial and monetary data denominated in Maltese lira will need to be converted to euro.

7.10 Software tools are available that facilitate the conversion of such spreadsheets. However such tools rely on the setup of data in a predetermined manner and therefore are inherently prone to errors of exclusion or double conversion. The use of such spreadsheet conversion tools is therefore not recommended as these have been proven to be problematic in the past. Instead the MIA recommends setting up such spreadsheets from scratch and taking the opportunity to simplify and standardise spreadsheets. Alternatively organisations could reduce reliance on spreadsheets and make better use of their accounting applications to minimise risks inherent in spreadsheets.

8. Other Considerations

8.1 Although the foregoing sections of these Guidance Notes attempt to address all the issues that accountants may encounter in the euro changeover process, this section will identify a number of other minor considerations and set out the MIA recommendations in that regard.

Risk of fraud and error

8.2 Since the changeover to the euro will involve one-time transactions and processing not commonly encountered in an entity's day-to-day operations, the likelihood of error and susceptibility to fraud will increase around the euro changeover date. The MIA therefore recommends that entities ensure that relevant internal controls are in place and operate effectively to mitigate those risks. Internal controls already in place would normally suffice, however special controls might need to be devised for checking the accuracy and completeness of transactions involving euro denominated amounts especially in the first weeks of 2008.

8.3 In addition to the risk of internal fraud and error, external fraud should also be considered. Due to lack of familiarity with the euro, identifying falsified euro cash will be more difficult, and therefore steps should be taken to mitigate this risk.

8.4 The risk of money laundering should also be evaluated. In certain industries, particularly those involving transactions of significant amounts, there is an increased risk of Maltese lira amounts being 'laundered' before €-day and in the first few months of 2008. It is recommended that steps are taken in order to mitigate this risk.

Impairment of assets and conversion costs

8.5 Entities should consider whether any assets such as packaging materials, non-euro compliant information systems, stationery, inventories, promotional materials, etc may need to be impaired as they might become obsolete or unusable after the changeover to the euro.

8.6 Any costs of conversion should be treated as a cost of continuing business and should be therefore written-off in the period in which they are incurred, unless they satisfy the recognition criteria and therefore qualify for recognition as an asset under applicable IFRS. This is consistent with the treatment contemplated in the paper entitled *Accounting for the introduction of the euro*, prepared by the Directorate General Internal Market and Financial Services in June 1997. The paper however also adds that insofar as changeover costs are substantial, adequate disclosure should be made so that the impact on the profit or loss of the entity can be identified. These Guidance Notes therefore recommend that such information is given in the relevant financial statements if non-disclosure would prejudice the true and fair view given by those financial statements.

Conversion of low-ticket prices, fares and rates

8.7 Extra care should be taken in converting low ticket prices, fares and rates, for example telecommunication per-second charges on fixed lines and mobile telephony, SMS charges, rates per unit of electricity and water consumption, and similar low ticket but high-volume selling products and services. Rounding such prices, fares and rates to the nearest euro cent could have material repercussions on customers and negative effects on the public at large. Accountants should encourage clients and employers providing such goods or services to contact NECC for assistance in setting their pricing strategies post €-day.

Euro cash requirements and sub-frontloading

8.8 From past experiences in other countries it transpires that most organisations, especially those involved in retail operations, had to increase their physical cash-in-hand from double to five times as much their normal requirements due to the fact that, during the dual circulation period customers are able to present Lm cash to pay for their acquisitions but organisations may not use Lm cash to give the required change but need to keep euro cash for this purpose. In other countries it was also noted that customers were using retail outlets as *exchange dealers* to exchange unwanted 'old currency' cash into euro. Accountants should therefore consider such issues and advise clients and/or employers on the cash requirements during the dual circulation period. In some instances it will be necessary for organisations to obtain temporary financing facilities in euro, referred to as sub-frontloading, and accountants should encourage clients and/or employers to contact their bankers when this situation is anticipated. The dual circulation period in Malta will last for the whole of January 2008 however, from past experiences in other countries, it was noted that the heaviest flow of old currency transactions took place in the first eight days after €-day. After then, the use of old currency cash increasingly becomes sporadic.

9. Effective date

9.1 These Guidance Notes come into force with immediate effect, that is from the date of first publication.

9.2 While at time or writing due care has been taken to ensure that all facts and issues are properly taken into account, and the recommendations given set out what is deemed as best practice by the MIA on the relevant issues, supplements to these Guidance Notes may be issued from time to time as deemed appropriate by the MIA and as dictated by the changing circumstances.